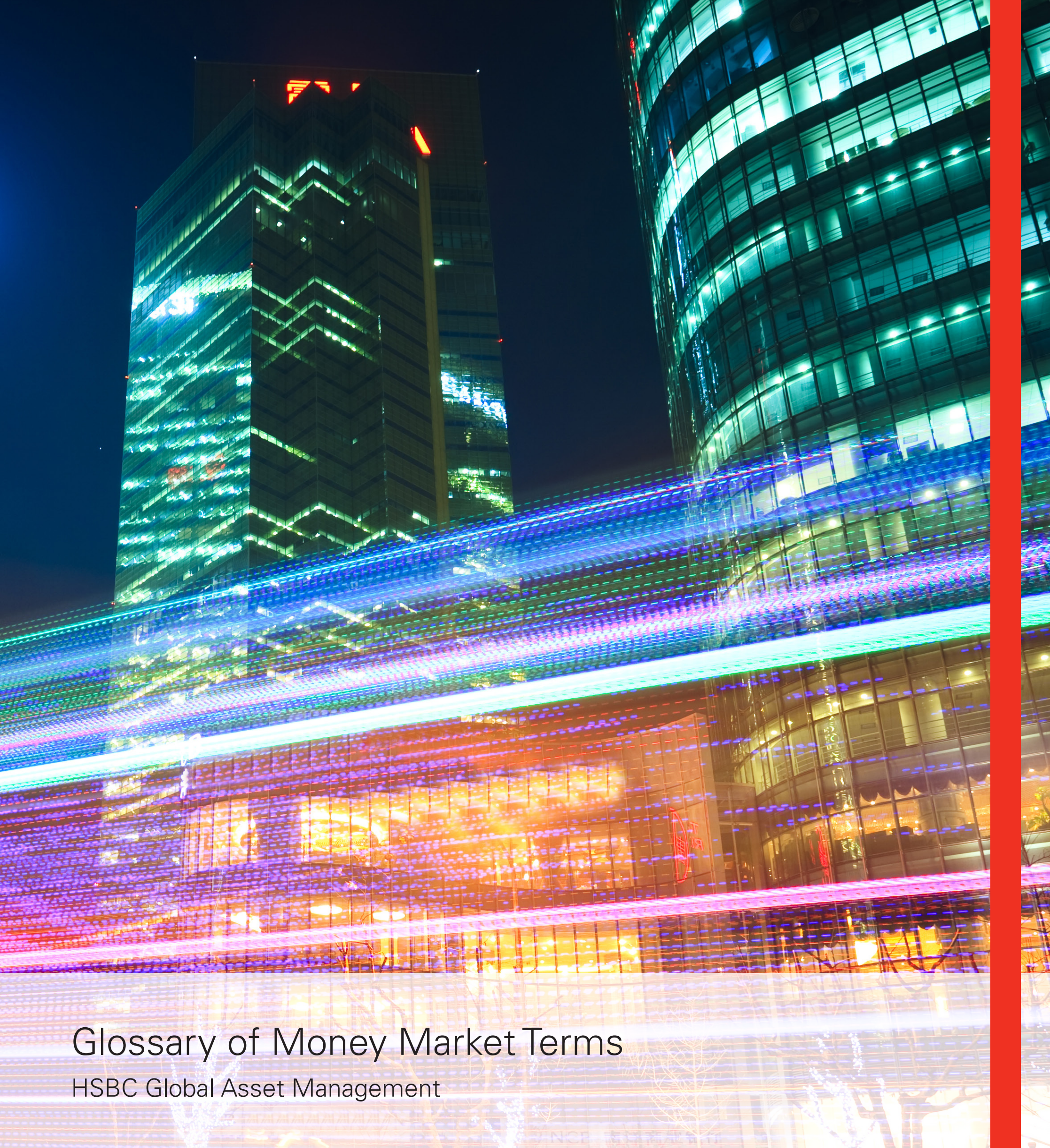

Glossary of Money Market Terms

HSBC Global Asset Management

For Professional Clients only

HSBC
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Glossary of Money Market Terms

Terms A — C

7-Day yield	An annualised historical yield calculated on the date shown based on the preceding seven days level of income earned by the fund.
A	
Amortized price	A method of valuing assets, based on the acquisition cost, which may include a discount or premium to the face value, adjusted over the life of the security to account for any discount or premium, such that amortized cost equals the principal value at maturity.
Annualised	A rate of return for a given period that is less or more than one year, but that is adjusted to show the return this would equate to over a 1 year period.
B	
Basis point (bp)	One-hundredth of one percent, i.e. 1% is equal to 100 basis points. Yields of money market instruments and money market funds are often quoted in basis points as opposed to fractions.
Bid offer spread	The difference between the prices that a holder or trader of assets (generally a financial institution or financial intermediary) is willing to buy and sell those assets. There is generally no bid-offer spread for the purchase or sale of units in a money market fund.
Bid price	The market-maker's buying price of securities or assets.
C	
Certificates of deposit	A certificate of deposit, or CD, is a bank-issued investment instrument where a bank typically agrees to repay the principal plus interest on a fixed maturity date. CDs are typically negotiable, meaning they can be sold on the secondary market, allowing the principal and accrued interest to be redeemed before maturity.
Commercial paper	Commercial paper, or CP, is a short-term, unsecured promissory note. It is usually issued in bearer form, meaning it is a negotiable instrument. By issuing the paper, the issuer promises to pay the bearer the face value of the paper on a fixed maturity date. CP is usually issued at a discount.
Constant net asset value (CNAV) money market fund	A money market fund that seeks to maintain shares in distributing share classes at a constant price of 1.00, achieved through valuing assets at amortized price. Distributing units accrue income daily, which is either paid out to the investor or used to purchase more units in the fund. Accumulation units may also be offered that price assets on an amortized basis, but that accumulate income which is reflected in a rising fund price.
Corporate bonds	Debt instruments issued by companies which can vary in maturity from less than one year to over 20 years. These are typically issued in bearer form, meaning they are negotiable. Money market funds may use corporate bonds in certain circumstances where they meet clear maturity and credit requirements and the investment manager determines that there is sufficient secondary market liquidity.
Credit rating	A standardised assessment, expressed in alphanumeric form, of the creditworthiness of an entity raising debt capital. Ratings are issued by credit ratings agencies based on their published methodology for rating the relevant instrument.

Terms C — L	
Credit rating agency	Independent institutions that assess the creditworthiness or credit risk of issuers and provides credit ratings which are publicly available and used by investors as well as analysts as a guide for investment decisions.
Credit risk	The risk that an issuer of a debt instrument will fail to repay, in whole or in part, the principal and/or accrued interest to the investor. Where a money market fund holds the debt of an issuer which has defaulted, the final recovery value will be impacted by the standing of the security held in insolvency proceedings.
Credit spread	The difference in value of two securities with comparable maturity and yield but different credit quality.
D	
Dividends	Distributions, representing income earned less expenses, paid either in cash or additional shares by a fund.
E	
EONIA	The Euro Overnight Index Average. An effective overnight rate computed as a weighted average of all overnight unsecured lending transactions in the interbank market, initiated within the euro-zone by the contributing panel banks.
European securities and markets authority (ESMA)	An independent EU Authority made up of the national securities regulators of the European Union member states. ESMA was set up in 2011, as a successor to CESR, and its aim is to enhance the protection of investors and reinforce stable and well-functioning financial markets in the European Union.
G	
Government money market fund	A money market fund which invests exclusively or primarily in debt instruments issued by a particular government, or agencies or entities with the express backing of that government. Government funds may also use repurchase agreements backed by such governments or government agencies.
I	
Interest rate risk	The risk that the yield on a money market fund lags behind a move in the reference currencies money market rate. Money market funds take positions on duration and, as a result, their portfolios do not match the 'market' in general. Consequently, then the market moves (e.g. because of an interest rate movement), it can take some time for a money market fund to readjust its portfolio, which can result in an interest rate lag.
Investment grade	Securities with a long-term credit rating equal to or above investment grade, which is currently BBB or higher.
Issuer	A company or other entity that borrows or raises capital via the financial markets through the issuance of securities.
L	
LIBID	Abbreviation for the London Interbank Bid Rate which is normally 12.5 basis points or an eighth less than LIBOR (see LIBOR).

Glossary of Money Market Terms

Terms L — S

LIBOR	Abbreviation for London Interbank Offered Rate, the interest rate at which major international banks in London will lend cash to each other, and hence an indicator rate for international lending.
Liquid assets	Liquid assets are those that can be converted to cash quickly with minimal impact to the price, or assets that will mature at par on the following day.
Liquidity risk	1) The risk that a security cannot be sold immediately without realising a loss. 2) The risk that a money market fund has insufficient liquid assets to meet redemptions.
M	
Mark-to-market price	The value of an asset based on the market price at a given point in time, i.e. the tradable value of each security.
Money market	The financial market in high quality short term negotiable debt securities. The money market is used for borrowing and lending for short periods of a few days up to 1 year.
Money market funds	A mutual fund that invests in a diversified portfolio of short term, high quality, money market instruments.
O	
Offer price	The price at which currencies, assets, securities, commodities or instruments are sold or money/funds are lent by market participants.
P	
Par value	Face value of the security
Prime funds	A money market fund that invests in a range of short term securities issued by financial institutions and corporates, as well as governments.
R	
Repurchase agreements	Also known as a repo, or a sale and repurchase agreement, is the sale of securities together with an agreement to buy them back at a future date, in return for a short term loan. The repo seller, who is receiving the loan, is offering securities as collateral against the loan.
Reset date	The date on which the interest rate of an adjustable rate security is reset, in accordance with a pre-agreed formula.
S	
Secondary market	The market where investors can buy and sell securities from other investors, rather than directly from the issuing company.
Settlement	The exchange of securities between buyer and seller and the corresponding transfer of money between the two contractual parties.

Terms S — Y

Settlement date	The date on which a security transaction is settled i.e. payment is made and securities are delivered. In reference to an investment in a money market fund, this is the date on which subscription proceeds must be sent to the fund or that redemption proceeds must be paid by the fund to the redeeming investor.
Short term debt instruments	Fixed income securities with initial or remaining maturities ranging from 12-18 months or less. Examples include, commercial paper, medium term notes, variable rate notes, floating rate notes, bankers acceptances, government bonds, treasury bills, Eurobonds, asset backed security and corporate bonds.
SONIA	The Sterling Overnight Interbank Average. This is the average interest rate used for bank borrowing in sterling outside of business hours.
T	
Tenor	The period between the issue date and the final maturity of a security.
Time deposits	A product offered by banks whereby the bank agrees to pay a fixed rate of interest in exchange for the depositor agreeing to deposit the principal for a fixed period, ranging anywhere from overnight to two years and beyond. Generally, the rate of interest offered will be higher the longer the term of fixed deposit.
Trade date	The date on which a transaction is executed following which settlement will occur on the agreed settlement date. Also known as transaction date.
Treasury funds	A money market fund which invests exclusively in securities issued by the US Treasury. Some Treasury funds may have the ability to use repurchase agreements backed by US Treasury securities.
U	
UCITS	Undertaking for Collective Investment in Transferable Securities. This is the acronym for the pan-European regulation governing collective investment schemes (mutual funds). This European regulation contains requirements such as minimum diversification requirements, product disclosure etc.
W	
Weighted average life (WAL)	The weighted average days to maturity of a portfolio of securities, based on the final maturity of all instruments including those with a floating interest rate.
Weighted average maturity (WAM)	The weighted average days to maturity of a portfolio of securities, based on the reset date of floating rate instruments, and the final maturity of other instruments.
Y	
Yield	The annual rate of return from income paid out on an investment in securities or a money market fund, expressed as a percentage of the current market prices of the relevant securities.
Yield curve	A graphical representation of demonstrating the relationship between yield and maturity on comparable debt securities with different maturities, usually for a single issuer or a very closely related group of issuers.

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