T

1. TAC

Targeted amortization class (TAC) mortgage-backed securities in which payments are guaranteed for one specific prepayment rate.

2. Tail VaR

The expected loss conditional upon the VaR loss being exceeded. [See also **Value at risk**]

3. Tailing

A reduction in the quantity of an asset held in order to offset future income received by the asset.

4. Take-and-Pay Option

[See **Swing option**]

5. Takedown Risk

In making the loan commitment, the financial institution must always stand ready to provide the maximum of commitment line. The borrower has the flexible option to borrow anything between $0 and the commitment amount ($5 million for example) on any business day in the commit period. This exposes the FI to a degree of future liquidity risk or uncertainty, i.e., takedown risk.

6. Takeover

General term referring to transfer of control of a firm from one group of shareholders to another. Takeover can occur by **acquisition**, **proxy contests**, and going-private transaction. Thus, takeover encompasses a broader set of activities than acquisitions. [See also **Acquisition** and **Proxy contests**]

7. Taking Delivery

Refers to the buyer's actually assuming possession from the seller of the asset agreed upon in a forward contract.

8. Tangible Equity

Total assets minus intangible assets minus total liabilities. In a bank, the largest intangible asset is goodwill, which represents dollar values that may not be realized should the combined institution from merger be forced to liquidate.

9. Target Cash Balance

Optimal amount of cash for a firm to hold, considering the trade-off between the opportunity costs of holding too much cash and the trading costs of holding too little. [See also **Optimal cash balance**]

10. Target Firm

A firm that is the object of a takeover by another firm.

11. Target Payout Ratio

A firm's long-run dividend-to-earnings ratio. The firm's policy is to attempt to pay out a certain percentage of earnings, but it pays a stated dollar dividend and adjusts it to the target as increases in earnings occur. [See also **Lintner's model**]

12. Targeted Repurchase

The firm buys back its own stock from a potential bidder, usually at a substantial premium, to forestall a takeover attempt. This kind of offer will not extend to other shareholders.

13. Tax Anticipation Notes

Short-term municipal debt to raise funds to pay for expenses before actual collection of taxes.

14. Tax Books

Set of books kept by firm management for the IRS that follows IRS rules. The stockholders' books follow Financial Accounting Standards Board (FASB) rules.

15. Tax Credit

Direct reduction in tax liability arising from qualifying expenditures.

16. Tax Deferral Option

The feature of the US Internal Revenue Code that the capital gains tax on an asset is payable only when the gain is realized by selling the asset.

17. Tax Swap

Swapping two similar bonds to receive a tax benefit.

18. Taxable Acquisition

An acquisition in which shareholders of the acquired firm will realize capital gains or losses that will be taxed.

19. Taxable Income

Gross income less a set of deductions. These deductions are expenses items as presented in income statement. It is called earnings before tax.

20. Tax-Deferred Retirement Plans

Employer-sponsored and other plans that allow contributions and earnings to be made and accumulate tax free until they are paid out as benefits.

21. Tax-Equivalent Yield

Tax-exempt interest yield converted to a pretax taxable equivalent by dividing the nominal rate by 1 minus the investor's marginal income tax rate.

22. Tax-Exempts

Tax-exempts are debt obligations of municipalities, states, and federal agencies like the Public Housing Authority. The interest they pay is tax-free. When purchased close to their maturities, these issues have risk characteristics similar to those of other government securities, which depend, of course, on the creditworthiness of the issuers.

23. Tax-Free Acquisition

An acquisition in which the selling shareholders are considered to have exchanged their old shares for new ones of equal value, and in which they have experienced no capital gains or losses.

24. Tax-Timing Option

Describes the investor's ability to shift the realization of investment gains or losses and their tax implications from one period to another.

25. T-Bill

T-bill has a short time horizon and the backing of the US government, which gives it an aura of safety. T-bills, T-notes and T-bonds are liquid assets. Therefore, they are marketable securities, which are parts of current assets. [See also **Treasury bills**]

26. Technical Analysis

Research to identify mispriced securities that focuses on recurrent and predictable stock price patterns. This analysis does not consider the fundamental variables, which are considered by fundamental analysis.

27. Technical Insolvency

Technical insolvency is the inability of the firm to meet cash payments on contractual obligations.

The lack of cash to meet accounts payable, wages, taxes, interest, and debt retirement will constitute technical insolvency, even if the enterprise has adequate assets and generates both economic and accounting profits.

When assets are plentiful in relation to liabilities, a financial manager usually can plan ahead and arrange for sufficient cash through various sources to prevent any embarrassment. Most liquidity problems can be overcome by borrowing or through the planned liquidation of certain assets. A sound, profitable business should have no difficulty in this regard, and reasonable intelligent planning should ward off the danger of technical insolvency. However, if the firm is technically insolvent because of successive losses, poor management, or insufficient investment in working capital, then lenders will be less willing to place fund at its disposal.

The financial manager also should be aware of the potential for variability in the availability of funds. Even a willing lender often is hesitant during periods of tight money, great financial uncertainty, or panic.

28. Technicians

They believe past price change can be used to predict future price movements. Technicians interested in aggregate market forecasting would obviously want to examine past movement of different market indicator series. [See also **Chartists**]

29. Technology and Operation Risks

Technology and operational risks are closely related and in recent years have caused great concern to Financial Institution (FI) managers and regulators alike. The Bank for International Settlements (BIS), the principal organization of Central Banks in the major economies of the world, defines operational risk (inclusive of technological risk) as "the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events." A number of FIs add reputational risk and strategic risk (e.g., due to a failed merger) as part of a broader definition of operational risk.

30. TED (Treasury Eurodollar) Spread

The difference between the 3-month Eurodollar rate and 3-month Treasury rate.

31. Temporary Working Capital

Some working capital needs persist over time, regardless of seasonal or cyclical variations in sales. In contrast to **permanent working capital**, temporary working capital consists of the additional funds required to meet the seasonal or cyclical variations in sales, over and above permanent working capital. [See also **Permanent working capital**]

32. Tender Offer

In a tender offer, the acquiring firm makes its offer directly to the shareholders of the firm it wishes to acquire. This usually is accomplished through the financial press. The acquiring firm offers to pay a fixed amount per share to each shareholder who tenders shares; this price usually is set far enough above the current market price to entice the shareholders of the target firm.

Tender offers can be made when negotiation breaks down or as a surprise move by one firm to catch the management of the other firm off guard. A tender offer may bid either cash or stock, or some combination, for a block of shares of the target firm. In many large corporations, effective management control can be gained with ownership of less than 50 percent of the shares. Hence, an acquiring firm can make a tender offer, gain control, and then proceed to negotiate for the remainder of the shares.

State and Federal laws impose several legal requirements on tender offers. A bid for shares must remain open for at least 20 days. Moreover, shares that are tendered during this period may be withdrawn during the period. If the bidder raises the original offer price, shares that were tendered under the original offer also are entitled to the higher price. After one firm makes a tender offer, other firms may join the battle for a target firm.

Tender offers have generated a new and colorful vernacular. Some of the frequently encountered terms are **white knight**, **shark repellant**, **pac-man strategy**, and **golden parachute**. [See also **White knight**, **Shark repellant**, **Pac-man strategy**, and **Golden parachute**]

33. Tenor

Time to maturity or expiration of a contract, frequently used when referring to swaps.

34. Term Bonds

Most bonds are term bonds, which mature at some definite point in time. Thus, the price of the bond is

$$PV = \sum_{t=1}^{n} \frac{I_t}{(1+k_b)^t} + \frac{P_n}{(1+k_b)^n},$$

where $I_t =$ the annual coupon interest payment; $P_n =$ the principal amount (face value) of the bond; $n =$ the number of periods to maturity; k_b = discount rate.

35. Term Insurance Policy

It provides a death benefit only, no build-up of cash value for a specified period. The most popular type of term life policy involves a premium that increases with age for a constant amount of death benefits.

36. Term Loan

Loan with a maturity beyond one year, typically repaid from the borrower's future cash flow. Interest and principal are repaid at maturity, the lender must take a more active role in checking the borrower's compliance.

37. Term Premiums

Excess of the yields to maturity on long-term bonds over those of short-term bonds. [See also **Liquidity premium**]

38. Term Repo

A repurchase agreement lasting for a specified period of time longer than one day.

39. Term RPs

Repurchase agreements (RPs or REPOs) with maturity beyond one day. RPs involve a loan between two parties with one either a securities dealer or commercial bank. [See also **Term repo**]

40. Term Structure of Interest Rates

The term structure of interest rates arises from the risk-return relationship among debt securities. The term structure of interest rates is typically described by the yield curve. Typical yield curve diagrams use data for Treasury securities to eliminate risk of default from the analysis. However, similar curves can be constructed using corporate bonds of different maturities with the same credit rating. Over time, the term structure shifts upward or downward and becomes steeper or flatter, depending upon market influences on short-term and long-term interest rates. The term structure generally slopes upward, showing that long-term debt must offer investors a higher return (and borrowers a higher cost) than short-term debt.

The current shape and expected future changes in the shape of the term structure affect the firm's debt financing decision. Low long-term interest rates may convince treasurers to issue long-term debt to lock in low financing costs while they can. As the term structure becomes steeper, however, the temptation rises to issue short-term debt and simply sell new short-term debt issues to replace maturing ones (that is, to roll over maturing short-term debt).

Favoring short-term debt over long-term financing can generate enormous cost savings, boosting the firm's profitability and marketing efforts. [See also **Yield curve**]

41. Terminal Value

The value at maturity.

42. Terms of Sale

Conditions on which firm proposes to sell its goods and services for cash or credit.

43. Theta

The change in the value in the value of a derivative solely due to the passage of time. Based upon the call option formula defined in option pricing model [See also **Option pricing model** for variable definitions] The mathematical result can be defined as:

$$\frac{\partial C}{\partial T} = \frac{S\sigma}{2\sqrt{T}} N'(d_1) + rXe^{-rT} N(d_2) > 0.$$

44. Third Market

Trading of exchange-listed securities on the OTC market.

45. Thrifts

They include savings and loan associations, savings banks, and mutual savings banks. These institutions traditionally rely upon savings deposits as sources of funds. Hence, they are also called savings institutions. However, they are now able to offer checkable deposits.

46. Tick

Refers to a change in price, either up or down. The amount varies with each contract.

47. Time Decay

Another term for theta. [See also **Theta**]

48. Time Draft

Time drafts are payable after a period of time. These drafts specify that payment is required in 30, 60, or 90 days, or more. A time draft allows the buyer to take title to the merchandise when it promises to pay, rather than when it actually pays the draft.

49. Time Series Analysis of Financial Ratios

Financial ratios can be used in *time series analysis* to evaluate firm performance over time. The best information source for time series analysis of firm ratios is the firm's financial statements and their footnotes. These materials appear in annual reports as well as 10-Q and 10-K filing with the Securities and Exchange Commission.

50. Time Spread

[See **Spread (options)**]

51. Time Value (of an Option)

The part of the value of an option that is due to its positive time to expiration. Not to be confused with present value or the time value of money. [See also **Theta**]

52. Time Value of Money

The time value of money is one of the most important concepts in finance. The time value of money means that a dollar today is worth more than a dollar at any time in the future. The time value of money is a basic building block for much financial analysis. Proper decisions depend upon comparing present cash flows with cash flows in the distant future.

To evaluate the time value of money, four key concepts must be understood: (1) the future value of a single sum; (2) the present value of a single sum; (3) the future value of an annuity; and (4) the present value of an annuity.

53. Times Interest Earned

[See **Interest coverage ratio** and **Capital structure ratios**]

54 Time-Weighted Return

An average of the period-by-period holding-period returns of an investment.

55. Timing Adjustment

Adjustment made to the forward value of a variable to allow for the timing of a payoff from a derivative.

56. TINSTAAFL Principle

Economics teaches the TINSTAAFL principle: "There is no such thing as a free lunch." Capital budgeting analysis frequently applies this principle to existing assets.

57. Tobin's Q

Market value of assets divided by replacement value of assets. A Tobin's Q ratio greater than 1 indicates the firm has done well with its investment decisions. It can be approximated by market value/book value ratio.

58. Tombstone

Tombstone is an advertisement that publicizes a security offering. They are placed in newspapers and magazines by the managing investment bank to advertise its role in forming a syndicate and helping distribute the new issue. The advertisement lists the name of the issuer, the type of security issued, the quantity sold, the offering price, and the members of the investment banking syndicate. The managing investment bank is listed first, for a particularly large or lucrative offering, two or more managing investment banks may share the top position. Members of the syndicate are listed below, in different tiers, with the firms in each tier typically listed in alphabetical order. The most prestigious investment banks are listed in higher tiers; less prestigious banks appear in the lower alphabetized lists. Investment banks sometimes quarrel, and some have even pulled out of deals, over objections to the placement of their name in the tombstone ad. Firms in a tier that are listed out of alphabetical order are less prestigious members of that tier.

59. Total Asset Turnover Ratio

$$\left\{\begin{array}{l}\text{Computed as :}\\ \text{Total asset turnover} = \dfrac{\text{Sales}}{\text{Total Assets}}.\end{array}\right.$$

More efficient use of assets to generate sales boosts a firm's growth rate, if all else remains constant. A higher turnover allows the firm to increase sales without a large increase in assets. [See also **Asset management ratios**]

60. Total Cash Flow of the Firm

Total cash inflow minus total cash outflow.

61. Total Return Swap

A swap where the return on an asset such as a bond is exchanged for LIBOR plus a spread. The return on the asset includes income such as coupons and the change in value of the asset.

62. Total Risk

Total risk is defined as the sum of systematic and unsystematic risk. Total risk is also equal to the sum of all of the risk components. However, the importance and the contribution to total risk depend on the type of security under consideration. The total risk of bonds contains a much larger fraction of interest-rate risk than the total risk of a stock.

63. Total-Debt-to-Total-Assets Ratio

[See **Leverage ratios**]

64. T-period Holding-Period Return

The percentage return over a T-year period of an investment.

65. Tracking Problem

A perfect hedge is usually not possible because the correlation between the market index and the portfolio may not be perfect. This is called the tracking problem. The greater the correlation between the portfolio and the index, the more effective the hedge, the lower the correlation, the less effective the hedge as a portfolio insurance strategy.

66. Trade Acceptance

Written demand that has been accepted by a firm to pay a given sum of money at a future date.

67. Trade Barrier

Trade barriers reduce import quantities. They prevent domestic consumers from buying all of the foreign goods that they otherwise might buy. This reduced demand for foreign goods reduces demand for foreign currencies; thus, trade barriers can strengthen the currency of the country that erects them. Should two countries place trade barriers against each other, however, their effects may offset one another, with a net impact on exchange rates of zero.

68. Trade Credit (Receivables)

The balance sheet of any company lists accounts receivable on the asset side and accounts payable on the liability side. These categories represent credit extended to other companies (accounts receivable) and credit extended by other companies (accounts payable). These line items measure trade credit, a form of short-term financing provided by a selling company to a buying company. Essentially, the seller provides a loan to the buyer by allowing the buyer to postpone payment while taking immediate possession of goods or services.

The selling company can increase overall sales through trade credit but not without cost. The decision to extend trade credit depends upon the incremental gain per unit of additional risk. Because many firms tie up a lot of capital or assume large obligations in trade credit transactions, decisions involving the management of credit can have a significant impact on cash flow, cost of capital sales growth, and debt capacity.

Trade credit is one of those decisions that affect all aspects of the firm – marketing, production, finance, and so on. Each of these functional areas will have a distinct view of the role of trade credit.

69. Trading Account

Securities debt and equity securities that are bought and hold primarily for the purpose of selling or trading in the neat term. Institutions serving as major dealers in money market assets must keep an inventory of trailing account securities from which to make trade with customers.

70. Trading Costs

Costs of selling marketable securities and borrowing.

71. Trading Range

Price range between highest and lowest prices at which a security is traded. In statistics, it is called range. This measure can be used to measure the variability of a random variable.

72. Trading Volume

Many technical analysts believe that it is possible to detect whether the market in general and/or certain security issues are bullish or bearish by studying the volume of trading. Volume is supposed to be a measure of the intensity of investors' emotions. If high volume occurs on days when prices move up, the overall nature of the market is considered to be bullish. If the high volume occurs on days when prices are falling, this is a bearish sign.

73. Tranche

The principal amount related to a specific class of stated maturities on a collateralized mortgage obligation. [See also **Collateralized mortgage obligation**]

74. Transaction Cash

A company's cash needs fall into three categories: (1) cash for day-to-day transactions, (2) reserve cash to meet contingencies, and (3) cash for compensating balance requirements. The required level of day-to-day transaction cash depends upon the number, frequency, and amount of anticipated transactions. The only requirement for this element of the cash balance is that it be large enough to cover the checks written against the balance.

75. Transaction Costs

Transaction or contracting costs represent the explicit or implicit costs of facilitating exchanges. For example, firms cannot costlessly issue debt and repurchased equity, or negotiate bank loans. Loan covenants may restrict management's discretion in some decision, or even limit returns to shareholders. Covenants also may increase firm expenses by requiring audits or the periodic review of financial statements by the lenders. Real-world firms must pay several different categories of transaction costs such as **flotation costs**, **bankruptcy costs**, **agency costs**, and **information asymmetry**. [See also **Flotation costs**, **Bankruptcy costs**, **Agency costs**, and **Information asymmetry**]

76. Transactions Account

Deposit account on which a customer can write checks. Those accounts include demand deposit and NOWs accounts; NOW represents negotiable order of withdrawal.

77. Transactions Motive

A reason for holding cash that arises from normal disbursement and collection activities of the firm. [See also **Transaction cash**]

78. Transfer Pricing (Financial Institution)

The pricing of funds transferred between organizational units of a bank, such as determining the cost of collecting deposits and borrowed funds to finance a loan.

79. Transfer Pricing (Manufacturing Firm)

It refers to the divisional income determination for deriving the appropriate price at which goods and services should be transferred from one organizational segment to another. The transfer price represents a sales price to the selling segment and a cost price to the buying segment. The transfer price, therefore, significantly affects reported profits of both segments and divisions.

Transfer prices needed for financial reporting purposes may differ from those required for internal decision and management purposes. A particular transfer price base may be excellent for internal performance measurement purposes, for motivating divisional managers, for instituting and maintaining cost control programs, for achieving full utilization of excess capacity, or for the proper allocation of firm resources. However, this same base may be inappropriate for external reporting purposes.

80. Transit Item

Checks drawn on banks outside the community of the bank in which they are deposited. Transit checks deposited are defined as checks drawn on any bank other than the subject bank.

81. Transition Matrix

A square table of probabilities which summarize the likelihood that a credit will migrate from its current credit rating today to any possible credit rating or perhaps default in one period.

82. Treasurer

The firm's treasurer oversees the traditional functions of financial analysis: capital budgeting, short-term and long-term financing decisions, and current asset management and usually reports to the Chief Financial Officer (CFO).

83. Treasury Bill Futures

A futures contract on a Treasury bill. The Treasury bill futures contract promise the future delivery of Treasury bill. These contracts were started in 1972. These contracts are one of the most important future contracts used by the financial institutions to hedge interest rate risk.

84. Treasury Bills

Treasury bills are short-term debt securities issued by the US government. They are perceived to be virtually risk-free; they have essentially no default risk, since investors fully expect the government to pay all interest and principal when it comes due, and their short duration prevents risk due to market movements over time.

T-bills are the most widely traded and, consequently, the most important money market instruments. The Federal Reserve auctions new issues of T-bills with maturities of 91 or 182 days every Monday. Once a month, the Fed offers T-bills with 365-day maturities, as well. Denominations range from $10,000 to $100,000 per bill. All obligations for repayment rests with the US government.

85. Treasury Bond or Note

Debt obligations of the Federal government that make semiannual coupon payments and are sold at or near par value in denominations of $1,000 or more. They have original maturities of more than one year. Treasury notes have initial maturity of 10 years or less and treasury bonds have longer maturity.

86. Treasury Bonds Futures

A futures contract on a Treasury bonds. Financial institutions frequently use this kind of future contract to hedge interest rate risk.

87. Treasury Inflation Protected Securities (TIPS)

On January 29,1997, the US Treasury auctioned a new inflation-indexed security, Treasury Inflation Protected Securities (TIPS) The auction was considered by some to be the biggest news in Treasury debt management since the introduction 20 years ago of the 30-year Treasury security.

Inflation-indexed securities provide a degree of inflation protection for investors and potentially represent cost savings for the US Treasury because it will not have to pay premium for inflation uncertainty. The interest rate paid on these securities (known as the "real rate") provides investors with a guaranteed semiannual return above inflation.

88. Treasury Note

Treasury notes have maturities of less than 10 years. [See also **Treasury bond**]

89. Treasury Note Futures

A futures contract on Treasury notes. It is one of the important futures contracts used by financial institutions to hedge interest rate risk.

90. Treasury Stock

Shares of stock that have been issued and then repurchased by a firm.

91. Tree

A representation of the evolution of the value of a market variable for the purposes of valuing an option or other derivative. [See also **Decision tree**]

92. Trend Analysis

One method that can be used to forecast financial data is known as trend analysis. In trend analysis a regression line is fitted to the financial variable over time. A trend line would be fitted using the method of least squares, this trend line could be used to forecast next year's sales. The following sales model would be estimated as:

$$Sales_n = a_0 + a_1 n + \varepsilon_n,$$

where $Sales_n$ = sale in year n; n = year; ε_n = error term; and a_0, a_1 = constants to be estimated.

93. Treynor's Measure

Ratio of excess return to beta.

$$\frac{\overline{R}_i - R_f}{\beta_i},$$

where $\overline{R}_i$ = average rates of return for ith security or portfolio; R_f = risk free rate; and β_i = beta coefficient.

94. Triangular Arbitrage

Striking offsetting deals among three markets simultaneously to obtain an arbitrage profit.

95. Trinomial Tree

A tree where there are three branches emanating from each node. It is valuing derivatives. It can be used as an alternative to binomial tree. Under this case, the probabilities is classified into up (P_u), middle (P_m), and down (P_d).

96. Triple-Witching Hour

The four times a year that the S&P 500 futures contract expires at the same time as the S&P 100 index option contract and option contracts on individual stocks. It is called triple-witching hour because of the volatility believed to be associated with the expirations in these three types of contracts.

97. Trough

The transition point between recession and recovery for business cycle. [See also **Business cycle**]

98. Trust Department

Trust refers a property interest held by trust refers one party for the benefit of another. Trust departments are responsible for managing the investments of individuals or institutional clients such as a pension fund.

99. Trust Receipt

Many businesses lack the financial strength and reputation to support unsecured borrowing. These firms may be able to meet their needs for funds by using physical assets to secure the loan. In such cases, the lender takes out a trust receipt—that is, a lien against these assets. Inventory is the asset most commonly used to secure borrowing in this way.

The lender protects itself against risk by advancing only a portion of the estimated market value of the assets. Where the inventory is readily transferable and saleable, the lender may advance as much as 90 percent. If the inventory is highly specialized, however, the proportion is likely to be considerably lower.

Straightforward borrowing by a trust receipt presents a serious disadvantage in that the physical property that secures the loan must be described in detail in the legal documents. This is clearly difficult if various finished goods are being pledged. An alternative to this is a **floating lien**. [See also **Floating lien**]

100. Trustee

All bonds will have **indentures**. [See also **Indentures**] Such agreements are supervised by a trustee who acts on behalf of bondholders to ensure proper execution of the indenture provisions by the corporation. If the issuer violates indenture provisions, it is in default and the trustee must act to protect the bondholders' interests.