

- Direct intervention.** The purchase or the sale of a country's home currency by its own fiscal or monetary authority in order to influence the value of the domestic currency.
- Direct investment.** *See* Foreign direct investment (FDI).
- Direct quote.** The price of a unit of foreign exchange expressed in the home country's currency. The term has meaning only when the home country is specified.
- Direct tax.** A tax paid directly to the government by the person on whom it is imposed.
- Directed issue.** *See* Directed public share issue.
- Directed public share issue.** An issue that is targeted at investors in a single country and underwritten in whole or in part by investment institutions from that country.
- Dirty float.** A system of floating (i.e., market-determined) exchange rates in which the government intervenes from time to time to influence the foreign exchange value of its currency.
- Discount.** In the foreign exchange market, the amount by which a currency is cheaper for future delivery than for spot (immediate) delivery. The opposite of discount is premium.
- Dividend yield.** The current period dividend distribution as a percentage of the beginning of period share price.
- Dollarization.** The use of the U.S. dollar as the official currency of a country.
- Draft.** An unconditional written order requesting one party (such as an importer) to pay a specified amount of money at a specified time to the order of the writer of the draft. Also called a bill of exchange. Personal checks are one type of draft.
- Dual-currency basket.** The use of an index or *basket* composed of two other foreign currencies to benchmark or manage a country's own currency value.
- Dutch Disease.** A term invented by the *Economist* magazine, referring to the process of a country's currency appreciating in value as a result of the discovery and development of a natural resource like natural gas or oil. The result of the currency appreciation is to make other exports from the country less competitive in the export market. The Dutch reference was the *Economist's* use of the term to explain what happened to the Dutch florin after the discovery of natural gas in the Netherlands in 1959.
- Earnings stripping.** *See* Basis erosion and profit shifting (BEPS).
- Economic exposure.** Another name for operating exposure. *See* Operating exposure.
- Effective tax rate.** Actual taxes paid as a percentage of actual income before tax.
- Efficient market.** A market in which all relevant information is already reflected in market prices. The term is most frequently applied to foreign exchange markets and securities markets.
- Equity issuance.** The issuance to the public market of shares of ownership in a publicly traded company.
- Equity listing.** The listing of a company's shares on a public stock exchange.
- Equity risk premium.** The average annual return of the market expected by investors over and above riskless debt.
- Euro.** A single new currency unit adopted by the 11 participating members of the European Union's European Monetary System in January 1999, replacing their individual currencies.
- Eurobank.** A bank, or bank department, that bids for time deposits and makes loans in currencies other than that of the country where the bank is located.
- Eurobond.** A bond originally offered outside the country in whose currency it is denominated. For example, a dollar-denominated bond originally offered for sale to investors outside the United States.
- Eurocommercial paper (ECP).** Short-term notes (30, 60, 90, 120, 180, 270, and 360 days) sold in international money markets.
- Eurocredit.** Bank loans to MNEs, sovereign governments, international institutions, and banks denominated in eurocurrencies and extended by banks in countries other than the country in whose currency the loan is denominated.
- Eurocurrency.** A currency deposited in a bank located in a country other than the country issuing the currency.
- Eurodollar.** A U.S. dollar deposited in a bank outside the United States. A eurodollar is a type of eurocurrency. Also termed a *Eurodollar deposit*.
- Euroequity.** A new equity issue that is underwritten and distributed in multiple foreign equity markets, sometimes simultaneously with distribution in the domestic market.
- Euronote market.** Short- to medium-term debt instruments sold in the eurocurrency market.

- European Central Bank (ECB).** Conducts monetary policy of the European Monetary Union. Its goal is to safeguard the stability of the euro and minimize inflation.
- European Currency Unit (ECU).** A composite currency created by the European Monetary System prior to the euro, which was designed to function as a reserve currency numeraire. The ECU was used as the numeraire for denominating a number of financial instruments and obligations.
- European Monetary System (EMS).** A system of exchange rate and monetary system linkages first established in 1979 between 15 European countries. The EMS laid the groundwork for the eventual creation of the euro. The EMS has continued to expand its membership over time.
- European option.** An option that can be exercised only on the day on which it expires.
- European terms.** Foreign exchange quotations for the U.S. dollar, expressed as the number of non-U.S. currency units per U.S. dollar.
- European Union (EU).** The official name of the former European Economic Community (EEC) as of January 1, 1994.
- Eurozone.** The countries that officially use the euro as their currency.
- Exchange rate.** See Foreign exchange rate.
- Exchange Rate Mechanism (ERM).** The means by which members of the EMS formerly maintained their currency exchange rates within an agreed-upon range with respect to the other member currencies.
- Exchange rate pass-through.** The degree to which the prices of imported and exported goods change as a result of exchange rate changes.
- Exercise price.** Same as the *strike price*; the agreed-upon rate of exchange within an option contract to buy or sell the underlying asset.
- Export credit insurance.** Provides assurance to the exporter or the exporter's bank that, should the foreign customer default on payment, the insurance company will pay for a major portion of the loss. See also Foreign Credit Insurance Association (FCIA).
- Export-Import Bank (Eximbank).** A U.S. government agency created to finance and otherwise facilitate imports and exports.
- Exposed asset.** An asset whose value is subject to change as a result of the translation of its value from local currency financial statements to home currency financial statements as a result of financial statement consolidation. The change in value typically results from moving from historical to current exchange rates for translation and remeasurement.
- Expropriation.** Official government seizure of private property, recognized by international law as the right of any sovereign state provided expropriated owners are given prompt compensation and fair market value in convertible currencies.
- Factoring.** Specialized firms, known as factors, purchase receivables at a discount on either a non-recourse or recourse basis.
- Fair value.** The estimated true market value of an item or asset.
- FAS (free alongside ship).** An international trade term in which the seller's quoted price for goods includes all costs of delivery of the goods alongside a vessel at the port of embarkation.
- Fiat currency.** Money or currency which derives its value from government regulation or proclamation. Unlike commodity money or *specie*, its value is not tied or based on a precious metal or other physical commodity.
- FIBOR.** Frankfurt interbank offered rate.
- Financial account.** A section of the balance of payments accounts. Under the revised format of the International Monetary Fund, the financial account measures long-term financial flows including direct foreign investment, portfolio investments, and other long-term movements. Under the traditional definition, which is still used by many countries, items in the financial account were included in the capital account.
- Financial derivative.** A financial instrument, such as a futures contract or option, whose value is derived from an underlying asset like a stock or currency.
- Financing cash flow.** Cash flows originating from financing activities of the firm, including interest payments and dividend distributions.
- Firm-specific risk.** Political risk that affects the MNE at the project or corporate level. Governance risk due to goal conflict between an MNE and its host government is the main political firm-specific risk.
- Fisher Effect.** A theory that nominal interest rates in two or more countries should be equal to the required real rate of return to investors plus compensation for the expected amount of inflation in each country.
- Fixed exchange rates.** Foreign exchange rates tied to the currency of a major country (such as the United States), to gold, or to a basket of currencies such as Special Drawing Rights.

- Flexible exchange rates.** The opposite of fixed exchange rates. The foreign exchange rate is adjusted periodically by the country's monetary authorities in accordance with their judgment and/or an external set of economic indicators.
- Floating exchange rates.** Foreign exchange rates determined by demand and supply in an open market that is presumably free of government interference.
- Floating-rate note (FRN).** Medium-term securities with interest rates pegged to LIBOR and adjusted quarterly or semiannually.
- Follow-on offering (FO).** Additional offerings of equity shares post-IPO.
- Forced delistings.** The requirement by a stock exchange for a publicly traded share on that exchange to be delisted from active trading, typically from failure to maintain a minimum level of market capitalization.
- Foreign affiliate.** A foreign business unit that is less than 50% owned by the parent company.
- Foreign bond.** A bond issued by a foreign corporation or government for sale in the domestic capital market of another country, and denominated in the currency of that country.
- Foreign Credit Insurance Association (FCIA).** An unincorporated association of private commercial insurance companies, in cooperation with the Export-Import Bank of the United States, that provides export credit insurance to U.S. firms.
- Foreign currency.** Any currency other than that used officially for contracts and transactions in the domestic economy.
- Foreign currency intervention.** Any activity or policy initiative by a government or central bank with the intent of changing a currency value on the open market. They may include *direct intervention*, where the central bank may buy or sell its own currency, or *indirect intervention*, in which it may change interest rates in order to change the attractiveness of domestic currency obligations in the eyes of foreign investors.
- Foreign currency option.** A financial contract or derivative which guarantees the holder the right to buy or sell a specific amount of foreign currency at a specific rate by a stated expiration or maturity date.
- Foreign currency translation.** See Translation.
- Foreign direct investment (FDI).** Purchase of physical assets, such as plant and equipment, in a foreign country, to be managed by the parent corporation. FDI is distinguished from foreign portfolio investment.
- Foreign exchange broker.** An individual or firm that arranges foreign exchange transactions between two parties, but is not itself a principal in the trade. Foreign exchange brokers earn a commission for their efforts.
- Foreign exchange dealer (or trader).** An individual or firm that buys foreign exchange from one party (at a bid price), and then sells it (at an ask price) to another party. The dealer is a principal in two transactions and profits via the spread between the bid and ask prices.
- Foreign exchange intervention.** The active entry into the foreign exchange market by buying and selling a currency by an official authority in order to manage or fix the currency's value relative to other traded currencies.
- Foreign exchange rate.** The price of one country's currency in terms of another currency, or in terms of a commodity such as gold or silver. Also termed *foreign currency exchange rate*. See also Exchange rate.
- Foreign exchange risk.** The likelihood that an unexpected change in exchange rates will alter the home currency value of foreign currency cash payments expected from a foreign source. Also, the likelihood that an unexpected change in exchange rates will alter the amount of home currency needed to repay a debt denominated in a foreign currency.
- Foreign subsidiary.** A foreign operation incorporated in the host country and owned 50% or more by a parent corporation. Foreign operations that are not incorporated are called branches.
- Foreign tax credit.** The amount by which a domestic firm may reduce (credit) domestic income taxes for income tax payments to a foreign government.
- Foreign tax neutrality.** The principle that tax obligations or tax burdens are the same on taxable earnings, regardless of where the earnings were generated, in domestic or foreign markets.
- Forfeiting (forfeiting).** A technique for arranging nonrecourse medium-term export financing, used most frequently to finance imports into Eastern Europe. A third party, usually a specialized financial institution, guaranteeing the financing.
- Forward-ATM.** The strike rate or exercise price of a foreign exchange derivative set equivalent to the forward exchange rate.
- Forward contract.** An agreement to exchange currencies of different countries at a specified future date and at a specified forward rate.
- Forward discount.** The difference between spot and forward rates, expressed as an annual percentage, also known as the *forward premium*.

- Forward exchange rate (Forward rate).** An exchange rate quoted for settlement at some future date. The rate used in a forward transaction.
- Forward-forward swap.** The exchange of two different maturities of forward exchange contracts.
- Forward hedge.** The use of a forward exchange contract to hedge or protect the value of a foreign currency denominated transaction.
- Forward premium.** *See* Forward discount.
- Forward rate.** *See* Forward exchange rate.
- Forward rate agreement (FRA).** An interbank-traded contract to buy or sell interest rate payments on a notional principal.
- Forward transaction.** An agreed-upon foreign exchange transaction to be settled at a specified future date, often one, two, or three months after the transaction date.
- Free alongside ship (FAS).** *See* FAS (free alongside ship).
- Free cash flow.** Operating cash flow less capital expenditures (capex).
- Free float.** The portion of publicly traded shares of a corporation that are held by public investors as opposed to locked-in stock held by promoters (underwriters), company officers, controlling-interest investors, or government.
- Fronting loan.** A parent-to-subsidary loan that is channeled through a financial intermediary such as a large international bank in order to reduce political risk. Presumably government authorities are less likely to prevent a foreign subsidiary repaying an established bank than repaying the subsidiary's corporate parent.
- Functional currency.** In the context of translating financial statements, the currency of the primary economic environment in which a foreign subsidiary operates and in which it generates cash flows.
- Futures, or futures contracts.** *See* Interest rate futures.
- Gamma.** A measure of the sensitivity of an option's delta ratio to small unit changes in the price of the underlying security.
- Generally Accepted Accounting Principles (GAAP).** Approved accounting principles for U.S. firms, defined by the Financial Accounting Standards Board (FASB).
- Global depositary receipt (GDR).** Similar to American Depositary Receipts (ADRs), it is a bank certificate issued in multiple countries for shares in a foreign company. Actual company shares are held by a foreign branch of an international bank. The shares are traded as domestic shares, but are offered for sale globally by sponsoring banks.
- Global registered shares (GRS).** Similar to ordinary shares, global registered shares have the added benefit of being tradable on equity exchanges around the globe in a variety of currencies.
- Global reserve currency.** *See* Reserve currency.
- Global-specific risks.** Political risks that originate at the global level, such as terrorism, the antiglobalization movement, environmental concerns, poverty, and cyber attacks.
- Gold standard or Gold-exchange standard.** A monetary system in which currencies are defined in terms of their gold content, and payment imbalances between countries are settled in gold.
- Greenfield investment.** An initial investment in a new foreign subsidiary with no predecessor operation in that location. This is in contrast to a new subsidiary created by the purchase of an already existing operation. An investment that starts, conceptually if not literally, with an undeveloped "green field."
- Haircut.** The percentage of the market value of a financial asset recognized as the collateral value or redeemed value of the asset.
- Hard currency.** A freely convertible currency that is not expected to depreciate in value in the foreseeable future.
- Hedging.** Purchasing a contract (including forward foreign exchange) or tangible good that will rise in value and offset a drop in value of another contract or tangible good. Hedges are undertaken to reduce risk by protecting an owner from loss.
- Herstatt risk.** The risk arising from foreign exchange trades between banks operating in different countries and different time zones. Also termed settlement risk.
- Historical exchange rate.** In accounting, the exchange rate in effect when an asset or liability was acquired.
- Home currency.** The currency of a company's incorporation; the currency for financial reporting purposes.
- Hoover Hedges.** Hedges constructed to protect the value of a long-term investment or loan in a foreign currency.
- Hot money.** Money that moves internationally from one currency and/or country to another in response to interest rate differences, and moves away immediately when the interest advantage disappears.
- Hurdle rate.** The required rate of return by a firm on a potential new investment in order to approve accepting the investment. The rate is typically based on the company's current cost of capital, including debt and equity. In some cases the firm

- will require some premium or additional margin on certain investments above and beyond its cost of capital in the calculation of the hurdle rate (e.g., cost of capital + premium = hurdle rate).
- Hyperinflation countries.** Countries with a very high rate of inflation. Under United States FASB 52, these are defined as countries where the cumulative three-year inflation amounts to 100% or more.
- Impossible trinity.** An ideal currency would have exchange rate stability, full financial integration, and monetary independence.
- In-the-money (ITM).** Circumstance in which an option is profitable, excluding the cost of the premium, if exercised immediately.
- Indication.** A quotation, typically in the form of a bid rate and ask rate, for a currency or other financial asset.
- Indirect intervention.** Actions taken by central banks or other monetary authorities to influence the supply and demand for a country's own currency. The most common form of indirect intervention is the alteration of interest rates.
- Indirect quote.** The price of a unit of a home country's currency expressed in terms of a foreign country's currency.
- Initial public offering (IPO).** The initial sale of shares of ownership of a company to the general public. The issuing firm raises capital for the conduct of its business and return to its original owners through the IPO.
- Integrated foreign entity.** An entity that operates as an extension of the parent company, with cash flows and general business lines that are highly interrelated with those of the parent.
- Intellectual property rights.** Legislation that grants the exclusive use of patented technology and copyrighted creative materials. A worldwide treaty to protect intellectual property rights has been ratified by most major countries, including most recently by China.
- Interest rate futures.** Exchange-traded agreements calling for future delivery of a standard amount of any good, e.g., foreign exchange, at a fixed time, place, and price.
- Interest rate parity (IRP).** A theory that the differences in national interest rates for securities of similar risk and maturity should be equal to but opposite in sign (positive or negative) to the forward exchange rate discount or premium for the foreign currency.
- Interest rate risk.** The risk to the organization arising from interest-bearing debt obligations, either fixed

or floating rate obligations. It is typically used to refer to the changing interest rates which a company may incur by borrowing at floating rates of interest.

- Interest rate swap.** A transaction in which two counterparties exchange interest payment streams of different character (such as floating vs. fixed), based on an underlying notional principal amount.
- Internal rate of return (IRR).** A capital budgeting approach in which a discount rate is found that matches the present value of expected future cash inflows with the present value of outflows.
- International Bank for Reconstruction and Development (IBRD or World Bank).** International development bank owned by member nations that makes development loans to member countries.
- International CAPM (ICAPM).** A strategy in which the primary distinction in the estimation of the cost of equity for an individual firm using an internationalized version of the domestic capital asset pricing model is the definition of the "market" and a recalculation of the firm's beta for that market.
- International Fisher effect.** A theory that the spot exchange rate should change by an amount equal to the difference in interest rates between two countries.
- International Monetary Fund (IMF).** An international organization created in 1944 to promote exchange rate stability and provide temporary financing for countries experiencing balance of payments difficulties.
- International Monetary Market (IMM).** A branch of the Chicago Mercantile Exchange that specializes in trading currency and financial futures contracts.
- International monetary system.** The structure within which foreign exchange rates are determined, international trade and capital flows are accommodated, and balance of payments adjustments made.
- International parity conditions.** In the context of international finance, a set of basic economic relationships that provide for equilibrium between spot and forward foreign exchange rates, interest rates, and inflation rates.
- International Swaps and Derivatives Association (ISDA).** A New York City trade association for over the counter (OTC) derivatives. The ISDA maintains the documentation used in most of the financial services trading of financial derivatives used globally.
- Intrafirm trade.** Trade in goods and services between incorporated units of the same multinational business or enterprise.

- Intrinsic value.** The financial gain if an option is exercised immediately.
- Investment agreement.** An agreement that spells out specific rights and responsibilities of both the investing foreign firm and the host government.
- Investment grade.** A credit rating, typically assigned by Moody's, Standard & Poors, or Fitch, symbolizing the assured ability of a borrower to repay in a timely manner regardless of business or market conditions. Denoted as BBB- (or equivalent by credit rating agency) or higher.
- Islamic finance.** Banking or financing activity that is consistent with the principles of *sharia* and Islamic economics.
- J-curve.** The adjustment path of a country's trade balance following a devaluation or significant depreciation of the country's currency. The path first worsens as a result of existing contracts before improving as a result of more competitive pricing conditions.
- Joint venture (JV).** A business venture that is owned by two or more entities, often from different countries.
- Lag.** In the context of leads and lags, payment of a financial obligation later than is expected or required.
- Lambda.** A measure of the sensitivity of an option premium to a unit change in volatility.
- Law of one price.** The concept that if an identical product or service can be sold in two different markets, and no restrictions exist on the sale or transportation costs of moving the product between markets, the product's price should be the same in both markets.
- Lead.** In the context of *leads and lags*, the payment of a financial obligation earlier than is expected or required.
- Legal tender.** A medium of payment allowed by law or recognized by a legal system to be valid for meeting a financial obligation.
- Lender-of-last-resort.** The body or institution within an economy which is ultimately capable of preserving the financial survival or viability of individual institutions. Typically the country's central bank.
- Letter of credit (L/C).** An instrument issued by a bank, in which the bank promises to pay a beneficiary upon presentation of documents specified in the letter.
- Link financing.** See Back-to-back loan or Fronting loan.
- Liquid.** The ability to exchange an asset for cash at or near its fair market value.
- London fix.** The WM/Reuters benchmark rates determined over a one-minute fix period, from 30 seconds before to 30 seconds after the time of the fix, which is generally 4 p.m. in London. During this one-minute window, bid and offer rates from the order matching system and actual trades executed are captured. Since trades occur in milliseconds, only a sample is captured, rather than every trade, for approximately 160 different cross-currency rates.
- London Interbank Offered Rate (LIBOR).** The deposit rate applicable to interbank loans in London. LIBOR is used as the reference rate for many international interest rate transactions.
- Long position.** A position in which foreign currency assets exceed foreign currency liabilities. The opposite of a long position is a short position.
- Maastricht Treaty.** A treaty among the 12 European Union countries that specified a plan and timetable for the introduction of a single European currency, to be called the euro.
- Macro risk.** See Country-specific risk.
- Macroeconomic uncertainty.** Operating exposure's sensitivity to key macroeconomic variables, such as exchange rates, interest rates, and inflation rates.
- Managed float.** A country allows its currency to trade within a given band of exchange rates.
- Margin.** A deposit made as security for a financial transaction otherwise financed on credit.
- Marked-to-market.** The condition in which the value of a futures contract is assigned to market value daily, and all changes in value are paid in cash daily. The value of the contract is revalued using the closing price for the day. The amount to be paid is called the variation margin.
- Market capitalization.** The total market value of a publicly traded company, calculated as the total number of shares outstanding multiplied by the market-determined price per share.
- Market liquidity.** The degree to which a firm can issue a new security without depressing the existing market price, as well as the degree to which a change in price of its securities elicits a substantial order flow.
- Matching currency cash flows.** The strategy of offsetting anticipated continuous long exposure to a particular currency by acquiring debt denominated in that currency.
- Merchant bank.** A bank that specializes in helping corporations and governments finance by any of a variety of market and/or traditional techniques. European merchant banks are sometimes differentiated from clearing banks, which tend to focus