

# Financing – glossary

## Key words and abbreviations used in:

- ▶ debt financing
- ▶ equity financing
- ▶ social impact investing, and
- ▶ investors definitions and resources

## Debt financing – key words and abbreviations



‘The payment of debts is necessary for social order. The non-payment is quite equally necessary for social order. For centuries humanity has oscillated, serenely unaware, between these two contradictory necessities.’

*Simone Weil*  
Teacher and Philosopher

**Advance** refers to either an increase in price, for example the increase in the value of a share, or a payment made ahead of its due date.

**Amortising** refers to regular repayments of a loan over a set period of time, namely the rate at which the debt is paid off.

**Arrears** refers to the amount that is owed and due but not yet paid, usually in relation to a debt or an obligation.

**Asset** refers to both tangible and intangible resources owned by an organisation that hold value and/or create value for that organisation. Examples of tangible assets are cash in the bank, buildings, equipment and inventory. Examples of intangible assets are copyrights, patents and goodwill.

**Asset class** refers to a category of investments that have similar characteristics and behave in a similar way in the market. Examples of different asset classes are equities, property and cash.

**Asset-lock** is a restriction on how the assets of an organisation can be used, sold or transferred. Asset locks are usually in place to protect the asset from being used for an unintended purpose. Common examples of asset-locks include those found in trusts and (in the UK) Community Interest Companies.

**Australian Securities and Investments Commission (ASIC)** is Australia’s corporate, markets and financial services regulator. ASIC is an independent Commonwealth Government body established by the *Australian Securities and Investments Commission Act 2001*. ASIC carries out most of its work under the *Corporations Act 2001*.



**Availability period** refers to the time during which the funds are able to be drawn on by the borrower. Availability period could also refer to the time during which the offer of the funds is valid, which is sometimes related to the pre-approval of a [loan](#).

**Bank Bill Swap Rate (BBSW)** is a benchmark used by fixed income investors to evaluate floating rate [bonds](#) or investments. A BBSW is used for [interest rate](#) swaps of six months or less.

**Base interest rate** is the lowest rate that investors or lenders will accept from the borrower, as a percentage of the [loan](#), for the privilege of borrowing the money. The base [interest rate](#) is sometimes referred to as the benchmark [interest rate](#).

**Bond** refers to a statement of debt. The holder of the [bond](#) is the lender. The issuer of the [bond](#) is the borrower. The issuer of the [bond](#) makes payments to the holder over the life of the [bond](#) in order to repay the [loan](#).

**Borrower** is the individual or organisation who receives money from another party, often the lender, with the expectation that it will be repaid, usually with [interest](#).

**Bridging finance** refers to a type of short term [loan](#). Bridging finance or a bridge [loan](#) is used by individuals and organisations to 'bridge' the gap until longer term funds are available.

**Capital** refers to the financial [assets](#) of an organisation. Examples of these [assets](#) include equipment, deposit accounts and brand names.

**Capital gain** is an increase in the value of a [capital asset](#) (see above) from the time the [asset](#) is purchased to the time that it is sold. A capital gain is only realised when the [asset](#) is sold. A capital gain can generally be offset by a capital loss (see below).



### Caution

As a borrower, whether you are a person or a company, it's important to make sure that you understand the terms and conditions of any loan agreement before you sign it.

If you don't understand the terms of the loan, you should seek advice from an independent expert.



### Related resource

The Australian Taxation Office (**ATO**) outlines three methods for working out your capital gain. There is only one way to work out your capital loss.

For more details refer to the [ATO webpage on capital gains tax](#).

**Capital loss** is a decrease in the value of a capital [asset](#) (see above) from the time the [asset](#) is purchased to the time that it is sold. A capital loss is only realised when the [asset](#) is sold for less than the price for which it was purchased.

**Capital structure** is how an organisation finances its operations and, where required, growth. Capital structure is a combination of different sources of funds. Debt financing and [equity financing](#) are two of the main ways that organisations can raise [capital](#).

**Collateral** is the [asset](#), such as property, that the borrower uses to secure a [loan](#). If the borrower fails to repay the [loan](#) the lender can claim the collateral to recover their losses. The lender's claim to the collateral is called a lien.

**Commitment fee** refers to the compensation a borrower pays to a lender for maintaining access to future or unused credit at a certain rate of interest, such as a line of credit. A commitment fee is charged on future credit and is based on the promise by the lender to have that credit available.

**Condition precedent** refers to an event or circumstance that must happen or exist before the contractual duties are triggered.



**Convertible debt** (or **Convertible bond**, **Convertible note** or **Convertible loan**) refers to a type of debt security that represents equity in an organisation. The holder (investor) of this type of debt security has provided a loan, with a maturity date and interest, and they have the right to convert it in the future into equity (shares) in the organisation or into cash of the same value. Convertible debt is often seen as another option to debt financing or equity financing.

**Coupon** refers to the interest paid on the value of a bond to the holder of the bond, the investor, at regular agreed intervals.



### Did you know?

Before the age of computers, bond investors were given physical certificates to represent their bond. Attached to each bond was a set of coupons. When the interest was due on the bond the investor would clip one of the coupons off and present it or deposit it to redeem its value.

Today's coupons are invisible, the bond interest is automatically deposited into the investor's account on the due date.

**Creditor** refers to an entity which provides something of value before payment is due, i.e. provides credit, and is therefore owed money. A creditor can be an individual or an organisation.

**Debenture** is a type of investment that an organisation can issue to investors to raise funds. A debenture has a fixed rate of interest payable to the investor. A debenture represents a promise to the investor to repay the borrowed funds in a defined term.



### Related resources

Charities that operate a charitable investment fundraiser and choose to issue debentures have to comply with specific requirements.

The *Corporations Act 2001* (Cth) regulates the offer of debentures. Chapter 6D of the Act outlines fundraising provisions and the offer of debentures, including the requirements for charities offering debentures.

For more detailed information on the considerations and issues for charities that issue debentures refer to ASIC's [Regulatory Guide 87 on 'Charitable schemes and school enrolment deposits'](#) and ASIC's [Regulatory Guide 69 on 'Debentures and notes: Improving disclosure for retail investors'](#).

**Debt finance** is one way for an organisation to raise money to increase their capital. For debt finance the organisation borrows money by issuing bonds, bills or notes to investors (individual and/or institutional), who become the creditors, in return for a loan that will be repaid.

**Debt fund** is an investment pool where the manager of the pool invests, on behalf of the investors of the debt fund, in different types of fixed income investments.

**Debt instrument** (also known as the **Debt security**) is a commitment by a borrower to repay an amount borrowed at an agreed amount of interest. A debt instrument is contractual and can be used by an individual or an organisation. Examples of a debt instrument include a promissory note, bond and credit card agreement.

**Default interest rate** is the interest rate charged to borrowers who have failed to stay up to date with the payments on their loan. The default interest rate is sometimes referred to as a penalty rate because it is usually a higher level of interest than the rate the borrower has been paying.



**Early repayment fee** (also known as **early termination fee**) is the amount a lender will charge a borrower for repaying the loan before it is due. An early repayment fee is typically calculated based on current interest rates, the amount repaid by the borrower to date and the size of the loan.

**Event of default** is an event or circumstance that triggers a lender to require full repayment from the borrower of the outstanding balance of a loan before it is due.

**Equity** refers to the value or level of ownership in an organisation or asset after the liabilities have been deducted.

**Equity finance** is one way for an organisation to raise capital by selling shares, i.e. an ownership interest, in their entity. The scale of equity financing can vary greatly, from small entrepreneurs raising a moderate sum (thousands) to large publicly listed companies raising significantly greater sums (millions or billions).

**Facility Agent** is a service, usually provided by a bank, to administer a syndicated loan facility. The facility agent service acts as the agent or mediator between the borrower and a group of lenders.

**Financial covenant** refers to a term or condition in a lending contract which relates to the borrower's financial performance. Financial covenants demonstrate to the lender that the borrower's business can meet certain financial targets and service the loan.

**Fixed assets** refers to an organisation's tangible items, such as property and equipment, which are used by the organisation over the long term. Fixed assets are not sold or consumed in the same accounting or financial year.

**Fixed interest rate** refers to an amount a lender charges the borrower, as a percentage of the loan, for the privilege of borrowing the money. A fixed interest rate is set for the term of the loan or debt financing arrangement and cannot be changed.

**Guarantor** refers to a third party to an agreement who provides additional security for one of the parties to the agreement by providing a guarantee or assurance of performance. In financial transactions, in particular loans, a guarantor helps the borrower obtain a loan by agreeing to be legally responsible for paying back the loan if the borrower fails to repay it. A guarantor uses their own assets as collateral for the guarantee that they provide. A guarantor does not have a right to the item or property bought with the loan.



### Caution

A common scenario involving a guarantor is where an individual is asked to guarantee another individual's loan for the purchase of a property.

Before someone agrees to guarantee a loan they should make sure they understand all of the risks to their own financial wellbeing by getting independent expert advice.

**Hire purchase** (or **Hire leasing** or **Lease finance**) is an agreement to pay for the use of an item, such as a car or equipment, over a period of time instead of paying the full amount up front. When the final payment is made the hirer or lessor may then opt to buy the item for a predetermined amount or return it to the owner.

**Interest** refers to the fee that the borrower must pay the lender for borrowing money. Interest is usually calculated as a percentage of the amount borrowed.

**Interest period** is the time during which interest is calculated and then payable at the end.

**Interest rate** refers to an amount a lender charges the borrower, as a percentage of the loan, for the privilege of borrowing the money.

**Lender** (also known as the **Holder**) refers to the individual or organisation that lends money to another party, the borrower. The lender makes funds available to the borrower with the expectation that it will be repaid by the borrower.

**Liquidation** is the process of winding up an organisation by realising, or liquidating, its assets and distributing the proceeds first to parties to which the organisation owes money and then to the organisation's shareholders.



**Loan** refers to an agreement between a lender and a borrower setting out the terms and conditions for a loan amount (see below).

**Loan amount** refers to a sum of money that is borrowed under a loan agreement for a period of time that will be paid back, usually with interest.

**Long term** is an investment horizon or period of time during which an asset can be held or an investment made or a loan made available. Long term is usually greater than 12 months.

**Mandatory repayment** refers to a requirement that a lender may have for the borrower to repay some or all of the loan if a specified event occurs.

**Market rate** is the price or cost determined by the financial market, as opposed to a calculated rate by an entity. The price or cost is related to what the buyers in the market are willing to pay at that particular point in time.

**Medium term** is an investment horizon or period of time during which an asset can be held or an investment made or a loan made available. There is no standard timeframe for medium term; rather it is dependent on the investor's preference.

**Minutes** are a formal written record of the matters discussed and decisions made at a meeting.

**Mortgage** refers to a form of debt. A mortgage is a type of loan between a lender, usually a bank or building society, and a borrower to purchase a property in exchange for the title of the property. The borrower is obliged to repay the loan, with interest, on an agreed payment schedule until they own the property title.



### Did you know?

The mortgage as we understand it today only came into being in the 1930s. It has evolved significantly since its early days from 3 to 5 year mortgages that were interest only with the principal due at the end of the loan, to 25 to 30 year mortgages that stagger the principal and interest payments over the life of the loan.

The term 'mortgage' originally derives from two words, the Latin and Old French 'mort' meaning 'death' and the Old French 'gage' meaning 'pledge'; hence 'death pledge' as in 'to kill a debt'.

**Negative undertaking** refers to a promise by a borrower to a lender not to do something.

**Non-amortising**, in a loan arrangement, refers to a loan where repayments only cover the interest owed and do not reduce the principal amount owed. The borrower pays the whole principal amount in one lump sum at the end of the loan term. A non-amortising loan is also called an interest only loan.

**Note** refers to a type of debt security that obligates its issuer to repay a loan to the note holder at a set interest rate in a defined period of time.

**Peer to Peer lending** (also known as the **P2P lending** or **Crowdlending**) matches investors with borrowers using an online platform. The practice of peer to peer lending can sometimes be used by individuals or organisations without going through a traditional lending institution such as a bank or building society (however there may be other regulatory requirements for providers).



### Note

P2P lending or Crowdlending is sometimes referred to as crowd sourced funding.

There are regulatory requirements for providers of crowd sourced funding.



**Personal Property Security Register** (also known as the **PPS Register** or **PPSR**) is a national database that stores information about security interests in personal property. The register can be searched by individuals and organisations to check security interests in personal property such as cars and boats.

**Positive undertaking** refers to a promise by a borrower to a lender to do something.

**Preference shares** refers to shares in an organisation that have priority over ordinary shares in relation to dividend payments or if the organisation goes into liquidation.

**Principal**, in relation to finance, refers to the original amount of money borrowed through the loan or put into an investment.

**Redeemable preference share** (also referred to as a **Convertible preference share**) is a preference share that may be redeemed by the company at a later date, either by paying for the shares or by issuing new shares.

**Representations** (or **Warranties**), in debt or equity funding arrangements, refers to the statements made about the elements and/or obligations of a financing or loan agreement. These representations are typically relied on by the lender or borrower when deciding whether to enter the agreement.

**Repayment schedule** refers to the detailed outline of when payments are due against the original loan amount. The schedule includes the amount of the payment that will be put against interest and the amount that will be put against the principal of the loan. The schedule forms part of the borrower's loan agreement with the lender.

**Reserves** refers to funds that an organisation sets aside for future use. A common use of reserves is as a contingency for future bad debts or other future cash flow issues.

**Secured debt** is debt that is backed or secured by the borrower with a form of collateral, such as an asset or revenue, which will be available to the lender if the borrower fails to repay the debt. Two well-known examples of secured debt are mortgages and car loans.

**Security** is a claim over real estate or a future income stream. A security is usually tradeable. Examples of securities include property, bonds, shares and promissory notes.

**Security Trustee** refers to an individual or organisation that holds securities (see above) in trust for another group or syndicate of investors.

**Shares** refers to units of capital in an asset or organisation owned by an investor (individual or institutional).

**Short term** is an investment horizon or period of time during which an asset can be held or an investment made or a loan made available. Short term is usually less than 12 months however there is no standard timeframe for short term; rather it is dependent on the investor's preference.

**Term**, in a financing arrangement, is an investment horizon or period of time during which an asset can be held or an investment made or a loan made available. The term of a loan is the length of time over which the borrower must repay the loan amount.

**Term loan** is a type of loan where the borrower is entitled to borrow to a fixed limit but, once repayments are made, may not re-borrow any amount repaid.

**Term sheet** refers to a document that outlines the terms and conditions of a loan, business transaction or investment. A term sheet is typically used to outline the main terms and conditions prior to documenting a more detailed legal agreement or contract, often during the negotiation stage.

**Transaction fees** refers to the price paid for using a merchant service provider's facility or the price paid each time you use a financial product, such as a credit card. A transaction fee is usually charged by the product holder's bank.

**Undertaking** refers to a promise, stipulation or guarantee that creates an obligation. Undertaking can also refer to an agreement between two companies for the completion of a project where one party completes the project and the other party finances the project. This type of completion undertaking usually means that if the party completing the project fails to meet agreed timeframes or specifications they then repay the party financing the project.

**Unsecured debt** is a loan that is not protected by a guarantor or backed by an underlying asset. Examples of unsecured debt include credit cards and utility bills.



**Variable interest rate** (also known as **Floating interest rate**) refers to an amount that fluctuates over time, that a lender charges the borrower, as a percentage of the loan, for the privilege of borrowing the money. The fluctuation of the variable interest rate is based on changing market interest rates or an underlying index that changes periodically.



### Related resource

The Reserve Bank of Australia (RBA) is Australia's central bank established by the *Reserve Bank Act 1959*. Among its many duties and responsibilities, the RBA contributes to the stability of the Australian currency by setting the cash rate.

The cash rate is the rate that is paid on the balances which the banks maintain in their exchange settlement accounts with the RBA.

The cash rate has some impact on the interest rates that banks charge their customers because it represents a cost to the banks that they in some part recover through their business with their customers. However banks do not have to raise or lower interest rates for their customers when the cash rate changes.

For information about the RBA go to [the RBA website](#).

**Voluntary repayment** (also known as an **Optional repayment**) refers to payments made on a loan at the discretion of the borrower in addition to any due or scheduled amount.

**Warranty** refers to a written guarantee or promise about a fact or condition such as an assurance of a level of quality, how an item will work, or that a specific event will occur. An example of a warranty is an agreement between a seller and a purchaser that the seller will repair or replace the item sold to the purchaser, within a specified timeframe, if there is a defect.

**Working capital** is the amount of money that an organisation has to operate their business in a given year. Working capital is calculated as the difference between the current assets of an organisation and its current liabilities. Working capital is often used to measure the financial health and/or liquidity of an organisation.

## Equity Financing – key words and abbreviations

**Angel investor** refers to an individual who invests in a business, usually at the start-up stage, in exchange for equity in the business or a form of convertible debt.

**Asset** refers to both tangible and intangible resources owned by an organisation that hold value and/or create value for that organisation. Examples of tangible assets are cash at bank, buildings, equipment and inventory. Examples of intangible assets are copyrights, patents and goodwill.

**Asset class** refers to a category of investments that have similar characteristics and behave in a similar way in the market. Examples of different asset classes are equities, property and cash.

**Asset-lock** is a restriction on how the assets of an organisation can be used, sold or transferred. Asset locks are usually in place to protect the asset from being used for an unintended purpose. Common examples of asset-locks include those found in trusts and (in the UK) Community Interest Companies.

**Australian Securities and Investments Commission (ASIC)** is Australia's corporate, markets and financial services regulator. ASIC is an independent Commonwealth Government body established by the *Australian Securities and Investments Commission Act 2001*. ASIC carries out most of their work under the *Corporations Act 2001*.



**Blue chip** refers to the shares of a company that are considered to be of the highest quality because of their reliability as an investment.



### Did you know?

The term 'blue chip' comes from the high value playing chips used to place bets in the card game poker. The term was first used to describe something of value and in the early 1900s started to be applied to the largest and most reliable companies to invest in.

**Capital** refers to the financial assets of an organisation. Examples of these assets include equipment, deposit accounts and brand names.

**Capital gain** is an increase in the value of a capital asset (see above) from the time the asset is purchased to the time that it is sold. A capital gain is only realised when the asset is sold. A capital gain can generally be offset by a capital loss (see below).

**Capital loss** is a decrease in the value of a capital asset (see above) from the time the asset is purchased to the time that it is sold. A capital loss is only realised when the asset is sold for less than the price for which it was purchased.

**Capital structure** is how an organisation finances its operations and, where required, growth. Capital structure is a combination of different sources of funds. Debt financing and equity financing are two of the main ways that organisations can raise capital.

**Classes of shares** refers to different types of stock in a company that are differentiated by the level of voting rights of the shareholders of that stock.

**Convertible debt** (or **Convertible bond** or **Convertible note** or **Convertible loan**) refers to a type of debt security that represents equity in an organisation. The holder (investor) of this type of debt security has provided a loan, with a maturity date and interest, and they have the right to convert it in the future into equity (shares) in the organisation or into cash of the same value. Convertible debt is often seen as another option to debt financing or equity financing.

**Convertible preference share** refers to a type of stock in a company that pays a fixed income at regular intervals that the holder, the investor, can choose to turn into a specific number of shares of the common stock, or sometimes they become redeemable for cash, within a specified time frame.

**Crowd-sourced equity funding (CSEF)** is a type of fundraising that allows a large number of individuals to make small financial investments in exchange for an equity stake in the company.



### Related resource

Crowd sourced funding is a rapidly developing area.

The *Corporations Amendment (Crowd-sourced Funding) Act 2017*, effective from 29 September 2017, requires that a provider of crowd sourced funding must hold an Australian financial services licence.

For the most up to date resources and information on crowd sourced funding refer to [ASIC's webpage on crowd sourced funding](#).

**Cumulative preference share** refers to a type of stock in a company held by an investor where a dividend accrues over time until the company is in a position to be able to afford to pay dividends. These dividends are paid before ordinary shareholders are paid.

**Dividend** refers to a payment made to the shareholders of an organisation. A dividend payment represents a profit or surplus in the earnings of an organisation and is allocated as a fixed amount per share.



**Equity** refers to the value or level of ownership in an organisation or asset after the liabilities have been deducted.

**Equity finance** is one way for an organisation to raise capital by selling shares, i.e. an ownership interest, in their entity. The scale of equity financing can vary greatly, from small entrepreneurs raising a moderate sum (thousands) to large publicly listed companies raising significantly greater sums (millions or billions).



'Price is what you pay. Value is what you get.'

*Warren Buffet*  
*Owner Berkshire Hathaway*

**Exit strategy** refers to a plan an investor can implement to turn an asset into liquid cash to end the investment. An exit strategy is usually employed to avoid any, or avoid further, financial loss.

**Final dividend** is the payment, which represents a profit or surplus in the earnings of the company, made to the shareholders of the company after it has issued its full year financial statements.

**Fixed assets** refers to an organisation's tangible items, such as property and equipment, which are used by the organisation over the long term. Fixed assets are not sold or consumed in the same accounting or financial year.

**For-profit** refers to the purpose of a company to profit from their business for the benefit of the owners of that company and is concerned with its own interests.

**Franking credit** (or **Imputation credit**) is a tax credit that allows a company to pass on tax paid at a company level to their shareholders, which in turn can reduce income tax on dividends or sometimes be received as a tax refund.

**Growth capital** is a type of equity investment typically accessed by organisations to use in the expansion or growth of their business.

**Insider trading** is the practice of buying or selling shares or securities based on information that is not publicly available which is likely to have an effect on the value of the shares or securities.

**Insolvency** (or **insolvent trading**) is the state of a company which is unable to pay its debts when they fall due for payment.

**Insolvent trading** is incurring a debt when the company is already insolvent, or will become insolvent as a result of the debt.



### Related Not-for-profit Law resource

The time at which the obligation to pay a dividend becomes a 'debt' is very important for company directors in the context of insolvent trading. In addition to the dividend breaching the 'no material prejudice to creditors' test, if the company was insolvent or becomes insolvent, when the dividend is declared, Directors will breach their duties to prevent insolvent trading.

For more information about the legal duties of committee members, including the duty to prevent insolvent trading, see [our governance webpage](#).

**Institutional investors** refers to large organisations with significant amounts of money to invest. Examples of institutional investors are superannuation funds, insurance companies, banks and holding companies.

**Interim dividend** is the distribution of a portion of a company's earnings to shareholders that is both declared and paid before a company determines its full-year earnings.

**Issue price** (also commonly referred to as the offering price) is the amount of money for which a new publicly issued security is made available for purchase prior to trading on the secondary market.



**Issuer** is the legal entity that develops, registers and sells securities to finance its operations. Issuers may be corporations, governments, or investment trusts.

**Liquidation** is the process of winding up an organisation by realising, or liquidating, its assets and distributing the proceeds first to parties to which the organisation owes money and then to the organisation's shareholders.

**Loan** refers to an agreement between a lender and a borrower setting out the terms and conditions for a loan amount (see below).

**Long term** is an investment horizon or period of time during which an asset can be held or an investment made or a loan made available. Long term is usually greater than 12 months.

**Market price** is the current amount of money at which a security, commodity or service can be bought or sold. This amount fluctuates based on available supply and market demand.

**Medium term** is an investment horizon or period of time during which an asset can be held or an investment made or a loan made available. There is no standard timeframe for medium term rather it is dependent on the investor's preference.

**Minutes** are a formal written record of the matters discussed and decisions made at a meeting.

**Non-cumulative preference share** is a type of share that allows the shareholder to claim any unpaid or omitted dividends if a company chooses not to pay dividends in a given year.

**Non-participating preference share** is a type of share that provides a specific dividend that is paid ahead of ordinary shares. In the distribution of remaining assets in the event of liquidation, non-participating preference shareholders are not entitled to participate in the surplus of the company once all of the shareholders have been paid back.

**Non-redeemable preference share** is a type of share which cannot be bought back by the company.

**Not-for-profit** means that an organisation exists to fulfil a purpose - all profits must only be used to further the purposes of the organisation and not be distributed to members for personal use.

**Offer information statement** is a disclosure document for potential investors containing information about the risks and returns associated with an offer of securities and used only for fundraising up to \$10 million in aggregate.

**Ordinary shares** represent equity ownership, by the shareholder, in a company, proportionally with all other ordinary shareholders. Ordinary shares have no preference, therefore shareholders of ordinary shares are the last in line to receive dividends.

**Participating preference share** is a type of share that provides a specific dividend that is paid ahead of ordinary shares. In the event of liquidation it is given priority over ordinary shares and in the distribution of the remaining assets, participating preference shareholders are entitled to participate in the surplus of the company once all of the shareholders have been paid back.

**Personal investor** refers to an individual who is investing their own money in the financial markets.



### Note

'I dismiss personal profit and focus exclusively on people and planet. That's what I call social business: a nondividend company dedicated to solving human problems.'

*Muhammad Yunus  
Founder of Grameen Bank and Nobel Laureate*

**Preference shares** refers to shares in an organisation that have priority over ordinary shares in relation to dividend payments or if the organisation goes into liquidation.

**Primary issuance** refers to the consideration paid by an investor to a company for equity in that company.

**Private company** (or **Proprietary Limited company**) refers to a company that is privately owned and does not offer its shares to the public, and is therefore not listed on a stock exchange.



**Profile statement** is a type of simplified disclosure document that a company may use for a share issuance. It is used along with a prospectus and with the consent of ASIC.

**Prospectus** (also referred to as a **Disclosure document**) is the most common type of, and the most comprehensive, disclosure document that a company uses for a share issuance.

**Public company** refers to a company that has a greater degree of accountability to the public than a private company. It may have shareholders who own shares, and may or may not be listed on a stock exchange, or, in the case of not-for-profit companies, have members who provide a guarantee.

**Redeemable preference share** (also referred to as a **Convertible preference share**) is a preference share that may be redeemed by the company at a later date, either by paying for the shares or by issuing new shares.

**Reserves** refers to funds that an organisation sets aside for future use. A common use of reserves is as a contingency for future bad debts or other future cash flow issues.

**Secondary trading** refers to the trading of new stock from a company that has already made its initial public offering.

**Shares** refers to units of capital in an asset or organisation owned by an investor (individual or institutional).

**Shareholder** refers to the owner (individual or institutional) of shares (see above) in an asset or organisation.

**Short term** is an investment horizon or period of time during which an asset can be held or an investment made or a loan made available. Short term is usually less than 12 months however there is no standard timeframe for short term rather it is dependent on the investor's preference.

**Social enterprise** is a trading enterprise that uses its revenue and/or business model to further a community or public purpose, and may be a for-profit or not-for-profit entity.

**Tax credit** is the amount of money a taxpayer can subtract from the taxes they owe based on one of a number of allowable deductions.

**Term**, in a financing arrangement, is an investment horizon or period of time during which an asset can be held or an investment made or a loan made available. The term of a loan is the length of time over which the borrower must repay the loan amount.

**Undertaking** refers to a promise, stipulation or guarantee that creates an obligation. Undertaking can also refer to an agreement between two companies for the completion of a project where one party completes the project and the other party finances the project. This type of completion undertaking usually means that if the party completing the project fails to meet agreed timeframes or specifications they then repay the party financing the project.

**Venture capitalist** refers to a type of equity financing investor. A venture capitalist usually invests in organisations at the start-up or early operational stage for a small business. A venture capitalist typically uses third-party funds, such as superannuation funds, to provide the capital for the investment.

**Working capital** is the amount of money that an organisation has to operate their business in a given year. Working capital is calculated as the difference between the current assets of an organisation and its current liabilities. Working capital is often used to measure the financial health and/or liquidity of an organisation.

## Social Impact Investing – key words and abbreviations



### Note

Social Impact Investing is an evolving area where new terms are often being created and defined.

It is an area that crosses over both debt financing and equity financing, so you will see many debt and equity terms repeated in this section.

Different social investment tools and managers of social investment funds often use different variations of the same term. This glossary includes some of the more common terms you may encounter.

**Asset** refers to both tangible and intangible resources owned by an organisation that hold value and/or create value for that organisation. Examples of tangible assets are cash at bank, buildings, equipment and inventory. Examples of intangible assets are copyrights, patents and good will.

**Australian Charities and Not-for-profits Commission (ACNC)** is the independent national regulator of charities in Australia.



### Related resource

The ACNC registers organisations as charities and helps them understand and meet their obligations by providing information, guidance, advice and other support.

The ACNC maintains a free and searchable public register of charities.

You can find information about the ACNC and links to their resources on [the ACNC website](#).

**Australian Securities and Investments Commission (ASIC)** is Australia's corporate, markets and financial services regulator. ASIC is an independent Commonwealth Government body established by the *Australian Securities and Investments Commission Act 2001*. ASIC carries out most of their work under the *Corporations Act 2001*.

**Bond** refers to a statement of debt. The holder of the bond is the lender. The issuer of the bond is the borrower. The issuer of the bond makes payments to the holder over the life of the bond in order to repay the loan.

**Coupon payment** refers to an annual payment to the Investors, in the case of a social investment bond, made by the Trustee.

**Early termination payments** refers to the amount paid when the investment agreement terminates before completion. The payment is usually passed on to investors.

**Equity investment** refers to the holding of shares in a company by an investor. These shares can generally be bought or sold among shareholders.

**Green bond** refers to a type of bond where the outcomes for investors are tied to measurable benefits for the environment. An example of such a benefit would be a reduction in carbon output.

**Hybrid investment** refers to a type of investment that involves the features of both debt and equity. An example of a hybrid investment is a Convertible debt or Convertible note

**Impact investments** are investments made into companies, organisations, or funds with the intention to generate social or environmental impact alongside a financial return.



'My dream is to find individuals who take financial resources and convert them into changing the world in the most positive ways.'

*Jacqueline Novogratz*  
*Founder of Acumen Fund*

**Implementation deed** refers to an agreement that sets out contractual arrangements between the relevant parties to a social benefit bond.

**Interest** refers to the fee that the borrower must pay the lender for borrowing money. Interest is usually calculated as a percentage of the amount borrowed.

**Interest period** is the time during which interest is calculated and then payable at the end.

**Interest rate** refers to an amount a lender charges the borrower, as a percentage of the loan, for the privilege of borrowing the money.

**Layered investment** refers to an investment that is structured to combine different types of capital in ways not traditionally seen in investing. Typically, in social impact investing, in layered investments those investors taking the greater risk, e.g. philanthropic investors, may accept a lower return to attract other investors.

**Loan** refers to an agreement between a lender and a borrower setting out the terms and conditions for a loan amount (see below).

**Loan deed** refers to a promise or commitment to provide funds on agreed terms with an agreed payment or returns schedule.

**Maturity date** is the date on which the principal amount of the investment instrument, e.g. bond, is due and paid to the investor. It also refers to the date on which a loan is due to be paid in full.

**Outcomes-focused grant** refers to funds provided to a project or organisation that are allocated based on goals and results that primarily have community or societal benefits.

**Payment-by-results contract (PBR)** is an agreement where the funder pays the provider of the project or service based on outcomes and/or performance.

**Principal**, in relation to social impact investing, refers to the original amount of money borrowed to fund the initiative underpinning the investment.

**Principal repayment** refers to the payment of the original amount of money borrowed. Different investment or loan agreements will contain different payment schedules.

**Return on investment (ROI)** refers to one of the main ways to measure the performance of an investment based on outcomes that provide financial gain. In social impact investing it may include outcomes that relate to a community or societal benefit.



### Related resource

There are many different ways to measure the return on investment in social impact investing.

Harvard Business School published a useful paper, including explanations, frameworks and examples, on 'Measuring the 'impact' in impact investing' (2015).

**Security trust deed** refers to a document that is held by an agent or trustee to hold security that has been granted to a syndicate.

**Social bond** (or **Social impact bond**, **Social benefit bond** or **Social investment bond**) refers to a type of bond where the outcomes for investors are tied to measurable benefits for a specified community benefit, social or environmental outcome, or government saving.



## Example

### Social Ventures Australia (SVA) and the Newpin Social Benefit Bond (SBB)

The first Social Benefit Bond of its kind in Australia, the Newpin SBB example provides a picture of the key elements of this type of **social impact investing**. The Newpin SBB was a collaboration between the NSW Government, UnitingCare Burnside and SVA. The SBB was set up as a 'payment by outcomes' structure with the social benefits translating into financial benefits shared by investors and taxpayers.



Source: <http://www.socialventures.com.au/work/newpin-social-benefit-bond/>

**Social capital** refers to social relationships and networks as assets of an organisation. An example of social capital is an individual's network with people outside the organisation who can assist in achieving the organisation's goals. Social capital can also refer to relationships and networks within an organisation including the organisation's culture and level of trust between employees.

**Social enterprise** is a trading enterprise that uses its revenue and/or business model to further a community or public purpose, and may be a for-profit or not-for-profit entity.



## Note

There is no universally accepted definition of 'social enterprise'. A social enterprise can take many different organisational forms and there are therefore many definitions.

**Social impact investing, or Impact investing** is investing in companies, organisations, or funds with the intention of generating social or environmental impact alongside a financial return.

**Social return on investment (SROI)** refers to the measurement of benefits from an investment based on outcomes that relate directly to a community or societal benefit, as opposed to a purely financial benefit.

**Subscription amount** refers to payment amount made by an investor in a social benefit bond or investment. There is usually a minimum subscription amount that an investor must pay to participate.

**Trustee** refers to a person or entity who holds and administers property or assets for the benefit of a named party or parties. In some circumstances, the Trustee can also be a beneficiary but not if they are the sole beneficiary.

## Investors – definitions and resources

### Governments

**Australian Government** invests in social enterprises via its Social Enterprise Development and Investment Funds (SEDIF) managed by three fund managers, [Foresters Community Finance](#), [Social Enterprise Finance Australia](#) and [Social Ventures Australia](#) (the government's role in overseeing the SEDIF ceased in July 2016). The SEDIF has a total investment pool of more than \$40 million comprising of \$20 million from the government and the remaining funding from private investment. The money is used to provide tailored finance, such as loans, to eligible social enterprises to help them grow their businesses. Social enterprises can contact the fund managers directly for further information.



#### Example

- Foresters Community Finance provided a loan to Eating Disorders Victoria to expand their counselling service with a fee-for-service model, providing a new revenue stream for the organisation.
- Social Enterprise Finance Australia made a loan to Cairns-based social enterprise Three Sistas to acquire the management rights, partially purchase and renovate a run-down tourist resort so that it could be used as an affordable accommodation service for its clients, and training opportunities to Indigenous youth.
- Social Ventures Australia provided a loan to North Yarra Community Health in Melbourne to help them establish a private general medical practice, with profits to go back into North Yarra Community Health's social mission in healthcare.

The Australian Government also announced in its 2017 budget that it will invest \$10.2m over 10 years to trial social impact investments (SII) aimed at improving housing and welfare outcomes for young people at risk of homelessness, as well as \$8m over four years to establish an SII Readiness Fund to help organisations build their skills and capabilities to develop projects and business plans for SII opportunities, and \$12.2m for additional SII trials in partnership with States and Territories.

**State Governments** offer investment opportunities through social impact bonds. Social impact bonds have been launched in NSW, Queensland, South Australia and Victoria, and the Western Australian Governments is also exploring options for social impact bonds.

### Institutional

**Institutional investors** are large organisations with considerable money to invest, either for themselves, or on behalf of their clients. Examples include superannuation funds, banks, insurance companies, and investment companies. Each offer a range of investment opportunities including grants, loans, and equity. Institutional investors can be approached directly for investment or loans, or may approach organisations for investment opportunities independently.

### Funds

**Private ancillary funds (PAFs)** are private charitable trusts for individuals or family groups that invest money and property, then distribute earnings to charities that are endorsed as Deductible Gift Recipients (DGRs). PAFs do not operate as charities. They only distribute funds. The directors of individual PAFs establish their own investment strategy. Distributions are made to charities with DGR status and a minimum of 5% of the value of the fund must be distributed each year. PAFs may provide loans to DGRs at a lower than commercial rate and count this discount as part of their minimum annual distribution, or may invest part of their corpus (assets) in a social impact investment.

**Public ancillary funds (PuAFs)** are charitable trusts that invest money and property from the public and distribute earnings to charities that are endorsed as DGRs. PuAFs only distribute funds. They do not directly provide services. PuAFs invite the public to make donations and establish their own investment strategy. PuAFs may provide loans to DGRs at a lower than commercial rate and count this discount as part of their minimum annual distribution, or may invest part of their corpus (assets) in a social impact investment.



### Example

The Sydney Community Foundation is an example of a PuAF. It aims to encourage philanthropy by providing the public with flexibility to support a wide range of Deductible Gift Recipients, such as the Women's Business Incubator supporting economically-disadvantaged women from the Liverpool area, and the Start the Day Well project for women living in domestic violence safe house accommodation.

**Social impact investment funds** are social purpose organisations that pool capital from multiple investors for the purpose of investing in various social impact initiatives. Social impact investment funds often fund wholesale investment opportunities that require larger amounts of capital. Such funds usually require social enterprises to apply directly to the fund for investment or loan capital.



### Example

- An example of an Australian social impact investment fund is the Social Ventures Australia Social Impact Fund which provides loan or equity investments of between \$150,000 and \$1m to social enterprises.
- The Commonwealth-supported SEDIF is another example of a social impact investment fund. Since 2011, it has made about 80 investments in social enterprises.
- Other social impact investment funds include Pangaea Impact Investments, Small Giants, and Toniic.

**Venture capitalists** are investors who provide capital and financial assistance to start-up ventures that have limited access to the equity market.



### Example

The Giant Leap Fund is an Australian venture capital fund which is dedicated to investing \$13m in for-purpose businesses, whilst Blackbird Ventures is a mainstream venture capitalist company providing equity capital for seed (i.e. initial development and launch), series A (first significant round of investment and often the first-time external investors are given equity in the company) and later stage investment (i.e. to further build and scale).

## Private

**Private impact investors** are people or organisations who are seeking a social or environmental return alongside a financial return. They may be willing to accept a concession on the financial return, or may be seeking a commercial rate of return in addition to measurable social or environmental impact.





# Resources

---

## Related Not-for-profit Law resources

The [Not-for-profit Law website](#) has further resources on the following topics:

- ▶ [Fundraising and new funding models](#)
- ▶ [Governance and legal duties of office holders](#)
- ▶ [Personal Property Securities Act](#)
- ▶ [Contracts](#)
- ▶ [Social enterprises](#)