Glossary

450 Scenario: A scenario presented in the International Energy Agency's (IEA) *World Energy Outlook* that sets out an energy pathway consistent with the goal of limiting the global increase in temperature to 2°C by limiting concentration of greenhouse gases in the atmosphere to around 450 parts per million of CO_2.

Asset-backed security (ABS): A financial security backed by a loan, lease or receivables against assets other than real estate and mortgages.

Asset and liability management: The task of managing the funds of a financial institution to accomplish two goals: 1) to earn an adequate return on funds invested; and 2) to maintain a comfortable surplus of assets beyond liabilities.

Asset liability matching: Process of managing, investing, purchasing and selling activities to ensure that cash is available for meeting the obligations as they fall due.

Bankable: Projects that have sufficient collateral, probability of success and predictability of future cash flow, to be acceptable to prospective financiers.

Benchmark: The performance of a pre-determined set of securities, used for comparison purposes. Such sets may be based on published indexes or may be customised to suit an investment strategy.

Break-even level: A level at which the volume of sales or revenues exactly equals total expenses, therefore there is neither a profit or a loss.

Capital recycling: Providing refinancing once a project is at the operational stage so that early-stage investors have an "exit strategy", allowing them to free up capital to invest in new projects – i.e. to "recycle" their capital.

Co-investment: A form of direct investing whereby institutional investors partner up with other investors to invest in an asset.

Corporate bond: Debt obligations issued by corporations.

Cost of capital: The cost of funds used for financing a business. Cost of capital depends on the mode of financing used – it refers to the cost of equity if the business is financed solely through equity, or to the cost of debt if it is financed solely through debt. Many companies use a combination of debt and equity to finance their businesses, and for such companies, their overall cost of capital is derived from a weighted average of all capital sources, widely known as the weighted average cost of capital (WACC). Since the cost of capital represents a hurdle rate that a company must overcome before it can generate value, it is extensively used in the capital budgeting process to determine whether the company should proceed with a project.

Coupon: The contractual interest obligation a bond or debenture issuer covenants to pay to its debtholders.

Covered bonds: Debt securities backed by cash flows from mortgages or public sector loans. Covered bonds employ a "dual recourse structure" where bond investors have a claim over: 1) a "cover pool" of assets, the quality of which is strictly regulated; and 2) a general unsecured claim against the issuer. This dual recourse structure enables covered bonds to enjoy superior credit ratings and lower funding costs compared with unsecured debt issued by banks. At the same time, because of strict oversight for what can go into the "cover pool", they generally carry less risk than pure asset-backed securities.

Credit enhancement: Reducing the credit or default risk of a debt, thereby improving its credit-worthiness and increasing the overall credit rating.

Credit rating: Credit rating refers to an evaluation of individual's or company's ability to repay obligations or its likelihood of not defaulting. If a credit rating is downgraded, it would increase the cost of capital due to the extent that the reward for such risky assets would be necessary as risk premium.

Deleveraging: The reduction of the ratio of debt in the balance sheet of an economic entity. In this report, deleveraging refers to the attempt to decrease the financial leverage ratio (value of a firm's debt to the total value of the firm). Banks have been lowering their high pre-crisis leverage levels and are preparing for stricter regulatory capital requirements, and in the process have been reducing their lending.

Diversification: Dividing investment funds among a variety of securities with different risk, reward and correlation statistics so as to minimise unsystematic risk.

Feed-in tariff: A fixed price per kWh of electricity which is paid to the producer by the system operator.

Feed-in premium (FiP): A premium which is paid to the producer on top of the electricity market price.

Financing instrument: A financing instrument is a tradable asset of any kind; either cash, evidence of an ownership interest in an entity, or a contractual right to receive or deliver cash or another financing instrument.

Fund: An investment company that invests the funds which are aggregated and pooled from individual investors for a fee. An investment fund gives individual investors access to a wider range of financial products than investors themselves would have been able to access.

Green investment bank: Broadly defined as a public entity established specifically to facilitate and "crowd-in" domestic private low-carbon climate-resilient infrastructure investments through different activities and interventions.

Grid-parity: Grid parity refers to an energy source that can generate electricity at a levelised cost that is less than or equal to the price of purchasing power from the electricity grid.

Headline risk: The risk that a major event or story will spread throughout the media and will negatively impact a company's stock price or reputation.

Illiquid: In the context of investments the term illiquid describes a thinly traded investment such as a stock or bond that is not easily converted into cash. Illiquid securities have higher transactions costs.

Infrastructure fund: Investment fund that is established to invest in infrastructure assets.

Institutional investor: Institutional investors are usually synonymous with "intermediary investors", that is to say, an institution that manages and invests other people's money. The term institutional investor can be used to describe insurance companies, investment funds, pension funds, public pension reserve funds (social security systems), foundations and endowments, among others.

Investment bank: An investment bank traditionally facilitates transactions of all types in the wholesale financial markets (transactions conducted by corporations, businesses, institutional investors and high net-worth individuals), including mergers and acquisitions (the purchase and sale of businesses and their assets), capital raising or "underwriting" (of equity, bonds, etc.) on behalf of corporations or their shareholders. They may provide ancillary services such as market making, trading of derivatives, securities and other financial instruments, investing and lending, asset management and FICC services (fixed-income instruments, currencies and commodities). This excludes retail brokerage, retail lending or any other practice that centres on "unaccredited investors".

Investment grade: In the context of bond ratings, the rating level above which institutional investors have been authorised to invest. Investment-grade bonds are those that are assigned a rating in the top four categories by commercial credit rating companies. S&P classifies investment-grade bonds as BBB or higher, and Moody's classifies investment-grade bonds as BAA or higher.

Leverage: The use of debt financing at a proportionally greater amount than comparable investments.

Liquidity: In the context of a corporation, the ability of the corporation to meet its short-term obligations. In the context of securities, a high level of trading activity, allowing buying and selling with minimum price disturbance. Also, a market characterised by the ability to buy and sell with relative ease.

Long-dated liabilities: A section of the balance sheet that lists obligations of the company that become due more than one year into the future.

Mark to market: The practice of valuing an asset or a liability using current market prices. "Mark to market" is referred to as "fair value accounting" and is the practice of updating the value of an asset or a liability to reflect its real market value rather than the initial cost of the asset or liability.

Maturity transformation: The process of converting short-term sources of finance (e.g. deposits from retail savers) into long-term borrowings (e.g. loans, mortgages, etc.).

Monoline insurer: Monoline insurers are financial institutions focused solely on insuring bond issuers such as municipal governments against default. Bond issuers buy this insurance to upgrade the credit-worthiness of their bonds, making the overall cost lower by giving confidence that the insured security would be paid in full. The first monolines were set up in the United States in the 1970s, covering municipal and corporate bond issues. These insurers suffered when the financial crisis hit, as some lacked sufficient capital to cover their liabilities adequately. Several had their credit ratings reduced, effectively downgrading them to junk status.

New Policies Scenario: A scenario in the IEA's *World Energy Outlook* that takes account of broad policy commitments and plans that have been announced by countries, including national pledges to reduce greenhouse gas emissions and plans to phase out

fossil energy subsidies, even if the measures to implement these commitments have yet to be identified or announced. This broadly serves as the IEA's baseline scenario.

Private placement debt: A type of debt that is generated when a bond or some other type of security is sold directly to a limited number of investors in a non-public offering.

Project bond: Private debt issued by a project company to finance a specific off-balance sheet project. Project bonds are an asset-based form of financing.

Public finance institutions: Publicly created or mandated financial institutions that have often been created to correct for the lack of market-based finance through the provision of missing financial services.

Pure-play: In financial management, "pure-play" entities are focused on only one industry or product.

Ring-fencing: Practice of financially separating a portion of a company's assets or profits without necessarily being operated as a separate unit. Ring-fencing may occur for regulatory, financing or taxation purposes.

Risk-adjusted return: A measure of valuing return on investment calculated in a way that takes into account the risks associated with the investment. Being able to compare a high-risk, potentially high-return investment with a low-risk, lower return investment helps to answer a key question that confronts every investor: is it worth the risk? There are several ways to calculate risk-adjusted return. Each has its strengths and shortcomings. All require particular data, such as an investment's rate of return, the risk-free return rate for a given period, and a market's performance and its standard deviation. Risk-adjusted returns can apply to individual securities and investment funds and portfolios.

Risk mitigant: A targeted financial intervention that is aimed at reducing, reassigning or re-apportioning different investment risks.

Risk profile: An assessment of the degree to which an investor is prepared to accept losses at the expense of potential gain.

Securitisation: The process of transforming illiquid financial assets into tradable products.

Special-purpose vehicle: Legal entity created to fulfil a specific and well-defined financial or regulatory objectives. For project finance, a special-purpose vehicle may be created to hold the assets associated with a project therefore keeping the investment off the balance sheets of project developers. Within the securitisation framework, a special-purpose vehicle can be a legal entity which may issue securities or other debt instruments, may legally or economically own assets underlying the issue of the securities mentioned above, and be financially and legally isolated from the originator.

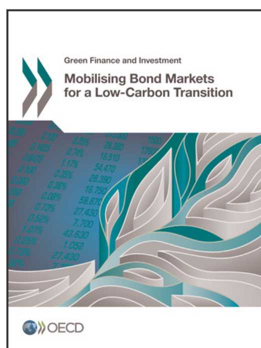
Term loan: Loan payable in a fixed number of equal instalments over the term of the loan. Term loans are generally short term (between one and five years) and are usually provided as working capital for acquiring income-producing assets (machinery, equipment, inventory, etc.) that generate cash flows to repay the loan.

Transaction enabler: A process or technique which facilitates investment by reducing the associated transaction costs or otherwise enabling the investment to be made.

Underwriting: In the case of loans, underwriting is the process by which a lender decides whether a potential creditor is creditworthy and should receive a loan. For securities issuances, underwriting is the procedure by which an underwriter, such as an investment bank, brings a new security issue to the investing public in an offering. In such a case, the underwriter will guarantee a certain price for a certain number of securities to the party that is issuing the security (in exchange for a fee). Thus, the issuer is secure that they will raise a certain minimum from the issue, while the underwriter bears the risk of the issue.

YieldCo: A publicly traded company that is formed to own operating assets that produce cash flows. The cash is distributed to investors as dividends.

Note: Explanations of the terms are very condensed and may not be complete. They are not considered to necessarily reflect the official position of the OECD. Sources used include, among others, Duke University's Hypertextual Finance Glossary; Brealey, Myers and Allen (2014); and Investopedia.com.



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