



GLOSSARY

“Science is organised knowledge. Wisdom is organised life”.

- Immanuel Kant

BNPL, ‘Buy Now, Pay Later’ p7

With the shift to online shopping and the parallel rise of digital financial services, the appearance of ‘buy now, pay later’ services (labelled ‘BNPL’) was inevitable. ‘The sector is widely predicted to continue to grow quickly and ‘leading players, including Klarna, Scalapay and Humm, are either already established in Ireland or are planning operations there’, wrote Keith Waine, a partner in Dillon Eustace’s Financial Regulation Unit, in *Finance Dublin* in November 2021.

It is a newly minted term describing point of sale finance, installment lending, but with a fintech enabling set of delivery channels. The Irish Central Bank is proposing extended regulatory legislation for BNPL.

Writing in November 2021, the former chair of the United States’ FDIC, Sheila Blair described BNPL as “the latest and not-so-greatest fad in consumer finance, called “buy

now, pay later” (or BNPL).” She said: “The newest offering of the fintech industry, BNPL has enabled millions of Gen Zs and millennials to take on the dumbest kind of debt — that which has no benefit other than immediate gratification of a spending itch. “But with stronger regulation — combined with market discipline and consumer education — it could actually morph into something beneficial: a simpler, cleaner, and cheaper alternative to credit cards...BNPL is a variation of the installment plans of yesteryear, when retailers would let customers spread payments over a period of time to buy big household items (like stoves and refrigerators). But while those were generally thoughtful purchases of goods that families need, the core BNPL product is geared toward smaller purchases of frivolous wants”.

FASB p21

Established in 1973, the Financial Accounting Standards Board (FASB) is the independent, private-sector, not-for-profit organisation that establishes financial accounting and reporting standards for US public and private companies and not-for-profit organizations that follow Generally Accepted Accounting Principles (GAAP).

The FASB’s primary purpose is to establish and improve GAAP within the United States in the public’s interest. The Securities and Exchange Commission (SEC) designated the FASB as the organisation responsible for setting accounting standards for public companies in the US.

Cum-Ex scheme p23

‘Cum-Ex’ is a coining of two Latin words meaning ‘with’ and ‘without’. It has come to describe a fraudulent tax scheme in which dividend withholding tax refunds were claimed multiple times by investors aided by a network which included bankers, brokers, hedge funds, international tax firms, investment companies, lawyers and insurance companies. The scheme involved buying and selling large volumes of shares in a co-ordinated circuit around share ex-dividend dates (investors who purchase a share before the ex-dividend date are entitled to the next dividend payment while those who purchased the stock on the ex-dividend date, or after, are not). These actions created confusion and allowed two parties to simultaneously claim ownership of the same shares and allow for dividend withholding tax refunds to be claimed multiple times. The trading of shares with (cum) and without (ex) dividend rights gave rise to the name. It

has been estimated that the Cum-Ex scheme may have resulted in illegitimate tax refunds in excess of \$60 billion being paid out by European tax authorities in the past 20 years, with Germany estimated to account for \$36.2 billion of the total.

Expected Credit Loss p5

Expected Credit Loss (ECL) is the probability-weighted estimate of credit losses over the expected life of a financial instrument. ECL is the difference between the cash flows that are due to an entity in accordance with the contract (scheduled or contractual cashflows) and the cash flows that the entity expects to receive (actual expected cashflows). Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due. ECL can be measured either at an individual exposure level or a collective portfolio level (grouped exposures based on shared credit risk characteristics).

Photos (centre): Richard R. Jones chair of the Financial Accounting Standards Board; (right): statue of Immanuel Kant in his home city of Königsberg, formerly Prussia, now Kaliningrad, Russia.