Annex I
Glossary

The following glossary provides explanations of specific (technical) terms used in the context the Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006 (COCOF Document No. XXXX)

For a matter of facility the glossary includes specific terms for which a definition is provided in the main text of the note; in such cases the glossary forwards to the appropriate Section of the note.

This glossary provides definitions and explanations of certain terms used in the Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006. The glossary is purely illustrative. The Commission services cannot be held responsible for the accuracy and completeness of the glossary or for use that may be made of the information contained therein. The views expressed herein cannot be taken to reflect the official opinion of the European Commission.

Specific term	Definition / Explanation
Acquisition	An acquisition is a corporate action in which an enterprise or individual buys most, if not all, of the target enterprise's ownership stakes in order to assume control of the target enterprise.
Beneficiary	Please see Section1.2.b) of the Guidance Note
Business plan	A summary of a business's prospects and plans for the future, typically including discussion and analysis of market opportunities, business strategy, key operational issues, and finances, including cost and revenue projections.
Early-stage capital	Financing for enterprises before they initiate commercial manufacturing and sales or generate any profit. Includes seed and start-up financing.
Equity	Equity is the (ordinary) share capital of an enterprise. Typical features of equity capital include an entitlement to the profits of the enterprise, a proportionate share of the proceeds upon liquidation and subordination to creditors.
Equity investment	An equity investment refers to the acquisition of an equity participation (ownership) in an enterprise (or a start-up enterprise).
Escrow account	In Section 2.5.10 it is stated that the public or private contributions may be paid into an escrow account or to another appropriate type of account for subsequent investment in final recipients. In this context an escrow account refers to a contractual arrangement where an independent trusted third-party receives and disburses the contributions for the transacting parties, with the timing of such disbursement by the third-party dependent on the performance by the parties of agreed-upon contractual provisions.

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Exit	Liquidation of investments by a private equity or venture capital investor. The most common exits are (1) trade sale to another company; (2) public offering (including an initial public offering) on a stock market ; (3) sale to another investor; (4) repayment of the investment (when part of the investment agreement); or (5) the write-off of the investment.
Exit policy/strategy	Exit policy means a policy/strategy for the liquidation of holdings by a venture capital or private equity fund according to a plan to achieve maximum return, including trade sale, write-offs, repayment of preference shares/loans, sale to another venture capitalist, sale to a financial institution and sale by public offering (including Initial Public Offerings).
Expansion Capital	Expansion capital is the financing provided for the growth of an enterprise, which may or may not break even or be profitable. Expansion capital may be used to finance increased production capacity, market or product development, or to provide working capital as set out in a Business Plan.
Expected loss	In loans and guarantees, losses of interest and principal on loans occur because there are some borrowers that default on their payment obligations. The losses that are actually experienced may vary from year to year, depending on the number and severity of default events. A lender can forecast the average level of credit losses it can reasonably expect to experience. Expected losses are a cost component; lenders (such as banks) or guarantors manage them by a number of means, including through the pricing of credit exposures and risk mitigation instruments (collaterals) . The risk assessment of expected loss is common market practice and can be performed according to various methodologies.
Expiry date of repayment term	A loan of a specific amount has a specified repayment schedule and specified maximum term (maturity). The expiry date refers to a date in the future upon which the borrower has to fulfill its last and final repayment obligation.
Final recipient	Please see Section 1.2.c) of the Guidance Note
Financial institution	The classic example of a financial institution is a bank that transforms bank deposits into bank loans.
Financial intermediary	A financial intermediary refers to the function of acting as intermediary between the supply and demand of financial products.
Financial engineering instrument	Please see Section 1.2.d) of the Guidance Note

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Firms in difficulty	There is no Community definition of what constitutes «a firm in difficulty». However, for the purposes of the "Community guidelines on State aid for rescuing and restructuring firms in difficulty, the Commission regards a firm as being in difficulty where it is unable, whether through its own resources or with the funds it is able to obtain from its owner/shareholders or creditors, to stem losses which, without outside intervention by the public authorities, will almost certainly condemn it to going out of business in the short or medium term.
Funding agreement	Please see Section 2.4 of the Guidance Note
Fund manager	The individual(s) or entity(ies) responsible for implementing the investment strategy and managing the portfolio of investments related to the holding fund or to the financial engineering instruments (being equity funds, loans funds, guarantee funds), as the case may be, referred to under Article 44 of the General Regulation in accordance with the stated goals and provisions as set out in the funding agreement.
Grant	For the purpose of this Guidance Note, in general a grant will have the following features: • a contribution is made either to an action or project carried out by a grantee which falls primarily within the scope of the grantee's activities or direct to the grantee because its activities contribute to policy aims of the grantor, such action or project of the grantee normally being in the interest of the grantor; • the application for financing originates with the grantee, who submits a proposal for support for activities it is carrying out or plans to carry out; its proposal sets out the specifications for the action to be performed, which may be within a pre-set legal or other framework laid down in advance by the grantor; • ownership will normally remain with the grantee, although it is possible in some cases for the financial contribution to revert to the grantor at the end of an action; • the grant does not necessarily finance the total cost of the action; • the financial contribution of the grantor should not be in consideration of any product or service provided by the grantee to the grantor; • conditions can be attached to the grant awarded, but there is no direct and specific link between individual obligations on either side (grantor and grantee), although the grantor has the right to monitor technical implementation of the action and the use made of the funds granted; • the grant must not have the purpose or effect of producing a profit for the grantee; • the outcome of a grant award procedure is a grant agreement or a grant decision.

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Guarantee	A guarantee is a commitment by a third party called the guarantor to pay the debt of a borrower when the latter cannot pay it himself. The guarantor is liable to cover any shortfall or default on the borrower's debt under the terms and conditions as stipulated in the agreement between the guarantor, the lender and/or the borrower.
Holding fund	Please see Section 2.2.b) of the Guidance Note
Implementation Regulation	Please see Section 3.3.a) of the Guidance Note
Integrated plan for sustainable urban development	Please see Section 3.3.a) of the Guidance Note
Loan	A loan is a type of debt. In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time. Typically, the money is paid back in regular installments, or partial repayments; in an annuity, each installment is the same amount. A loan is generally provided at a cost, referred to as interest on the debt.
Management buy-in (MBI)	A management buy-in is a corporate action in which an outside manager or management team purchases an ownership stake in an enterprise and replaces the existing management team.
Management buy-out (MBO)	A management buy-out occurs when the managers and/or executives of an enterprise purchase a controlling interest in that enterprise from the existing shareholders.
Merger	A merger is the combining of two or more enterprises, generally by offering the stockholders of one enterprise, securities in the acquiring enterprise in exchange for the surrender of their stock.
Micro-credit	Small loans, usually up to €25,000, granted either by institutions specialising in microcredit or by other financial intermediaries. In the context of this Note the purpose of the micro-credit needs to be related to economic activities.
Operation	Please see Section 1.2.a) of the Guidance Note
Principal of the loan	The amount of a loan borrowed, or the part of the amount borrowed which remains unpaid (excluding interest).

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Public Contract	In general, a public contract will have the following features: • a product or service is procured, by a contracting authority (or entity) for needs falling within its remit in return for consideration (i.e., price or other consideration); • the terms of the service or product are set out in detail by the contracting authority in the tender documents; • the successful tenderer will be contractually bound to comply with the terms of the award; • the contracting authority or entities will normally bear 100% of the contract consideration; • the contract is bilateral: it imposes reciprocal obligations on the contracting authority and the product or service provider, with the latter providing the contracting authority or a third party or parties designated by it with the product or service it has ordered. The contracting authority monitors provision of the product or service it has ordered; • the result of a procurement procedure is a contract.
Public-private partnership	According to the EC Communication on PPPs (COM(2009)615, 19.11.2009), PPPs are forms of cooperation between public authorities and the private sector that aim to modernise the delivery of infrastructure and strategic public services. In some cases, PPPs involve the financing, design, construction, renovation, management or maintenance of an infrastructure asset; in others, they incorporate the provision of a service traditionally delivered by public institutions. Whilst the principal focus of PPPs should be on promoting efficiency in public services through risk sharing and harnessing private sector expertise, they can also relieve the immediate pressure on public finances by providing an additional source of capital. In turn, public sector participation in a project may offer important safeguards for private investors, in particular the stability of long term cash-flows from public finances, and can incorporate important social or environmental benefits into a project.
Repayable investment	For the purpose of this note, repayable investments shall mean repayable financial assistance or support wholly or partially financed through Structural Funds' programmes, to address Cohesion policy objectives, by way of loans, guarantees or equity.

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Resources returned/returns	Resources returned/returns as referred to in Section 5.2. of the Guidance as hereunder clarified. Resources returned/returns to the financial engineering instrument from investments in final recipients can be categorised as 'capital receipts' and 'income receipts'. Capital receipts tend to mean payments or distributions or other amounts received or to be received by the relevant financial engineering instrument (or holding fund) representing the repayment or return of all or part of the principal or capital element of any investment. Income receipts tend to mean payments to, distributions to or other receipts by the relevant financial engineering instrument representing the payment of income, or the earning of revenue by, the relevant financial engineering instrument in respect of its investments other than capital receipts, which could include: (i) interest (including any capitalised interest); (ii) dividends; and/or (iii)capital gains"
Risk assessment	Risk assessment is a step in a risk management procedure and relates to the determination of the quantitative or qualitative value of the credit risk ("valuation"). This exercise is specifically (but not only) relevant for the issue of guarantees. Quantitative credit risk assessment will require the estimation and calculation of risk (including "expected loss" and "unexpected loss"): the magnitude of the potential loss and the probability that the loss will occur. For the purpose of Section 4.1. (Guarantees) of the Guidance Note a risk assessment involves undertaking a valuation of risk assessment conditions when deciding to set up guarantees or guarantee funds with Structural Funds' financing under Art 44 of the General Regulation
Seed capital (Section 3.2.9.. of the Guidance Note)	Seed Capital is the financing provided to study, assess and develop an initial concept. The seed phase precedes the start-up phase. The two phases together are called the early stage.
Start-up capital	Provided to enterprises for product development and initial marketing. Enterprises may be in the process of being set up or may exist but have yet to sell their product or service commercially.
Unexpected loss	Losses above expected levels are usually referred to as unexpected losses. One of the functions of a lender's or guarantor's own capital is to provide a buffer to protect against peak losses that exceed expected levels. Interest rates on loans or guarantee fees charged on guarantees may absorb some components of unexpected losses but the market will not support prices sufficient to cover all unexpected losses. Risk assessment of unexpected loss is common market practice which reflects sound financial management.

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Venture Capital	Investment in unquoted enterprises by venture capital firms who, acting as principals, manage individual, institutional or in-house money. In Europe, the main financing stages included in venture capital are early-stage (covering seed and start-up) and expansion. Strictly defined, venture capital is a subset of private equity. Venture capital is thus professional equity co-invested with the entrepreneur to fund an early-stage (seed and start-up) or expansion venture. Offsetting the high risk the investor takes is the expectation of a higher-than-average return on the investment.
Winding up	A process that entails selling all the assets of a fund, paying off creditors, distributing any remaining assets to the principals, and then dissolving the fund. Essentially, "winding up" is to be understood as "liquidation".
Working capital	Working capital relates to the liquid assets an enterprise has available to build its business, but also a measure of its efficiency and financial health. Working capital can be positive or negative, depending on how much short-term debt the company is carrying. A negative working capital means that a company currently is unable to meet its short-term liabilities with cash, accounts receivable, and inventory. Working capital is calculated as Current assets minus current liabilities.