

**Manual of Reporting Forms and Instructions
for Deposit-Taking Institutions**

AMENDMENT CONTROL LOG

Glossary of Terms

Amendment Number	Effective Date	Page Number	Description
Please note that as of November 2002, all changes are highlighted:			
1	January 1998	N/A	N/A
2	January 2003	20	<u>Add:</u> ♦ Head Office Account
3	January 2006	6	<u>Delete:</u> ♦ CDIC Standards of Sound Business and Financial Practices

GLOSSARY OF TERMS

Introduction

The definitions in this glossary apply to the Reporting Manual for Deposit-Taking Institutions and are not necessarily applicable for other regulatory or legal purposes. The presentation of assets, liabilities, and shareholders' equity, and the recognition of income and expenses in the returns are to be in accordance with generally accepted accounting principles (GAAP) except where otherwise specified. The accounting discussions in this glossary are relevant to preparing these returns and are not intended to constitute a comprehensive presentation on bank accounting or on GAAP.

Reference should also be made to the Bank Act and the Trust and Loan Companies Act, as well as associated regulations and to *Guidelines for Banks* and *Guidelines for Trust and Loan Companies* published by the Office of the Superintendent of Financial Institutions.

A

Acceptances

Drafts or bills of exchange drawn on and accepted by institutions for payment to the instruments' holders on the specified maturity dates. By stamping the documentation as "accepted", institutions agree to pay a specified amount according to the terms of the letter of credit.

Accounting Principles

The accounting principles to be used for the preparation of these returns and the annual financial statements of the institution are, unless otherwise specified, to be in accordance with generally accepted accounting principles, the primary source of which is the Handbook of the Canadian Institute of Chartered Accountants (reference subsection 308(4) of the Bank Act and subsection 313(4) of the Trust and Loan Companies Act).

Acquired Securities Subsidiary

A subsidiary of the institution incorporated in Canada, primarily engaged in dealing in securities, that was an established business enterprise acquired by the institution subsequent to changes in the Bank Act in 1987.

Agency Functions

Functions performed by an institution, for a fee, as an agent for a customer.

Allowance for Impairment

The Allowance for Impairment account includes allowances for loan impairment established against on-balance sheet items and allowances for impairment established against off-balance sheet items. Allowances for loan impairment are established in accordance with the recommendations in CICA Handbook section 3025, Impaired Loans, and are deducted from the applicable assets. Allowances for impairment in respect of off-balance sheet items are established in accordance with the recommendations in section 3290, Contingencies, and are included in other liabilities. The balance in the allowance account will consist of allowances established on an item-by-item basis (individual allowances), and allowances established on a group of items basis (country risk group allowances, and other group allowances).

Amortization

The gradual reduction of a debt by equal periodic payments, sufficient to pay current interest and to extinguish the principal at maturity.

Amortized Value of Securities Held for Investment

The amortized value of securities held for investment is computed by adding an amount to (or deducting it from) the average carrying value of each issue at the end of each amortization period, which results in the carrying value equalling the par value if the security is held to date of call or to the date of maturity.

For purposes of this reporting manual:

- amortization periods may be either calendar months or financial quarter-years;
- amortization may be computed by either the yield or straight-line methods;
- amortization of an issue that has a carrying value of less than par may be computed to either the date of call or the date of maturity;
- amortization of an issue that has a carrying value of more than par should be computed to the date of call.

Annual Financial Statement

Statement the institution must send to each shareholder 21 days before the date of the annual meeting. It must include a balance sheet at the end of the financial year, a statement of income, change in financial position and changes in shareholders' equity for the financial year and certain other information. (Refer to Section 308 of the Bank Act and Section 313 of the Trust and Loan Companies Act.)

Asset Sale and Repurchase Agreements

A repurchase agreement is a transaction that involves the sale of a security or other asset with the simultaneous commitment by the seller that after a stated period of time, the seller will repurchase the asset from the original buyer at a predetermined price. A reverse repurchase agreement consists of the purchase of a security or other asset with the simultaneous commitment by the buyer that after a stated period of time, the buyer will resell the asset to the original seller at a predetermined price.

Asset Sales with Recourse

Agreements whereby an institution sells a loan or other asset or a portion thereof, but retains an obligation to assume the credit risk if default occurs. The Office notified financial institutions in April 1990 that generally when there is any recourse to the seller, the assets should remain on the Balance Sheet.

Assigned Maturities

The maturities of instruments which reflect their underlying cash flow properties rather than the term indicated by their nominated/stated maturities.

Audit Committee

A committee of the board of directors required by the Bank Act that consists of no fewer than three directors, none of whom are officers or employees of the institution or any of its affiliates, and who are appointed by the board of directors.

B

Back-to-back, Inter-institutional Placements

Refer to transactions whereby new issues of shares or debentures of one financial institution are placed with other financial institutions in exchange for issues of securities of those other institutions. These transactions have the appearance of adding to the capital base of the issuing institutions; while in reality, they only increase the degree of interdependence of all the financial institutions involved.

Bank

For the purposes of the reporting manual, without restricting its general meaning, the word "bank" includes any foreign institutions in whose name the word "bank", "banker" or "banking" appears, except an international institution or agency such as a development bank or an official monetary institution.

Basis Point

A measure used in finance and trade to refer to 1/100 of 1% difference in the interest rate.

Basis Price

The price expressed in yields or in returns on an asset.

Bearer

In relation to a security, means the person in possession of a security payable to bearer or endorsed in blank.

Bearer Deposit Term Notes (BDNs)

These are offered for a term, issued in a bearer form, and sold at a discount to mature at par.

Bearer Form

In respect of a security, means a security in bearer form as determined in accordance with subsection 83(2) of the Bank Act and subsection 86(2) of the Trust and Loan Companies Act.

Beneficial Ownership

Includes ownership through one or more trustees, legal representatives, agents or other intermediaries.

BIS

Bank for International Settlements.

Booked In Canada

Transactions that have been booked in the Canadian branches of the institution and its Canadian subsidiaries.

Booked Outside Canada

Transactions that have been booked in branches of the institution and its subsidiaries located outside Canada.

C

Call Loans

Drawn lines of credit to recognized exchange brokers and investment dealers, permitting them to trade in securities as a result of firm purchase or sale orders received from their clients; to service clients' margin accounts; to pledge security inventories, or to purchase newly-issued securities.

Call Option

Optional forward purchase contracts that oblige the seller of the contract to sell a particular financial instrument, including futures contracts, at the buyer's option.

Canada Deposit Insurance Corporation (CDIC)

Refers to the deposit insurer established under the Canada Deposit Insurance Corporation Act.

Canadian Financial Institution

A financial institution that is incorporated or formed by or under an Act of Parliament or of the legislature of a province.

Capital Leases

Leases that, from the point of view of the lessee, substantially transfer all the benefits and risks incident to ownership of property to the lessee.

Carrying Amount

The recorded investment in a loan or group of loans less any related allowances for impairment.

Carrying Value of Investments

Computed by adding purchases of securities held at cost and deducting sales on a systematic basis such as average cost, last-in first-out, or first-in first-out.

Central Cooperative Credit Society

A cooperative organization incorporated by an Act of Parliament or a provincial legislature. The membership or shareholders are wholly or substantially of local cooperative credit societies and the principal purpose is to provide services to its members.

Certificates of Deposit (Cds)

Receipts payable (on demand or after a term) to the depositor for funds deposited with a institution. Some deposit certificates are transferable and may be endorsed to other parties and negotiated like a cheque or other negotiable instrument.

Charge for Impairment

The charge for impairment charged to the Statement of Income is the amount that is required to establish a balance in the Allowance for Impairment account that management considers adequate to reduce the recorded investment in its portfolio of on- and off-balance sheet impaired items to its estimated realizable amount.

Collateral Mortgage

A charge on land and premises taken as security for funds advanced pursuant to a demand or term promissory note.

Commercial Paper

Unsecured short-term negotiable promissory notes issued by commercial businesses, including finance companies and deposit-taking institutions.

Commitments

Arrangements that obligate an institution, at a client's request, to:

- extend credit in the form of loans or participations in loans, lease financing receivables, mortgages, overdrafts, acceptances, letters of credit, guarantees or loan substitutes; or
- purchase loans, securities, or other assets. (See Guideline A-4.)

Common Risk

To be determined on a case-by-case basis, with reference to the material facts of the situation. In determining whether a common risk exists between two or more entities, either of these conditions must be present:

- the expected source of repayment is the same for each entity; or
- the entities are part of a corporate group and there is material financial interdependence between the entities. (See Guideline B-2.)

Condominium

A multiple structure but financed under a registered condominium or strata title plan.

Connection

A connection exists where two or more entities are deemed to be a common risk. The accounts of the entities comprising a connection shall be aggregated for the purpose of applying limits on a institution's large exposures. (See Guideline B-2.)

Corporate Group

Includes an entity and all of its subsidiaries, be they owned directly or indirectly.

Countertrade

Two or more parties agree to exchange goods or merchandise with an institution or other third party acting as an intermediary. The institution or third party will be liable in the case of incompetence.

Country of Ultimate Risk

Synonymous with country of ultimate security, which is defined as unconditional guarantee of a borrower's debt by an entity located in another country.

Country-Risk Allowances

Country-Risk Allowances are established against sovereign risk loans to the group of countries designated by the Office of the Superintendent of Financial Institutions. These allowances are established either on a loan-by-loan basis (individual allowances) or collectively against a group of loans (group allowances). (See Guideline C-4).

Coupon Stripping

A transaction whereby a security holder detaches coupons from the principal portion of a security and sells either the coupons or the principal portion separately.

Credit Risk

The risk that a borrower may default on his credit obligations to the lender.

Credit Line

An uncommitted, unadvised credit facility opened by one institution in favour of a customer or another institution.

Cross-Currency Interest Rate Swaps

Combine the elements of currency swaps and interest rate swaps.

Cross-Currency Swaps

A transaction in which two parties exchange currencies and the related interest flows for a period of time. Cross-currency swaps are used to swap fixed interest rate indebtedness in different currencies.

Customer's Liability Under Acceptances

Refers to a customer's obligation to pay the accepting institution under the acceptances the face amount of the instrument on or before the specified maturity date. See: Acceptances.

D

Data Processing Services

The electronic collection, manipulation and transmission of information that is primarily financial or economic in nature.

Debt Obligation

A bond, debenture, note or other evidence of indebtedness of an entity, whether secured or unsecured.

Demand Deposits

Deposits subject to withdrawal on demand by the depositor; the account agreement does not provide the deposit-taking institution with the right to require notice of any withdrawal.

Demand Loan

Loan payable upon demand of the institution making the loan; it has no fixed maturity date.

Deposit Agent

Any person engaged in the business of placing deposits or facilitating the placement of deposits of third parties with CDIC insured institutions.

Deposit Broker

See DEPOSIT AGENT.

Deposit Insurance

Insurance protection on certain deposits as set out under the Canada Deposit Insurance Corporation Act in the event of a failure of a CDIC member institution.

Deposit-Taking Institutions

Institutions that are permitted by law to accept deposits from the general public and other third parties. Includes all banks, trust and loan companies, credit unions and caisses populaires, central banks, etc.

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Director

A natural person occupying the position of director, by whatever name called, of a body corporate; "board of directors" or "directors" refer to the directors of a body corporate as a body. (See Section 2 of the Bank Act or Section 2 of the Trust and Loan Companies Act.)

Direct Credit Substitutes

Include guarantees or equivalent instruments backing financial claims. With a direct credit substitute, the risk of loss to the institution is directly dependent on the creditworthiness of the counterparty.

Examples of direct credit substitutes include:

- guarantees given on behalf of customers to stand behind the financial obligations of the customer and to satisfy these obligations should the customer fail to do so; for example, guarantees of:
 - payment for existing indebtedness for services,
 - payment with respect to a purchase agreement,
 - lease, loan or mortgage payments,
 - payment of uncertified cheques,
 - remittance of (sales) tax to the government,
 - payment of existing indebtedness for merchandise purchased,
 - payment of an unfunded pension liability, and
 - reinsurance of financial obligations;
- standby letters of credit or other equivalent irrevocable obligations, serving as financial guarantees, such as letters of credit supporting the issue of commercial paper;
- risk participations in bankers' acceptances and risk participation in financial letters of credit. Risk participations constitute guarantees by the participating institutions such that, if there is a default by the underlying obligor, they will indemnify the selling institution for the full principal and interest attributable to them;
- institution-originated securities lending transaction, where the institution is liable to its customer for any failure to recover the securities lent. (See Guideline A-4.)

Documentary Letters of Credit

A institution's written undertaking (issuing agent) given to the seller (the beneficiary) at the request of, and in accordance with, the buyer's instructions (the applicant) to pay up to a stated sum of money, within a prescribed time limit and against stipulated documents. In the U.S. these instruments are called commercial letters of credit.

Domestic Assets

Claims and other assets of the institution or of the subsidiaries of the institution that are due from residents, regardless of whether booked in Canadian or foreign currency.

E

EFTS

Electronic funds transfer system.

Endorsements

Guarantees to pay on maturity the face value of a bill of exchange. In some countries, endorsements are effectively acceptances.

Entity

An entity is a natural person, a body corporate, trust, partnership, fund, unincorporated association or organization, an agency of the Crown in right of Canada or of a province, and any agency of a foreign government.

Eurobond

International straight or convertible bond issued by state or corporate entities, denominated in a Eurocurrency, and issued outside the currency's domicile. Normally sold on several international markets by groups or syndicates of banks or brokers in units equivalent to one thousand U.S. dollars.

Euroclear

The computer clearing system for Eurobonds operated and managed by Morgan Guaranty Trust Co., Brussels branch.

Eurodollar

U.S. dollar deposits held outside of the United States.

Existing Property

Include loans for the purchase and refinancing of existing property and the improvement of both land and structures except where such improvement creates additional units of living or working space as referred to under the definition of new construction.

Exposure

An exposure includes claims on an entity or connection (a group of associated entities) comprising:

- any draw downs on arrangements for providing funds or credit including loans and advances, debt securities, loan substitute securities, financial leases;
- all undrawn amounts of irrevocable advised credit commitments including, but not limited to,
 - standby letters of credit,
 - financial guarantees,
 - conditional sales contracts,
 - repurchase agreements,
 - fully underwritten lending commitments,
 - note issuance facilities, and
 - revolving underwriting facilities; and
- the credit equivalent amount of foreign exchange and interest rate contracts calculated in accordance with the capital adequacy requirements for institutions.

An exposure excludes:

- as defined above, any draw downs on arrangements for providing funds or credit and all undrawn amounts of irrevocable advised credit commitments exposures to banks, trust and mortgage loan companies that have an original maturity of less than one year;
- the credit equivalent amount of foreign exchange and interest rate contracts with banks, trust and mortgage loan companies;
- loans to and loans or securities issued or guaranteed by the Government of Canada, a Canadian province, foreign central governments, and bodies designated as public sector entities that receive a 20 per cent risk weight for capital adequacy assessment purposes;
- exposures to an entity that occur while a transaction is in the course of settlement, including daylight overdrafts;
- an institution's purchase of Government of Canada securities, securities issued by a province of Canada or an OECD central government subject to an agreement that the seller will repurchase at the end of a stated period, provided that the institution has obtained control of the securities that are to be repurchased;
- loans of securities made in accordance with Office guidelines on securities lending and loans made to securities brokers and dealers that are fully collateralized by securities issued by the Government of Canada or by a province of Canada; and
- commitments pursuant to an underwriting agreement to purchase a new issue of securities or a secondary issue of securities by a subsidiary that is a member of the Investment Dealers Association of Canada or regulated by a provincial securities commission and subject to the capital requirements for such underwriting agreements. (See Guideline B-2.)

F

Factoring Corporation

As defined in the Bank Act and the Trust and Loan Companies Act, is a corporation that specifically acts as a factor in relation to accounts receivable (including the assumption of all or part of the credit and collection functions of the principal creditor under the accounts), the lending of money and the raising of money for the purpose of financing such activities. (See Section 464 of the Bank Act or Section 449 of the Trust and Loan Companies Act.)

Farm Properties

Non-residential properties which include all properties where income is generated either from the sale of agricultural products (food stuffs or animal products) or from the rental of land used to produce agricultural products.

Fiduciary Services

Assets that are legally the property of the customer but managed by financial institutions, either on the basis of the discretion of the client or the financial institution.

Financial and Foreign Currency Futures

A future is a standardized contractual obligation to make or take delivery of a specified quantity of a commodity (financial instrument, foreign currency, etc.) on a specified future date at a specified price established in a central regulated marketplace.

Financial Institution

For the purposes of this reporting manual, financial institution means a Public and Private Financial Institution.

Canadian Public Financial Institutions include the Canada Deposit Insurance Corporation (CDIC), Canada Mortgage and Housing Corporation (CMHC), Export Development Corporation, Farm Credit Corporation (FCC), Business Development Bank of Canada (BDC) the Alberta Treasury Branches and the Province of Ontario Savings office.

Note that the Bank of Canada is not considered a Public Financial Institution for the purpose of this reporting manual.

Foreign Public Financial Institution include foreign entities similar to those Canadian entities above plus Foreign Official monetary institutions such as treasuries, ministers of Finance, finance or corresponding government departments, central banks, stabilization funds, equalization accounts, exchange control authorities or any similar fiscal agencies (including government-owned corporations) which act as government agents and which have an important function or functions similar to those of treasury, central bank or stabilization fund.

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Private Financial Institutions include:

- (a) banks;
- (b) other deposit-taking institutions - include credit unions and caisses populaires, trust companies and mortgage loan companies; and
- (c) other private financial institutions - include life insurance companies, fraternal benefit societies, fire and casualty insurance companies, trustee pension plans, investment dealers, mutual funds, closed-ends funds, mortgage investment trusts, sales finance and consumer loan companies, and other private financial institutions (such as holding companies, financial leasing companies, venture capital companies and other business finance companies).

Financial Interdependence

Assessed by institutions on a case-by-case basis, taking into consideration intercompany funds movement and contractual agreements, including guarantees and letters of comfort.

Financial Leasing Corporation

A company whose activities are limited to the financial leasing of personal property and related activities as prescribed by regulations and does not

- direct its customers or potential customers to particular dealers in the leased property or the property to be leased,
- enter into lease agreements with persons in respect of any motor vehicle having a gross vehicle weight, as that expression is defined by the regulations, of less than 21 tonnes; or
- enter into lease agreements with natural persons in respect of personal household property, as that expression is defined by the regulations. (See Section 464 of the Bank Act or Section 449 of the Trust and Loan Companies Act.)

Firm Standby Commitments

Those commitments that are prepaid or that generate like consideration, which in fact or in effect are legally binding.

Float

Refers to the dollar amount of collection and disbursement in process.

Floating Rate Notes (FRNs)

These are money market instruments issued by institutions with an interest rate usually fixed in relation to LIBOR.

Foreclosed Assets

Assets acquired in full or partial settlement of a loan through realization of a security interest or repossession of leased property.

Foreign Bank

As defined in Section 2 and subject to Section 12 of the Bank Act, an entity incorporated or formed by or under the laws of a country other than Canada that

- is a bank according to the laws of any foreign country where it carries on business,
- carries on a business in any foreign country that, if carried on in Canada, would be, wholly or to a significant extent, the business of banking,
- engages, directly or indirectly, in the business of providing financial services and employs, to identify or describe its business, a name that includes the word "bank", "banque", "banking" or "bankcaire," either alone or in combination with other words, or any word or words in any language other than English or French corresponding generally thereto,
- engages in the business of lending money and accepting deposit liabilities transferable by cheque or other instrument,
- engages, directly or indirectly, in the business of providing financial services and is affiliated with another foreign bank,
- controls another foreign bank, or
- is a foreign institution, other than a foreign bank within the meaning of any of the preceding paragraphs, that controls a bank named in Schedule II,

but does not include a subsidiary of a bank named in Schedule I.

Foreign Bank Subsidiary

A bank that is classed as Schedule II that is a subsidiary of a foreign bank.

Foreign Currency Hedges

Where an institution with a monetary item denominated in a foreign currency has hedged its exposure against exchange rate fluctuations between the foreign currency and either the reporting currency or another foreign currency, for reporting purposes the following translation rule applies:

- the translation adjustment related to hedges (on- and off-balance sheet) cannot be set off in the balance sheet against the hedged item when they are two separate legal transactions that do not have the legal right of set-off. Netting would be permitted only when all the following conditions are met:
 - the same two entities are the only parties to both transactions; and
 - the reporting party intends to set-off; and
 - the right of set-off is enforceable at law.

Foreign Institution

An entity that is

- engaged in the trust, loan or insurance business, the business of a cooperative credit society or the business of dealing in securities or is otherwise engaged primarily in the business of providing financial services; and
- incorporated or formed otherwise than by or under an Act of Parliament or of the legislature of a province. (See Section 2 of the Bank Act or Section 2 of the Trust and Loan Companies Act.)

Forward Asset Purchases

A commitment to purchase a loan, security or other asset at a specified future date, usually on prearranged terms. (See Guideline A-4.)

Forward Contracts

Commitments for delayed delivery of securities or money market instruments in which the buyer agrees to purchase, and the seller agrees to deliver, a specified instrument at a specified future date and at a specified price or yield. These are traded over the counter and their terms are not standardized. They can be terminated by agreement of both buyer and seller or when the underlying asset is received. See: Future contracts. (See Guideline A-4.)

Forward Foreign Exchange Contracts

An agreement between an institution and a counterparty in which the institution agrees to sell to or purchase from the counterparty a fixed amount of foreign currency at a fixed rate of exchange for delivery and settlement on a specified date in the future or within a fixed optional period. (See Guideline A-4.)

Forward/Forward Deposits

An agreement between two parties whereby one will pay and the other receive an agreed rate of interest on a deposit to be placed by one party with the other at some predetermined date in the future. These deposits are distinct from future/forward rate agreements in that, with forward/forwards, the deposit is actually placed. (See Guideline A-4.)

Forward Rate

The currency exchange rate for a transaction where delivery and settlement take place at a fixed future date.

Futures Contracts

Commitments for delayed delivery of securities, foreign exchange or money market instruments in which the buyer agrees to purchase and the seller to deliver a specified instrument, at a specified future date, at a specified price or yield. These contracts are standardized and traded on organized exchanges.

Future/Forward Rate Agreements

Agreements between two parties where at some predetermined future date a cash settlement will be made for the difference between the contracted rate of interest and the current market rate on a predetermined notional principal amount for a predetermined period. (See Guideline A-4.)

G

Group Allowances

Group allowances are established against groups of loans to borrowers that operate in a particular industry or geographic region, or that share other identifiable common characteristics.

Guarantee

The undertaking of responsibility by the first party for the second party's debt or obligation to perform a specific act or duty. The guarantor becomes liable in the event of the second party's default, even though the original debtor is responsible for the debt. The term "guarantee" is also used when an institution asks another institution to guarantee signatures, endorsements and alterations on cheques or other instruments before it will accept them as complete, negotiable instruments.

Guarantee Facility

An arrangement whereby the institution, on behalf of its customer, pays a third party a sum of money either on demand or upon the presentation of certain documents.

Guaranteed Investment Certificates (GICs)

Certificates issued usually by deposit-taking institutions giving evidence of a deposit made with them for a fixed maturity, in registered form and on an interest-bearing basis.

Guarantees - Securities

Securities should be reported as being guaranteed only when the securities are guaranteed by Canada, a province or a municipal or school corporation. Guarantees are not intended to include items such as letters of awareness or intent, comfort letters or other similar documents.

Guarantor

One who makes a guarantee of another party's debt or commitment.

Guidelines

Issued by the Office of the Superintendent of Financial Institutions to provide institutions with guidance regarding their operating and reporting practices.

H

Head Office Account

Balance sheet items with both head office and other branches of the same bank. Amounts “due to/from” foreign affiliates of the bank should be treated as third party assets/liabilities and reported separately in the appropriate balance sheet line items.

I

Impaired Loans

A loan or portfolio of loans becomes impaired when credit quality has deteriorated to the extent that the lender no longer has reasonable assurance of timely collection of the full amount of principal and interest. Impaired loans consist of loans where impairment has been identified on a loan-by-loan basis, and groups of homogeneous small loans such as consumer instalment and credit card loans where impairment has been identified and measured by establishing formulae allowances against the group.

Indirect Liability

Arises from credit facilities whereby the institution does not advance cash to the borrower but rather guarantees payment of certain sums of money under certain circumstances.

Individual Allowances

Individual allowances are established against individual assets, and groups of homogeneous small loans.

Information Services Corporation

A company whose activities are limited to

- providing data processing services,
- providing advisory and other services in the design, development and implementation of information management systems, or
- designing, developing and marketing computer software.

These activities may include, as an ancillary activity, the design, development, manufacture or sale of special purpose computer hardware.

Insured Deposit

Deposits of member institutions which are insured by the Canada Deposit Insurance Corporation (CDIC) as defined in the CDIC Act and in the institution's policy of insurance.

Insured Mortgage

Includes all residential mortgage loans insured either under the National Housing Act or by other insurance companies/agencies.

Interest Rate Futures

An obligation to sell or purchase an instrument at an agreed upon interest rate in the future. The Office of the Superintendent of Financial Institutions has reviewed the recommendations of the Toronto Stock Exchange guide for use by participants in the interest rate futures markets and has approved the use of these recommendations for accounting of interest rate futures transactions by institutions. Accordingly, in the absence of advice to the contrary, institutions should follow the accounting treatment recommended by the TSE guide.

Interest Rate Options and Currency Options

An option is an agreement between two parties where the seller of the option, for compensation (premium/fee), grants the buyer the future right, but not the obligation, to buy from the seller, or to sell to the seller, either on a specified date or during a specified period, a financial instrument or commodity at a price agreed when the option is arranged. Other forms of interest rate options include interest rate capping agreements and collar (floor/ceiling) agreements.

Interest Rate Swap

A transaction in which two parties arrange to exchange fixed for floating interest rate obligations on a similar principal amount (coupon swap); or one floating rate index for another floating rate index in the same currency (bank swap). The institution may facilitate the arrangement by acting as an intermediary.

Investment Account Securities

Securities purchased in the normal course of business, where the institution's original intention was to hold the securities to maturity or until market conditions render alternative investments more attractive.

Investment Counselling and Portfolio Management Corporation

A company whose principal activity is

- the offering of advice, or advising, on investments; or
- the investment or control, in any way that involves an element of discretionary judgement of money, property, deposits or securities that
 - are not owned by the company; or
 - are not monies deposited with the company in the ordinary course of business. (See Section 464 of the Bank Act or Section 449 of the Trust and Loan Companies Act.)

L

Leasing

A contract transferring the use of an asset in consideration of a payment, usually in the form of rent.

Leasing Corporation

See: Financial leasing corporation.

Letter of Credit

A document issued by the institution on behalf of its customers, authorizing a third party to draw drafts on the institution up to a stipulated amount and with specified terms and conditions. It is a conditional commitment on the institution's part to provide payment according to the document's terms.

Letters Patent

Letters incorporating an institution are issued with the approval of the Governor in Council after application to the Minister of Finance and under his seal of office.

LIBOR

London Inter-Bank Offered Rate.

Liquidity

The ability of an institution to generate sufficient cash, or its equivalent, at a reasonable price to honour all commitments on an ongoing basis.

Liquidity Differential

The amount by which cash outflows exceed cash inflows or vice versa.

Loan Security

The security pledged against a specific loan.

Long Position

Signifies the position of an investor who owns securities as opposed to a short position where a sale is made without ownership.

Long-term Securities

For reporting purposes, long-term securities for all securities except Government of Canada securities are defined as securities with an original term-to-maturity of greater than one year.

For Government of Canada Securities only - long-term securities are defined as securities having a remaining term to maturity of greater than three years.

M

Minister

Refers to the Minister of Finance.

Mismatched Book

Occurs when the average maturity of assets is different from the average maturity of liabilities.

Mortgage-Backed Securities (MBS)

Securities backed by mortgages as collateral.

Multiple Component Facility

A facility under which several different options for drawing funds are available to the borrower.

Multiple Dwelling Structures

Includes all other residential structures comprising two or more units, e.g., semi-detached "link" singles, duplex and triplex, double duplexes, row, garden and terrace houses, flat and apartment buildings.

Mutual Fund Distribution Corporation

A body corporate whose principal activity is acting as a selling agent of units, shares or other interests in a mutual fund and acting as a collecting agent in the collection of payments for any such interests if

- the proceeds of the sales of any such interests, less any sales commissions and service fees, are paid to the fund; and
- the existence of a sales commission and service fee in respect of the sale of any such interest is disclosed to the purchaser of the interest prior to the purchase thereof. (See Section 464 of the Bank Act or Section 449 of the Trust and Loan Companies Act.)

N

New Construction

Include loans made for the erection of new structures or major additions and improvements to existing structures, provided that the additions or improvements create new units for residential, industrial, commercial, farm or institutional purposes. Exclude loans for additions or improvements made on existing property if they do not create additional units of living or working space, but include them under approvals on existing property.

Nominal Maturities

Effective maturities of instruments that reflect their underlying liquidity values rather than the term indicated by their stated maturities.

Non-Farm Properties

Includes all non-residential properties not classified as farm properties.

Non-Resident

For reporting purposes, non-resident means an individual, corporation or other organization not ordinarily resident in Canada and includes foreign branches or subsidiaries of Canadian corporations and organizations, but excludes Canadian branches and subsidiaries of foreign corporations and organizations. In determining whether an individual, corporation or other organization is not ordinarily resident in Canada, an institution shall rely on the residential status determined from their mailing address contained in the records of the appropriate branch unless the institution is aware that the residential status is different from its branch records. Business conducted by the international banking divisions of Canadian institutions located in Canada is to be separated on the basis of the residency of the customer.

Non-Residents Account

An account in the name of a depositor who does not have a Canadian address. If an account is in more than one depositor's name, it is classed as non-resident, if at least one of the depositors does not have a Canadian address. However, for income tax purposes, income credited to such a joint account is deemed to be credited in equal proportions to each resident and non-resident depositor.

Non-Residential Property

All property not classified as residential property, including such commercial structures as hotels, stores, office buildings, garages, theatres, warehouses, industrial plants, institutional properties, farms and vacant land.

Note Issuance Facility

These are arrangements whereby a borrower may issue short-term notes, typically three to six months in maturity, up to a prescribed limit over an extended period of time, commonly by means of repeated offerings to a tender panel. If at any time the notes are not sold by the tender at an acceptable price, an underwriter (or group of underwriters) undertakes to buy them at a prescribed price. (See Guideline A-4.)

Notice Deposits

Deposits that are subject to the right of a deposit-taking institution to require notice of withdrawal.

O

Off-balance Sheet Activities

An institution's business, often fee-based, that generally does not involve booking assets and taking deposits.

Official Monetary Institution

Official monetary institutions are institutions such as treasuries, ministries of finance, finance or corresponding government departments; central banks, stabilization funds, equalization accounts, exchange control offices or other governmental exchange authorities; and any similar fiscal agencies (including government-owned corporations) that act as governmental agents and that have an important function or functions similar to those of a treasury, central bank or stabilization fund. Exclude other official institutions such as embassies, legations, armed forces, purchasing commissions, state trading corporations, and other banks (including nationalized commercial banks) that do not function as treasuries, central banks or stabilization funds. Include liabilities only to official monetary authorities of those countries that are members of the International Monetary Fund plus Switzerland according to the list specified by the Bank of Canada.

Officer

A chief executive officer, president, vice-president, secretary, comptroller, treasurer and any other natural person designated as an officer of the institution by by-law or by resolution of the directors of the institution, and in relation to any other entity, any natural person designated as an officer of the entity by by-law, by resolution of the members thereof or otherwise.

Office of the Superintendent of Financial Institutions

Refers to the Office created by the Financial Institutions and Deposit Insurance Amendments Act and is the regulator of deposit-taking institutions and federally incorporated financial institutions in Canada.

One Borrower

In the private sector, is a company or group of companies with common ownership and related risks, or a group of companies operating under the same management group with related risks, in the absence of other sufficient evidence to support a position that there is clearly not a single risk.

Operating Loan

A demand credit facility used to finance an entity's normal business operations. The facility permits sums to be drawn, repaid and redrawn in prescribed amounts within an overall limit during the facility's life.

Options

See: Put option, Call option

P

Par Value

The principal or face value of a security.

Partly Paid Shares and Securities

Transactions where only a part of the issue or nominal face value of a security purchased has been subscribed and the issuer may call for the outstanding balance (or a further instalment), either on a date predetermined at the time of issue or at an unspecified future date.

Payment

Repayment of principal or payment of interest, except for deposits with regulated financial institutions when it refers to payment of interest only.

Perpetual Notes

Notes issued with no stated maturity date.

Permanent Impairment

For reporting purposes, losses arising from the permanent impairment of value of securities held for investment are to be charged to income in the year of recognition of the loss.

Prescribed

Means prescribed by regulation.

Prime Rate

The rate of interest charged by an institution to its most credit-worthy customers.

Private Placement

A financing agreement with a limited number of institutions or investors with the approach made by an arranger, rather than through an underwriting group of lead managers. The commitments are generally made on the basis of a fixed interest rate.

Prospectus

A written offer to sell securities that includes information on the business of the enterprise and the quality of the stock.

Prudential Lending

Subject to Office of the Superintendent of Financial Institutions guidelines, limits the size of loans to one borrower. (See Guideline B-2.)

Purchase Agreement for Securities Sold Under an Agreement to Repurchase ("REPOS")

An agreement whereby one party sells securities to another, subject to the seller's agreement to repurchase the assets at a specified date. The securities do not change hands.

Purchased Funds

Marginal, market-driven source of funds, whereby an institution pays the prevailing market rates and obtains their use for a limited period. They are generally in large denominations, minimally insured and very sensitive to considerations of yield and undoubted security.

Put Option

Optional delivery forward placement contracts, obliging the contract's seller to purchase some financial instrument, including futures contracts, at the contract buyer's option.

R

Readily Encashable Assets

The stock of liquid assets of an institution available for immediate liquidation to meet liquidity needs. They include cash resources in excess of required reserves; securities that can readily be converted into cash without incurring undue capital loss; and money market loans.

Real Property

Includes a leasehold interest in real property.

Real Property Brokerage Corporation

A company whose activities are limited to

- acting as an agent for vendors, purchasers, mortgagors, mortgagees, lessors or lessees of real property; and
- the provision of consulting or appraisal services in respect of real property. (See Section 464 of the Bank Act or Section 449 of the Trust and Loan Companies Act.)

Real Property Corporation

A company whose activities are limited to holding or otherwise dealing with real property or shares of a body corporate or ownership interests in an unincorporated entity, the activities of which are also limited to holding or otherwise dealing with real property. (See Section 464 of the Bank Act or Section 449 of the Trust and Loan Companies Act.)

Real Property Holding Vehicle

A limited partnership or a trust whose activities are limited to holding or otherwise dealing with real property or shares of a body corporate or ownership interests in an unincorporated entity, the activities of which are also limited to holding or otherwise dealing with real property. (See Section 464 of the Bank Act or Section 449 of the Trust and Loan Companies Act.)

Realized Gains (Losses)

Realized gains or losses on disposal of securities held for investments are to be charged or credited to income in the year of realization.

Recorded Investment

The face or principal amount of a loan or group of loans adjusted to reflect any principal repayments, accrued but uncollected interest, write-offs, unamortized premium or discount and unamortized loan fees and costs.

Regulated Financial Institutions

Includes:

- (a) bank;
- (b) a body corporate to which the *Trust and Loan Companies Act* applies;
- (c) an association to which the *Cooperative Credit Associations Act* applies;
- (d) an insurance company or a fraternal benefit society to which the *Insurance Companies Act* applies;
- (e) a trust, loan or insurance corporation incorporated by or under an Act of the legislature of a province;
- (f) a cooperative credit society incorporated and regulated by or under an Act of the legislature of a province;
- (g) an entity that is incorporated or formed by or under an Act of Parliament or of the legislature of a province and that is primarily engaged in dealing in securities, including portfolio management and investment counselling; and
- (h) an entity that is incorporated or formed otherwise than by or under an Act of Parliament or of the legislature of a province and that is engaged in the trust, loan or insurance business, the business of a cooperative credit society or the business of dealing in securities or is otherwise engaged primarily in the business of providing financial services.

Regulations

Made by the Governor in Council for carrying out the purposes and provisions of the Bank Act or Trust and Loan Companies Act.

REPOS

See: Purchase agreement for securities sold under an agreement to repurchase.

Representative Office

Established to represent a foreign bank in Canada, and cannot be occupied or controlled by a corporation incorporated by or under a law of Canada or a province. The personnel of the office are employed directly or indirectly by the foreign bank.

Resale Agreement for Securities Purchased Under Agreement to Resell ("Reverse REPOS")

A transaction whereby one party buys securities from another, subject to the purchaser's agreement to sell the assets at a specified date. The securities do not change hands and the resulting asset is similar to a short-term loan.

Resident

For reporting purposes a resident is an individual, corporation or other organization that is ordinarily resident in Canada. (See: Non-Resident.)

Resident Canadian

For purposes of identifying eligibility for directorships, etc., a resident Canadian is a natural person who is

- a Canadian citizen ordinarily resident in Canada;
- a Canadian citizen not ordinarily resident in Canada who is a member of a prescribed class of persons; or
- a permanent resident within the meaning of the Immigration Act and ordinarily resident in Canada, except a permanent resident who has been ordinarily resident in Canada for more than one year after the time at which the individual first became eligible to apply for Canadian citizenship. (See Section 2 of the Bank Act or Section 2 of the Trust and Loan Companies Act.)

Residential Interim Construction Mortgages

Residential Interim Construction Mortgages include:

- construction loans with or without firm permanent mortgage take out commitments;
- land servicing and development loans;
- bridge loans for the period between the time construction has been completed and full rental achievement has taken place;
- bridge loans for projects involving the conversion of rental apartments to condominiums when a permanent mortgage must be removed to accommodate the sale to ultimate purchasers;
- loans for the redevelopment of existing property prior to arranging new permanent long term financing; and
- land holding loans while plans and development permits are being obtained.

Residential Property

Real property consisting of buildings that are used, or are to be used, to the extent of at least one-half of the floor space thereof, as one or more private dwellings.

Restructured Loans

Loans where the lender, for economic or legal reasons related to the weakened financial condition of the borrower, grants a concession to the borrower that it would not otherwise consider. (See Guideline C-1.)

Reverse REPOS

See: Resale agreement for securities purchased under agreement to resell.

Revolving Credit Arrangement

An arrangement whereby funds may be borrowed at any time, with regular scheduled repayments of a predetermined minimum amount.

Revolving Underwriting Facilities (RUFS)

See: Note Issuance Facilities (NIFs).

S

Safekeeping of Securities

Refers to an institution's undertaking to hold and to service stocks, bonds or money-market instruments.

Securities Subsidiary

See: Acquired securities subsidiary

Securities Transactions

Those transactions involving the purchase, sale, transfer, receipt, delivery or safekeeping of commodity, equity and debt instruments.

Securities Underwriter

A person who, as principal, agrees to purchase securities with a view to the distribution of the securities or who, as agent for a body corporate or other person, offers for sale or sells securities in connection with a distribution of the securities, and includes a person who participates, directly or indirectly, in a distribution of securities, other than a person whose interest in the distribution of securities is limited to receiving a distributor's or seller's commission payable by a securities underwriter.

Securities Underwriting

Underwriting whereby the underwriter undertakes to take up the whole or a pre-agreed part of a capitalized market issue at a predetermined price.

Security

In relation to a corporation, a share of any class of shares of the body corporate or a debt obligation of the body corporate, and includes a warrant of the body corporate, but does not include a deposit with a financial institution or any instrument evidencing such a deposit, and in relation to any other entity, any ownership interest in or debt obligation of the entity.

Security Interest

An interest in or charge on property by way of mortgage, lien, pledge or otherwise, taken by a creditor or guarantor to secure the payment or performance of an obligation.

Securitization

Used to describe the process whereby usually loans or mortgages are converted into negotiable instruments which may be purchased by depository institutions or by non-bank investors.

Service Corporation

In relation to a deposit-taking institution - a company whose activities are limited to the provision of services to any or all of the following:

- the institution;
- any entity in which the institution has a substantial investment;
- a financial institution that is affiliated with the institution; and
- any entity in which a financial institution referred to in above paragraph has a substantial investment. (See Section 464 of the Bank Act or Section 449 of the Trust and Loan Companies Act.)

Settlement Date

The date on which security transactions are to be settled by delivering or receiving securities and cash receipts or payments.

Settlement Risk

The possibility that operational difficulties will interrupt the delivery of funds even where the counterparty is able to perform.

Shareholders' Auditors

A firm or firms of public accountants appointed by the shareholders at the annual meeting.

Short Position

Created when an institution sells an asset that it does not own. The seller must cover a short sale by subsequently delivering the assets sold short.

Short-Term Securities

For reporting purposes, short-term securities for all securities other than Government of Canada securities are defined as securities with an original term-to-maturity of one year or less.

For Government of Canada securities only - short-term securities are defined as securities with a remaining term to maturity of three years or less.

Single-detached Dwelling

A structure containing only one dwelling unit that is completely separated on all sides above and below ground from any other dwelling or structure.

Sovereign Risk Loans

Sovereign Risk Loans are loans to or guaranteed by the government of any designated or non-designated country or an organization or agency controlled by such governments, including deposits with public sector banks and securities, including restructured collateralized bonds such as the Brady Bonds, referred to in the OSFI's Guideline C-4.

Special Surveillance Loans

Restructured loans and loans with country-risk provisions, except when these loans are already classified in non-accrual loans. (See Guideline C-1.)

Specialized Financing Corporation

A body corporate that is primarily engaged, under prescribed terms and conditions, in providing specialized business management, in making investments or in providing financing or advisory services. (See Section 464 of the Bank Act or Section 449 of the Trust and Loan Companies Act.)

Spot Rate

The currency exchange rate of a transaction valued for settlement in one or two business days.

Standby Facilities

Unconditional commitments to lend when a borrower makes a request under the facility. This includes standby lines of credit and irrevocable revolving lines of credit.

Standby Letters of Credit

Obligations of an institution to a designated beneficiary to provide compensation under the terms of an underlying contract, should the institution's customer fail to do so.

Subordinated Debt

An instrument evidencing an indebtedness of an institution that, by its terms, provides that the indebtedness will, in the event of the insolvency or winding up of the institution, be subordinate in right of payment to all deposit liabilities of the institution and all other liabilities of the institution except those that, by their terms, rank equally with or are subordinate to such indebtedness.

Superintendent

Refers to the Superintendent of Financial Institutions appointed pursuant to the Office of the Financial Institutions and Deposit Insurance Amendment Act.

SWIFT

Society of Worldwide Interbank Financial Telecommunication.

T

Tax-exempt Loans

Loans for which interest received is free of taxes (that is, there are no taxes collected from the borrower or lender).

Term Deposits

Interest-bearing deposits payable at a specified date, after a specified time or after a specified notice period (not less than seven days).

Trade

In respect of securities, means any sale or disposition of securities for valuable consideration.

Trade Date

The date on which a security transaction is executed.

Trading Account Securities

Securities purchased for resale over a short period of time. Securities held for trading account should be valued at market.

Trade-Related Contingencies

These include short-term self-liquidating trade-related items such as commercial and documentary letters of credit issued by the institution that are, or are to be, collateralized by the underlying shipment. (See Guideline A-4.)

Transaction-Related Contingencies

Transaction-related contingencies relate to the ongoing activities of a counterparty, where the risk of loss to the reporting institution depends on the likelihood of a future event that is independent of the creditworthiness of the counterparty. Transaction-related contingencies are guarantees that support particular performance obligations rather than supporting customers' general financial obligations. Performance-related guarantees specifically exclude items relating to non-performance of financial obligations.

Performance-related and non-financial guarantees include items such as:

- performance bonds, warranties and indemnities. Performance standby letters of credit represent obligations backing the performance of non-financial or commercial contracts or undertakings. These include arrangements backing:
 - subcontractors' and suppliers' performance,
 - labour and material contracts,
 - delivery of merchandise, bids or tender bonds,

and guarantees of repayment of deposits or prepayments in cases of non-performance;

- customs and excise bonds. The amount recorded for such bonds should be the reporting institution's maximum liability. (See Guideline A-4.)

Transactions with Recourse

Arrangements whereby an institution sells a loan or other asset to a third party, but retains an obligation to assure the credit risk if the borrower defaults or if the value of the asset otherwise deteriorates.

Transborder Risk

Refers to all cross-border claims and associated currency risks, including the possibility that an asset cannot be serviced in the currency of payment because of foreign exchange controls. In general, the transborder risk will account for a substantial portion of a institution's country-risk. (See Country-risk.)

Treasury Bills

Short-term, non-interest-bearing government obligations that are payable to bearer and sold on a discount basis.

U

Ultimate Collectibility

There is no reasonable doubt that the payment of principal and interest will be received within a time frame not significantly longer than the term of the loan.

Uninsured Mortgage

Includes all residential mortgage loans not classified as insured.

Upstream Lending

Lending by a foreign bank in Canada to its parent bank or foreign affiliates. (See Guideline B-1.)

V

Vendor Take Back (VTB) Mortgages

A Vendor Take Back Mortgage is a mortgage loan where the company may accept, as part payment for real estate sold by it, a mortgage.

W

Warranties and Indemnities

Counter-guarantees provided by an institution that a customer will pay compensation if goods or services provided to a third party do not meet the terms specified in the contract; i.e., performance bonds.