

GLOSSARY OF FINANCIAL TERMS

A-Z



A

Information changes performance

- Grade: E9 7a
- Air temperature: -10 degrees C
- Wind chill: -25 degrees C
- Ice: Steep at 60 degrees
- Vertical drop: -1,000m
- Height to summit: 3,300m

You need information you can trust. Evaluating your OTC performance and risk criteria needs depth and breadth of instrument coverage. Tullett Prebon Information sources content directly from Tullett Prebon’s global broking desks, so prices are independent and representative of the levels at which the world’s largest dealers trade among themselves. Use the benchmark for OTC market data.

Performance matters



Account Valuation	The detailed rules which govern the preparation of accounts compiled by the ASB – Accounting Standards Board.
Accumulation Units	A term used in collective investment schemes: an investor may either purchase income units, where income is periodically distributed, or accumulation units, where income is added to the capital of the fund.
Active Fund Management	An investment strategy designed to outperform the return of a financial market index. A fund manager will attempt to ‘beat’ an index via the techniques of stock selection and market timing.
ADR	See American Depository Receipt.
Advisory	A level of service where a firm suggests which securities the customer may wish to buy or sell.
Agency Broker	A term given to a broker when acting on behalf of a customer. The firm does not take a position in the securities itself, but simply arranges the deal on behalf of a third party.
Agency Cross	A transaction by which a member firm matches the buy order of one client with the sell order of another client at the same price and on the same terms.
Aggregation Of Orders	If the firm finds that many clients are placing orders for the same stock, it is sometimes permissible for the firm to aggregate a number of customer orders together, allowing everyone involved to benefit from lower overall dealing costs.
AGM	See Annual General Meeting.
Alternative Investment Market – AIM	A market regulated by the London Stock Exchange, designed for small, young and growing companies which are likely to be higher risk and less liquid than those admitted to the Official List.
American Depository Receipt – ADR	An American form bearer security which represents a shareholding in a non-US company, although the instrument itself is denominated in dollars. See also Global Depository Receipts (GDR).
American Style Currency Quotation	A method of currency quotation where the dollar is expressed in terms of one unit of the other currency, i.e. \$1.5 per £1.
American Style Options	Options that may be exercised AT ANY TIME during their lives, up to and including the expiry date.
Ancillary Service	Additional services to MiFID business that cannot be passported on their own. These replaced the old category referred to as non-core services.
Annual Exemption	Allowances given to individuals in respect of capital gains tax and a separate allowance for inheritance tax (lifetime transfers only).
Annual General Meeting (AGM)	A general meeting of company shareholders which must be held on annual basis. The main reason for such a meeting is to give the shareholders an opportunity to approve the company accounts. See also Extraordinary General Meetings (EGM).

ARA	Stands for 'Amsterdam Rotterdam Antwerp'. These are the delivery choices on crude oil futures.
Arbitrage	The process where a person (usually a market professional) can lock in a risk-free profit by exploiting anomalies and inconsistencies between two related but different markets.
Arbitrage Channel	The range of values through which a future's price may deviate away from its fair value, but where cash and carry arbitrage is uneconomic to achieve.
Articles Of Association	One of two constitutional documents, the other being the Memorandum of Association. This document details the company's internal regulations. It sets out, for example, proceedings at General and Board Meetings, voting rights, borrowing powers and powers of directors.
Ask	The price offered by a market participant wishing to sell a security or derivative. Also referred to as the offer.
Asset Swaps	An Asset Swap is an interest rate swap used to alter the cash flow characteristics of an institution's assets in order to provide a better match with its liabilities. An example would be to physically switch cashflows, i.e. a fixed bond against floating rate LIBOR. An alternative is an interest rate swap linked to an asset i.e. a bond.
Assignment Notice	A notice sent by LCH.Clearnet to the writer of an option in order to communicate that the writer must now fulfil his (or her) obligations under the terms of the option.
At Best	An order type that specifies a volume but does not specify a price. A 'buy' order will execute against the LOWEST sell order, a 'sell' order will execute against the HIGHEST buy order.
At The Money (ATM)	A term used to describe an option whose strike price is the same as the underlying's current trading price.
Auction	The main method used by the DMO (Debt Management Office) to issue gilt-edged securities. The process may be conducted on either a competitive (successful bidders pay the price they bid) or non-competitive basis (all successful bidders pay the same price). It is also the method used by most other governments to issue their debt securities.
Authorised	A term used to indicate that a firm has acquired Part IV permission.
Authorised Corporate Director (ACD)	The person responsible for investment decisions and pricing in an Investment Company with Variable Capital (ICVC).
Authorised Share Capital	The maximum amount of share capital a company is allowed to issue, as specified in its Memorandum of Association (the company's legal constitution).
Automatic Exercise	A facility that LCH.Clearnet provide to ensure that in-the-money options are exercised automatically and not forgotten.

B

Backwardation/ 'Back'	In the securities market, a 'back' market is one where the best bid quote is greater than the best offer quote displayed on SEAQ. In the derivatives market, a back market is one where the future is trading at a discount to the cash or underlying price.
Balance Sheet	Part of the financial statements prepared by a company each year which lists the assets and liabilities of a company at the company's year-end.
Bank Of England	The UK's Central Bank. Among its main functions are controlling the money supply in the economy and setting interest rates.
Bargain	A general term used to describe any transaction in securities on the LSE.
Basis	The difference between the actual price of a future and its fair value.
Basis Risk	A term used to describe the uncertainty of whether basis will strengthen or weaken. This is usually a problem for hedgers.
Basis Strengthening/ Narrowing	This means that the cash price of the underlying is increasing relative to the future's price.
Basis Swap	A basis swap locks in the spread existing at the time of the agreement between two indices. Basis swaps are quoted as a spread over the primary index with the other index quoted flat; e.g. in a EUR/USD basis swap the market maker will receive the EUR index i.e. EUR LIBOR plus the high spread and pay the US LIBOR flat or pay the EUR LIBOR plus the low spread and receive US LIBOR flat.
Basis Weakening/ Widening	This means that the cash price of the underlying is decreasing relative to the future's price.
Bearer Securities	Anonymous, freely transferable securities. They do not show the owner's name on the certificate and no register is maintained of legal title.
Best Execution	The process of obtaining the best possible price for a customer.
Best Execution Policy	A document produced by a firm that outlines how it will achieve best execution.
Beta	A number indicating the volatility of an individual stock or portfolio as compared to the market as a whole.
Bid	The price offered by a market participant wishing to buy a security or derivative.
Bid Basis	If a unit trust is contracting with redemptions exceeding new monies, the Manager will pitch his two-way price at the bottom end of an accepted range; this is said to be pricing on a 'bid' basis.
Bill	A term used to describe a short-term debt security maturing within one year from the date of its original issue.
Bills Of Exchange	Corporate securities that pay no interest and have a life of less than 12 months; they originate from an actual commercial transaction, normally between an exporter and an importer.
Black-Scholes Equation.	A pricing model that uses all the influencing factors of an option to give a fair value of the premium.

Block Trade	A term used to describe very large trades. Block trades are subject to publication delays.
Blue Book	The rules of guidance administered by the Panel on Takeovers and Mergers. Also called the 'City Code'.
Bond	A medium to long-term debt security, with a maturity date of at least one year from the date of its original issue.
Bond Option	Options contracts on bond futures. They are not physically delivered, but settle into futures positions.
Bonus Issue	A method of issuing shares, where new free shares are issued to existing shareholders in proportion to their existing holdings. Bonus issues are also called 'capitalisation' or 'scrip' issues.
Book Entry Transfer	The electronic process of registering a change in ownership of a dematerialised security without the need of stock transfer forms and paper certificates.
Borrowing	On the London Metals Exchange this term means a member has bought a near dated future and sold a far dated future on the same metal.
Broker	A member firm of a stock exchange who is permitted to perform agency trades only.
Broker Dealer	A member firm of a stock exchange which is not a market maker and which may deal either as PRINCIPAL or AGENT.
Business Day	Any day, excluding weekends and bank holidays, when on exchange trading and settlement is conducted. A business day runs from midnight to midnight on any given day.

C

CAC-40	This index represents the 40 leading stocks (weighted by market value) that are traded on the Paris Stock Exchange.
Call Option	An option that gives the right, but not the obligation to BUY the underlying asset.
Capital Account (UK)	This account measures the INVESTMENT relationship the UK has with the rest of the world. In other words, the net difference between UK citizens investing in foreign investments and non-UK investors investing over here.
Capital Gains Tax	The tax charged on the taxable gains of a UK resident individual for a fiscal year.
Capital Resources Directive	A directive that governs the resources of a firm wishing to passport their business under MiFID.
Capital Resources Requirement	The minimum level of capital that the FSA require a firm to maintain in order to carry on investment business.
Carrying	A generic term referring to 'borrowing' or 'lending' on the London Metals Exchange.

Cash Against Document (CAD)	A method of settlement, where, at the point the buyer takes delivery of the securities, his (or her) payment bank guarantees to make payment to the seller's bank. Also called delivery versus payment.
Cash And Carry Arbitrage	An arbitrage process exploiting the inconsistency between the price of a future and the price of the underlying. It is performed when the future's price is trading ABOVE fair value and involves buying the cash asset and selling the future.
Cash Asset	The asset underlying and driving the value of a future. Otherwise called 'the underlying'.
Cash Deposits (CD's)	The placement or taking of a loan for a fixed time period from a start date to a maturity date. Compensation in the form of interest is calculated at the agreed rate and paid or received in addition to the principal amount at maturity. If the term of the deposit is over one year, interest will normally be paid on each anniversary of the deposit. Market makers will lend funds at the high rate and borrow funds at the low rate.
Cash Flow Statement	Part of the financial statements prepared by a company each year which shows the cash received and paid by a company during its period of account.
Cash Settlement Indications	The Interbank-offered rates used in the settlement of many financial instruments are determined by taking a consensus of selected market makers in each instrument and averaging a given number of constituents of the consensus. These rates are those used by Tullett Prebon for internal pricing and fair value models.
Certificate Of Deposit	A debt security issued when an investor places a deposit with a bank or building society for a given term at an agreed interest rate. CDs pay interest and are freely transferable.
CHAPS	A method of communication between the Bank of England and the Continuous Linked Settlement bank.
Cheapest To Deliver – CTD	The deliverable bond (see deliverable basket), chosen by the seller of a future, that generates the largest profit or smallest loss, i.e. the bond with the highest implied repo rate.
Chinese Walls	Physical or artificial barriers to the flow of information within a firm which, if allowed, could give rise to a conflict of interest.
Choice price	A situation where the best bid price is equal to the best offer price on a quote driven platform.
Churning	Excessive dealing on behalf of a customer which generates commission for the broker at the expense of the customer's best interests.
CIS	See Collective Investment Scheme.
City Code	The rules of guidance administered by the Panel on Takeovers and Mergers. Often referred to as the 'Blue Book'.
CJA	Stands for Criminal Justice Act. The law that covers insider dealing.
Clean price	The price of a bond excluding accrued interest.
Clearstream	One of the two (along with Euroclear) international clearing houses for Eurobonds.
Click	The screen based, order driven trading system used by the OM London Exchange.

Closing Out	A derivative transaction which results in the investor being 'square'. It is achieved by taking a negatively correlated position to the one that was originally taken out, i.e. selling a future will close out a long future position.
CLS	See Continuous Linked Settlement.
COBS	See Conduct Of Business Sourcebook.
Code Of Conduct (SII)	Seven principles set down by the SII giving specific objectives that must be fulfilled by an SII member (see SII).
Cold calling	The process of selling investment services by unsolicited personal visits or telephone calls.
Collective Investment Scheme (CIS)	An open-ended collective investment scheme; a number of investors pool their resources which are then invested in a wide range of securities, ensuring that risks are reduced through diversification and costs are reduced by dealing in bulk.
Combination	A derivative strategy involving a call and a put.
Commercial Paper	Corporate issued short dated debt; usually has a life of three or six months until redeemed.
Commercial Paper/ LIBOR	The daily average of the 30-day commercial paper (quoted on a Bank Discount Basis) taken from the H15 Federal Reserve Statistical Report and averaged for the month. The monthly average is converted to a money market basis, adjusted by the spread and compounded at the succeeding monthly average rate. Interest is settled on a net basis against three month LIBOR.
Commodity Futures Trading Commission (CFTC)	The main regulator providing government oversight for the futures industry in the US.
Complete Volume Order	An order type on CONNECT: the order executes the entire trade or nothing at all. See fill or kill.
Concert party	A term used to describe unconnected investors working in concert to make a discreet purchase of a firm's shares. The objective is to jointly accumulate enough number of voting shares to manipulate share prices, influence a firm's management, or initiate a takeover bid. This practice is officially disapproved of by securities watchdog organisations.
Conduct Of Business Sourcebook (COBS)	The sourcebook in the FSA handbook that sets out the rules governing firm's conducting designated investment business. These were updated on 1st November 2007 in order to comply with MiFID.
Confirmation note	Written evidence which provides details of a particular transaction.
Conflicts policy	A policy put in place by a firm detailing how the firm will avoid conflicts of interest.
CONNECT	Euronext.liffe's derivative trading platform; it is an electronic order driven system.
Consumer Price Index (CPI)	A harmonised measure of inflation used throughout the EEA.
Contango	A term used in the derivatives market which means that basis is NEGATIVE; i.e. the cash price is less than the price of the future.
Contingent Liability Transaction	A transaction where the investor may lose more than the original amount invested, e.g. buying and selling futures, selling options.

Continuous Linked Settlement (CLS)	A method of settlement in the foreign exchange markets that eliminates default risk and gross settlement risk.
Contracts For Differences (CFDs)	Derivatives settled with a cash payment, rather than delivery of the underlying asset. The payment is determined by comparing two prices: the price at which the trade was initially opened and the price at which it is closed out.
Controlled Function	Five categories of employment that require approval by the FSA.
Convergence	The process that describes the price of a future getting closer to the cash price as the expiry date nears, due to the reduction in the costs of carry.
Conversion Premium	As a general rule, the price of convertible debt instruments will be higher than similar non-convertible instruments. This reflects the premium paid for the right to convert.
Convertible Gilt	Similar to a conventional gilt, except that the owner has the option to convert into a predefined amount of a different gilt at some time in the future.
Convertible Loan Stock	Corporate loan stocks that are issued with an option to convert into a specified amount of equity at a later date.
Convertible Preference Share	A preference share issued with the option of converting it into an ordinary share at a pre-defined date.
Convexity	The description of a change in a bond's price relative to a change in yield.
Corporate Actions	Activities undergone by companies seeking to reward their shareholders. Examples include the payment of dividends, rights issues and bonus issues.
Corporation Tax	The tax paid by UK resident companies on their worldwide profits. It is also paid by companies resident overseas on their profits arising in the UK.
Counterparty Risk Requirement	The risks associated with the firm's trading book debtors. It forms part of the firm's financial resources requirement.
Coupon	The quoted coupon of a gilt or bond represents the annual amount of interest paid per £100 nominal value.
Covered Warrant	Warrants in a company's shares issued by an organisation other than the company itself.
CPI	See Consumer Price Index.
CRD	See Capital Resources Directive.
CREST	The electronic settlement system, owned by Euroclear UK and Ireland, which is used to provide book entry transfer for UK equities, corporate loan stock and UK Government gilts. The system can also settle German, Swiss and Irish stocks.
Cross Currency Interest Rate Swaps	A Cross Currency IRS is an instrument involving two currencies where a counterparty swaps the fixed rate interest rate liability of the primary currency for the floating rate liability of the secondary currency.
Cum-Coupon	The period during which a buyer of a bond will be entitled to the next coupon payment. See Ex-Coupon.
Cum-Dividend	The period during which a buyer of a security will be entitled to the next dividend payment. See Ex-Dividend.
Cumulative Delta	The delta of a portfolio of assets. Used to understand how the portfolio as a whole will react to changes in the price of the underlying assets.

Cumulative Dividends	Dividends which build up on a cumulative basis if not paid. Usually only associated with preference shares.
Currency Future	An exchange traded contract to buy or sell a given amount of currency for a certain amount of dollars. Currency futures are more common in the US than Europe.
Currency Options	An exchange traded option which represents the right to buy or sell a currency at a fixed price. More common in the US than in Europe.
Current Account (UK)	This indicates the TRADE position that the UK has with the rest of the world. It measures the difference between UK imports and UK exports. The current account is divided into a visible component (wheat and coal etc.) and an invisible component (services such as banking and insurance).
Current Assets	The short-term assets of a company. They are held for conversion into cash, usually within one year of the balance sheet date.
Current Liabilities	Amounts of money owed by a company and due for payment within one year of the balance sheet date.
Current Ratio	Measures the liquidity of a company by calculating the number of times current assets can 'pay off' current liabilities. Calculation: current assets divided by current liabilities.

D

Daily Official List – DOL	A daily publication, produced by the LSE, which includes details of transactions conducted on the Exchange the previous day.
DAX 100	Set up in 1987, the DAX 100 comprises Germany's 100 leading shares.
DAX 30 – Deutscher Aktienindex	The main German index comprising the 30 leading German stocks (based on market capitalisation). The DAX is a weighted arithmetic index.
Debenture	In the UK a debenture is a document that acknowledges a debt secured on the assets of a company and is usually given under seal. In the US, however, debentures are unsecured debt.
Debt Management Office (DMO)	An executive agent of the Treasury responsible for issuing gilt-edged securities and sterling denominated Treasury bills.
Deliverable Basket	As delivery approaches on a bond futures contract, the relevant exchange declares a list of actual bonds which may be delivered through the future. This list is called the 'list of deliverables', or sometimes the 'deliverable basket'.
Delivery Notice	A notice, sent by the seller of a future to a clearing house giving notice that the seller wishes to make delivery of the physical underlying asset.
Delivery Versus Payment – DVP	A method of settlement, where, at the point the buyer takes delivery of the securities, his (or her) payment bank guarantees to make payment to the seller's bank. Also called cash against document.

Delta	A calculation which measures how the premium of an option changes if there is a change in the price of the underlying asset.
Dematerialised Securities	Securities held in electronic form without the use of paper certificates.
Depository	An institution providing safe custody services for the assets in an open-ended investment company.
Designated Professional Bodies	Professional bodies including accountants, lawyers and actuaries, who are deemed fit to conduct investment business by virtue of their membership of their own professional body. An example of such a body is the Institute of Chartered Accountants in England and Wales.
Diagonal Spread	An option strategy involving two calls or two puts, with different strikes and different expiries.
Direct Offer Financial Promotions	An advert which includes an offer by a regulated firm to enter into an investment agreement and specifies the manner in which any response is to be made, e.g. tear-off slips.
Dirty Price	The price of a bond including accrued interest.
Discount	In a foreign currency forward transaction, a situation where the overseas currency is CHEAPER at the forward price.
Discount Security	An investment, usually a money market instrument, that is issued at a discounted price and redeemed at face value (par).
Discretionary	A level of service where the firm takes responsibility for the investment decisions without consulting the customer.
Distance Marketing Directive	An EU directive that governs communication of financial promotions via distance marketing. Marketing where there is no face-to-face communication.
Diversification	An attempt by a portfolio manager to gain the maximum return for the minimum risk by combining different investments.
Dividend Cover	Measures the number of times that the company can afford to pay its dividend. Calculation: earnings per share divided by dividend per share.
Dividend Yield	Measures the return on investment in dividend terms. Calculation: dividend per share divided by price per share.
Domicile	For tax purposes this is your original country. It is usually based on where the father of the individual was born (domicile of origin) but can also represent a change in domicile (domicile of choice).
Double Dated Gilt	A gilt-edged security which has two dates between which they must be redeemed, e.g. Treasury 11 3/4% 2003-2007. The government has the option of redeeming after the first date, and must redeem by the last redemption date.
Double Tax Relief	The relief afforded a UK company or individual with overseas earnings which have been subject to foreign taxation. Relief is usually granted by offsetting the foreign tax paid against the UK tax bill.
Dow Jones Composite Average	An aggregate of all the Dow Jones Averages consisting of 65 stocks.
Dow Jones Industrial Average – DJIA	The most quoted US index based on 30 US companies.

Dow Jones Transportation Average	Consists of 20 US transportation stocks.
Dow Jones Utility Average	Consists of 15 US utility stocks.
DPB	See Designated Professional Bodies.
Durable Medium	Any instrument which enables the recipient to store information in an accessible way for future reference which allows the unchanged reproduction of information stored.
Duration	The weighted-average life of the present value of all future cash flows, both principal and interest, of a security. It is used as a measure of the sensitivity of the value of a security to changes in interest rates.

E

Earnings Per Share	Measures the profit/earnings generated by each company share in issue. Calculation: profit available to ordinary shareholders divided by the number of ordinary shares in issue.
ECA	See Electronic Commerce Activity.
ECB	See Eligible Counterparty Business.
E-Commerce	See Electronic Commerce Activity.
Efficient Portfolio	A portfolio which achieves the highest possible return for a given level of risk.
EGM	See Extraordinary General Meeting.
Electronic Commerce Activity	Any regulated activity conducted through electronic means, e.g. internet banking.
Electronic Commerce Directive	The directive that clarifies the application of conduct of business rules when performing and electronic commerce activity.
Eligible Counterparty Business (ECB)	ECB indicates the types of business where firms must follow the COBS in their business with eligible counterparties.
Eligible Custodian	A custodian approved by the FSA Rulebook as suitable for the safekeeping of customer securities.
Equity Index Options And Futures	Derivatives which permit investors to speculate on the movement of the market as a whole; they are contracts for differences and are therefore settled in cash.
ERS	See Exchange Reporting Service.

Escrow Account	A holding account where, for example, shares can be held suspended by a third party without transferring ownership of the stock. In this situation the release of the shares would occur on the satisfaction of certain criteria.
Eurobond	A bond issued by a company in a currency that is different from the currency being raised. e.g. a company issuing a dollar bond in London and Paris.
Euroclear	One of the two (along with Clearstream) international clearing houses for Eurobonds.
Eurocurrency	A currency raised in a country from where it does not originate, e.g. US dollars raised in Japan.
Eurodeposit	A deposit of a currency in a country that is not that currency's country of origin, e.g. a deposit of one million yen in a Swiss bank account.
European Style Currency Quotation	A method of currency quotation where the currency is expressed in terms of one dollar, i.e. 100 yen per \$1.
European Style Options	Options that may be exercised on their expiry date ONLY.
Exchange Delivery Settlement Price (EDSP)	The price that the underlying asset will change hands for on the delivery date. It is NOT the agreed price of the futures contract. It is based on the cash price of the underlying asset at expiry.
Exchange Reporting Service (ERS)	The electronic reporting and publication system run by the LSE. It publishes real-time trade information that is performed on the exchange. It replaced the LMIL.
Exchange Traded Funds – ETFs	Open-ended investment vehicles that track indices, such as the FTSE 100. ETFs issue shares which produce an income stream generated by the underlying securities in the fund. The price of a share in an ETF will be based on the net asset value of the fund.
Ex-Coupon Date	The date after which a buyer of a bond will not be entitled to the next coupon payment. In the UK, this is usually seven days before the coupon payment date itself.
Ex-Div Date	The date on which the LSE declare listed securities ex-div. After this date any transfers of the security take place without the right to receive the dividend.
Ex-Dividend	The period during which a buyer of a security will NOT be entitled to the next dividend payment.
Execute And Aliminate	An orderbook order type similar to a limit order, (in that it specifies a volume and price), except that any unexecuted portion of the order is rejected by the system rather than remaining on the order book.
Execution Only	A level of service offered by a firm working in the financial services industry which involves effecting client instructions without giving any advice.
Exercise Notice	A notice sent from the buyer of an option contract to a clearing house confirming that the buyer now wishes to exercise their rights.
Exercise Price	The price at which an option specifies the underlying asset may be bought or sold. Also known as the strike price.
Experts	A category of professional client; an expert is an individual who has met specified criteria in terms of their knowledge and experience. In order to classify an individual as an expert, written consent from the client is required.
Expiry Cycles	The quarterly expiry cycle a traded option is allocated once it has been admitted to an exchange.

Expiry Date	The last day of the life of an option or future.
Extraordinary General Meeting	A general meeting of company shareholders other than the Annual General Meeting. It may be called either by the directors, on the request of the holders of 10% of the voting share capital or by the courts.
Extraordinary Resolution	A binding decision made by the shareholders of a company requiring the approval of the holders of 75% of the voting capital in order to voluntarily wind up the company.

F

Face Value	The nominal value of a security.
Fair Allocation	If all orders cannot be satisfied, the firm must generally give priority to satisfying orders for client transactions (as opposed to its own orders). This would be detailed in the execution policy.
Fed Funds/LIBOR	The daily average of the effective rate from the H15 Statistical Report (quoted on a money market basis) averaged for the month if interest is paid quarterly the market convention is to take a simple average over three months adjust by the spread and settle on a net basis against three month LIBOR.
Fill Or Kill	An orderbook order type that specifies a volume of shares (but a specified price is optional). If the order cannot be satisfied in full, no part of the order will be executed.
Financial Ombudsman Service (FOS)	A body that will consider complaints against FSA member firms by consumers who feel aggrieved and entitled to seek redress.
Financial Promotions Order (FPO)	The secondary legislation attached to FSMA2000 identifying when a firm may communicate a financial promotion without being authorised or having the promotion approved by an authorised person.
Financial Services And Markets Act 2000 (FSMA2000)	The new statutory legislation which superseded the Financial Services Act 1986 in the regulation of the financial services industry. It was introduced in November 2001.
Financial Services And Markets Tribunal (FSMT)	The body responsible for hearing appeals against decision notices and supervisory notices issued by the Financial Services Authority. It is part of the Ministry of Justice.
Financial Services Authority (FSA)	The principal regulator/watchdog of the financial services industry in the UK.
Financial Services Compensation Scheme (FSCS)	A body that provides compensation where authorised persons and appointed representatives are unable to satisfy claims against them.

Financial Services Skills Council (FSSC)	The body that sets down specific skill requirements for particular functions within the financial services.
Fiscal Year	The period in which an individual is assessed on income and capital gains tax. The period runs from 6 April to 5 April. Tax rates are set in the Chancellor's budget according to fiscal years.
Fixed Assets	The long-term assets of a company held on a 'continuing basis', i.e. at least one year.
Fixed Charge	Security/collateral offered by a company raising debt which provides a charge over a specific company asset, e.g. a building, land.
Fixed Price Re-Offer	On the launch of a new syndicated loan, all firms in the syndicate undertake to offer the new bonds to potential investors at the same price for a given period of time.
Flat Yield	The return an investor receives from a bond based solely on the gross coupon income. Expressed as a percentage of the market price and ignores the impact of taxation. Also called simple yield/income yield/coupon yield/interest yield/running yield.
Flex Options	Exchange traded options which allow investors to select contract specifications such as expiry date and strike price.
Floating Charge	A charge over the assets of the company; rather than being a charge over a specific asset, it floats over a range of assets until the company defaults. In such an event, the charge crystallises and the debt may be satisfied from the charged assets.
Floating Rate Gilt	A gilt-edged security which pays coupons that are set by reference to the London Inter-Bank Bid Rate (LIBID) at the beginning of each interest payment period.
Floating Rate Note (FRNs)	Are bonds that have a variable coupon, equal to a money market reference rate, like LIBOR or federal funds rate, plus a spread. The spread is a rate that remains constant. Almost all FRNs have quarterly coupons, i.e. they pay out interest every three months, though counter examples do exist. At the beginning of each coupon period, the coupon is calculated by taking the fixing of the reference rate for that day and adding the spread. A typical coupon would look like three months USD LIBOR +0.20%.
Foreign bond	A bond issued on a market in the local currency but by an overseas company. For example a sterling denominated bond, issued in the UK by a non-UK resident.
Foreign Exchange Requirement	The risks associated with the firm's exposure to exchange rate movements. It forms part of the firm's capital resources requirement.
Form A	The form used by a firm to acquire approved status for employees.
Forward Foreign Exchange	This is the simultaneous exchange of currencies on a start date at a spot rate with a contract to reverse the exchange at an agreed forward rate (forward outright) on the maturity date. The rates are expressed as the points difference between the exchange rate at the maturity of the contract and the rate at the start, multiplied by 10 to the power n, where n is the number of decimal places that the spot rate is conventionally quoted to. Market makers will sell the first currency spot and buy it at the forward maturity at the low rate and buy and sell the first currency at the high rate.
Forward pricing	A term used in the pricing of collective investment schemes: on a 'forward' basis the investor will deal at the price determined at the NEXT valuation point; hence he or she will not know the exact price for some time.

Forward Rate Agreements (FRA)	An FRA is a hedge against movements in interest rates. Periods for prices are quoted as a forward start date against a forward end date e.g. three months versus six months. When time elapses and the forward start date becomes the spot value, the difference between the reference market rate of interest (Interbank Offered Rate) and the rate originally struck for the FRA contract is calculated. The interest rate differential is then paid and received by the counter parties (if the Interbank Offered Rate is higher than the rate sold by the seller of the FRA, compensation must be paid to the buyer and vice versa). As with other off balance sheet instruments there is no commitment to borrow or lend the underlying principal amount. If the number of days is not a standard monthly run there must be prior agreement on the settlement calculation when the FRA is executed. Market makers will buy the interest differential at the low rate and sell at the high.
FOS	See Financial Ombudsman Service.
FPO	See Financial Promotions Order.
Free Market Capitalisation	The market value of a company using only the free float. This market value is calculated by multiplying the number of shares in the public hands by the market value of each share.
Front Running/ Pre-Positioning	A transaction for a person's own benefit, on the basis of and ahead of an order which he is to carry out with or for another (in respect of which information concerning the order is inside information), which takes advantage of the anticipated impact of the order on the market price.
FSCS	See Financial Services Compensation Scheme.
FSMT	See Financial Services And Markets Tribunal.
FSSC	See Financial Services Skills Council.
FT-SE 100 Index	An index of the largest 100 UK companies based on market capitalisation.
FT-SE 250 Index	An index of the next 250 (after the FT-SE 100) largest UK companies based on market capitalisation.
FT-SE 350 Index	An index combining the FT-SE 100 and the FT-SE 250. It is therefore an index based on the largest 350 UK companies by market capitalisation.
Fungible Assets	Interchangeable goods and securities where one can be replaced by another without loss of value. Examples include £5 notes, bearer bonds or a particular class of share in a company. Long gilt futures are based on a notional 6% gilt so that they are fully fungible.
Futures Contract	An agreement to buy or sell a specified quantity of a specified asset on a specified future date at a price agreed today.

G

GDR	See global depository receipt.
Gearing	Measures the amounts raised by a company from borrowings/debt as a proportion of the amounts raised from shareholders' funds/equity. Termed 'leverage' in the U.S.
General Clearing Member	A member of an exchange who is also a member of a clearing house. They may clear trades for themselves and anyone else.
General Proxy	A person appointed by a shareholder to vote on their behalf at company meetings. General proxies can choose how they wish to vote.
Gilt Repo	A transaction where one party sells gilts to the other, agreeing at the same time to repurchase the equivalent securities at an agreed price and on an agreed date in the future. In summary, it is the sale and repurchase ('repo') of gilts.
Gilt-Edged Market	The market in securities issued by, or guaranteed by, Her Majesty's Government.
Gilt-Edged Market Makers (GEMMs)	Specialist gilt trading firms who undertake to the Debt Management Office (DMO) to make a market in gilts in any trading conditions.
Global Custody	The term used to describe the provision of safekeeping and administrative custody services on a global basis.
Gross Redemption Yield	The pre-tax return achieved by a bond assuming the investor holds to maturity. Expressed as a percentage of the market price and ignores the impact of taxation.

H

Hang Seng Index	A market value weighted index comprising the 33 largest companies traded on the Stock Exchange of Hong Kong (SEHK).
Hedge	A position or combination of positions that reduces the risk of your primary position.
Her Majesty's Revenue And Customs (HMRC)	The governmental department responsible for providing an effective and fair tax service to the government and country.
Her Majesty's Treasury	The UK's economic and finance ministry. It is responsible for formulating and implementing the Government's financial and economic policy.
Historic Pricing	A term used in the pricing of collective investment schemes: on an 'historic' basis the investor will deal at the price determined at the LAST valuation point; hence the price may not truly reflect the value of the underlying assets of the fund at the time the unit is bought.
HMRC	See Her Majesty's Revenue and Customs.
HMT	See Her Majesty's Treasury.

Holder	The term used to describe the BUYER of an option. Also referred to as the long position.
Horizontal Spread	An option strategy involving two calls or two puts, with the same strike but different expiries.
Immediate And Cancel Order	An order type on CONNECT: any volume unfilled is instantly rejected. See also execute and eliminate.
Immunisation	A (passive) fund management investment strategy for bond portfolios which attempts to match the duration of the bonds in the portfolio to the duration of the liabilities of the portfolio.
In The Money (ITM)	An option which has intrinsic value, i.e. for calls – the strike price must be below the cash price, for puts – the strike price must be above the cash price.
Income Statement	A statement produced by companies in order to identify income and expenditure throughout a company accounting period.
Income Tax	The tax charged on the taxable income of a UK resident individual (or a trust) for a fiscal year. Different rates of tax are applied to earned income (e.g. salary), savings (e.g. interest) and dividends.
Income Units	A term used in collective investment schemes: an investor may either purchase income units, where income is periodically distributed, or accumulation units, where income is added to the capital of the fund.
Income Yield	The return an investor receives from a bond based solely on the gross coupon income. Expressed as a percentage of the market price and ignores the impact of taxation. Also called simple yield/flat yield/coupon yield/interest yield/running yield.
Incorporation	The legal process whereby a company is registered at Companies House (a division of the Department of Trade and Industry) and comes into legal existence.
Index	A number which gives the value of something relative to its value at some other time.
Index Linked Gilts	Gilt-edged securities which have coupons and redemption values linked to the UK General Index of Retail Prices (RPI).
Indexation Allowance	An allowance given for capital gains tax purposes for periods of ownership between March 1982 and April 1998. The allowance takes into account the impact of inflation between these two dates. The allowance reduces the gain that will be assessed to tax.
Indirect Client	A client who conducts his or her relationship with a regulated firm through a third party, e.g. solicitor, accountant.
Individual Clearing Member	This is a member of an exchange and a clearing house who may only clear their own trades.

Individual Savings Accounts (ISAs)	A tax efficient way of investing. Assets held within an ISA are not liable income or capital gains arising. ISAs may be either Mini (consisting of separate components for cash, insurance and stocks) or Maxi (involving a combination of all three components). There are limits on the maximum investment into the ISA each year, but no restrictions on withdrawals.
Inflation	The average rate of increase in prices of goods and services in the economy. Formally measured by RPI and RPIX.
Inflation Swap	Two counterparties agree on a long-term contract based on an agreed inflation rate. If, at the end of the contract, prices are higher than originally expected, the seller of inflation makes a payment to the buyer. If prices turn out lower than expected, the buyer pays the seller.
Inheritance Tax (IHT)	A tax charged on the wealth of an individual when they die. It is also charged on any gifts made in the seven years prior to death.
Initial Capital Requirement	The amount of funds needed by a firm in order to commence business.
Initial Margin	The margin payment – paid by both sides of a derivative transaction – which acts as a deposit of ‘good faith’. It is held by a clearing house and represents the risk of a member defaulting.
Insider Dealing	A criminal offence (under section 52 of the Criminal Justice Act 1993) involving the use of price-sensitive information for personal gain. The maximum penalty if found guilty is seven years’ imprisonment.
Inter-Dealer Broker (IDB)	An intermediary that facilitates trading between wholesale trading institutions e.g. banks in the Over The Counter markets (OTC).
Interest Cover	Measures the number of times the company can afford to pay its interest payments. Calculation: profit before interest and tax divided by interest payable.
Interest Rate Option Volatilities	In a cap transaction the seller contracts to reimburse the buyer should a chosen reference rate exceed the cap level. To compensate the seller for taking this risk the buyer pays a premium. With a floor the seller agrees to compensate the buyer should the reference rate fall below the strike price. The premium is priced from a string of European style options; puts (caps) or calls (floors). From these strings the upfront premium is calculated using a Black-Scholes based option model. Volatility is a key component in this pricing, the level of the implied volatility quoted is that which will calculate a fair value equal to the current trading option price. The volatilities are quoted for strike prices ‘at the money’.
Interest Rate Parity	An economic theory which suggests that the exchange rate between two currencies will change over time in order to even out differences between the interest rates of the two countries.
Interest Rate Swap	An agreement between two parties to exchange interest payments on loans, e.g. fixed interest payments exchanged for floating interest payments. They are sometimes described as ‘agreements to swap cash flows’. See also vanilla swap and basis swap.
Intermediaries Offer	An arrangement for issuing new shares where the issuing company initially sells its shares to a number of brokers who then place their portion with selective clients. This method is a hybrid between an offer for sale and a placing.
Inter-Office Market	There are two open outcry sessions each day on London Metals Exchange. Outside these sessions members trade with one another via the telephone. This telephone market is known as the inter-office market.
Intrinsic Value	Intrinsic value is the difference between the strike price of the option and the underlying asset price.

Investment Company With Variable Capital (ICVC)	A type of collective investment scheme; a number of investors pool their resources which are then invested in a wide range of securities, ensuring that risks are reduced through diversification and costs are reduced by dealing in bulk. Differs from a unit trust in that it has a corporate (rather than a trust) structure. Previously known as an open-ended investment company (OEIC).
Investment Services Directive	European legislation that allowed investment businesses to set up branches in other countries in the European Economic Area (EEA). Replaced by the Markets in Financial Instruments Directive (MiFID).
Investment Trust	Really an Investment Trust Company (ITC). A company with a fixed share capital whose shares are listed on the London Stock Exchange; the company's share capital is invested in the shares and bonds of other companies, thus offering diversification to investors.
Invoice Amount	The amount paid by the buyer of a future when taking delivery of the underlying asset.
ISA	See Individual Savings Accounts.
ISIN Code – The International Security Identification Code	A unique identifier for all Exchange traded securities.
Issued Share Capital	The actual number of shares a company has issued to its shareholders.

J


Joint Money Laundering Steering Group (JMLSG)	A body made up of leading trade associations in the financial services sector. It produces guidelines on how firms should organise their business to combat money laundering and terrorist financing.
--	---

K

Kerb Session	Used on the London Metals Exchange. A session of open outcry trading that comes after the second ring. Trading in this session can be in any metal at any time.
---------------------	---

L

Large Exposure Requirement	The risks associated with particularly large customers defaulting on unpaid amounts. It forms part of the firm's capital resources requirement.
LCH.Clearnet	An independent organisation, owned by its member firms, that carries out the clearing process for the three London derivative exchanges: Euronext.liffe, LME and ICE.
Lead Manager	An investment bank responsible for organising and administering a new issue of securities.
Lending	On the London Metals Exchange this term means a member has sold a near dated future and bought a far dated future on the same metal.
LIBID	Stands for London Inter-Bank Bid Rate.
LIBOR	Stands for London Inter Bank Offered Rate. Calculated each business day at 11.00 am GMT. It is the rate at which banks borrow from each other, and also forms the benchmark rate for many interest rate derivatives.
LIBOR Basis Swaps	A LIBOR Basis Swap is an instrument involving a single currency where a counterparty swaps the floating rate liability of the first LIBOR against the floating rate liability of the second LIBOR (e.g. USD 3m Libor vs. USD 6m Libor).
Limit Order	An order type – used in the securities and derivative markets – that specifies a volume of shares and a limit price. The order must be filled at the limit price or better.
Liquidity	An indicator of how many buyers and sellers there are in a particular market. It also gives us an indication of how easy it is to turn the asset into cash. A liquid market is one with plenty of buyers and sellers and is therefore easy to turn the asset into cash.
Listed Money Market Institutions	Major financial institutions engaged in the wholesale trading of money market instruments. The 'list' of such institutions is maintained by the Financial Services Authority.
Listing Particulars	Details submitted to the United Kingdom Listing Authority (UKLA) for approval before a listing is granted. The document gives details of management, main activities, recent developments and prospects.
Lloyds	A market place in which firms can trade insurance contracts.
Loan stock	A general term which describes a corporate debt security which is not secured on the assets of the company.
London Market Information Link – LMIL	A company information and data system providing real-time information regarding trades carried out on the London Stock Exchange. Now replaced by Exchange Reporting Service (ERS).
Long Dated Gilt	A gilt-edged security maturing after more than fifteen years.
Long Hedge	The use of derivatives to remove the uncertainty of not owning an asset. For example, a person who is short the underlying (and is concerned about prices rising) should buy futures on the underlying.

Long Position	The term used to describe the buyer of a future or option.
Long Straddle	A derivative strategy in which a call option and a put option, both with the same strike price, are bought.
Long Strangle	A derivative strategy in which a call and a put with different strikes are bought.
	
Mo	A measure of money comprising notes and coins in circulation, plus the clearing banks' operational balances at the Bank of England.
M2	A measure of money using Bank wholesale deposits and building society deposits.
M4	A measure of money, comprising notes and coins in circulation, the clearing banks' operational balances at the Bank of England, building society deposits and private sector time deposits (including Certificates of Deposit).
Manager	A manager of a fund is responsible for investment decisions and pricing of a unit trust.
Mandatory Bid (City Code)	If a predator (and others acting in concert with him) acquires shares carrying 30% or more of the voting rights of a company, he must make an offer for all the remaining shares of the company.
Mandatory Quote Period – MQP	The period during a business day when market makers are obliged to display firm two-way prices on quote driven systems. On the LSEs SEAQ, it is currently between 8:00 am - 4:30 pm for UK debt.
Margin	A form of security that is paid in derivative transactions; it covers the risks faced by a clearing house in respect of its members' open positions.
Market Capitalisation	The total market value of a company. Total market value is calculated by multiplying the number of shares in issue by the market value of each share. See Free market capitalisation.
Market Maker	An investment bank/financial institution responsible for quoting firm two-way prices for securities so that a liquid market is maintained.
Marketing Operation	A general term describing any issue of securities which leads to the issuer generating finance. Most methods of issuing shares have this aim in mind and therefore would be referred to as a 'marketing operation'. However, should the firm issue new shares free of charge (as in a bonus issue), this is not a marketing operation as no new money is generated for the company.
Maxi-ISA	A particular type of Individual Savings Account. An investor who chooses a maxi-ISA may make investments up to set subscription limits in a combination of cash, insurance and stocks and shares.
Medium Dated Gilt	A gilt-edged security maturing within seven to fifteen years. (NOTE: if the examiner specifies the Financial Times or the LSE as rating the gilt, medium dated gilts would be five to fifteen years).
Member	An alternative term for a shareholder of a company.

Memorandum Of Association	One of two constitutional documents, the other being the Articles of Association. This document gives information on the identity and nature of the company. It sets out such matters as the company name, registered address and nature of business.
MiFID	Stands for Markets in Financial Instruments Directive. A directive that covers 'investment business' in the EEA and allows firms to set up branch business in another member state.
Minimum Volume Order	An order type on CONNECT: the order requires a minimum volume to be executed, or nothing at all.
Mixed Remittance	A cheque received by a firm from a client which is part client's money and part firm's money.
Model Code	Also known as the Model Code of Director's Dealings. A code of practice set out by the UKLA that governs directors of listed companies and their trading of their own company's shares.
Modified Duration	A measure of how far a bond's price changes given a particular movement in interest rates. It is therefore a measure of volatility.
Monetary Policy Committee (MPC)	A department of the Bank of England responsible for setting interest rates.
Money Laundering Reporting Officer (MLRO)	A senior official employed by a regulated firm who is responsible for reporting all suspicions of money laundering to the relevant authorities. They perform a required control function and must be approved by the FSA.
	
Net Liquidation Value	The value of an option when it is marked to market at the end of each day.
Net Redemption Yield	The post-tax return achieved by a bond assuming the investor holds to maturity. Expressed as a percentage of the market price and takes into account the impact of taxation.
Nikkei 225	Comprises 225 of the biggest companies traded in the Tokyo Stock Exchange (TSE).
Nominal Value	All shares have a nominal value (also known as 'face' or 'par' value). It represents the original value when the company was constituted, and is the legal minimum a company can receive when issuing shares.
Nominal Value	The legal value of a security, such as a share or a bond. It is the value that will be returned to the owner of the company that redeems the investment.
Nominated Advisor – Nomad	A regulated firm appointed by a company seeking a quotation on AIM whose job it is to satisfy itself that the company is appropriate for AIM and to confirm this in writing to the London Stock Exchange.
Nominated Broker	A regulated firm appointed by an AIM quoted company whose job it is to match buyers of the company's shares with sellers, or to act as market maker when orders cannot be matched.

Nominee Account	If a firm has responsibility for custody of a customer's investments, agreement must be reached as to the name in which those investments should be held. In order to reduce the cost to the customer, this will often be the name of a nominee company controlled by the firm.
Non-Clearing Member	A member of an exchange who is not a member of a clearing house. They cannot clear trades, and must therefore enter into an agreement with a General Clearing Member.
Non-Deliverable Forwards (NDF's)	This is conceptually similar to a Forward Freight Exchange transaction. A notional principal amount, forward exchange rate and forward date are all agreed at the deal's inception. The difference is that there is no physical transfer of the principal amount in an NDF transaction. The deal is agreed on the basis that net settlement will be made in USD, or another fully convertible currency, to reflect any differential between the agreed forward rate and the actual rate on the agreed forward date. The rates can be expressed as a points difference, a yield or as an outright.
Non-Geared Packaged Products	Packaged products with a low level of volatility, e.g. unit trusts invested in securities or money market funds, life policies and investment trust savings schemes.
Normal Market Size (NMS)	An indicator of liquidity on the London Stock Exchange. There are 16 levels of NMS set by the LSE.
Novation	The process whereby a clearing house guarantees both sides of a derivatives trade. It does this by acting as 'middleman', i.e. buying from the seller and selling to the buyer.

O


Offer Basis	If a unit trust is expanding with new monies exceeding redemptions, the Manager will pitch his two-way price at the end of an accepted range; this is said to be pricing on an 'offer' basis.
Offer For Sale	A method of issuing shares where an 'issuing house' (or 'lead manager') initially buys new shares from an issuing company before reselling them to the investing public.
Offer For Subscription	A method of issuing new shares which involves a company offering its shares directly to the general public.
Office Of Fair Trading (OFT)	The OFT monitor the financial laws, observe how they are implemented and comment on their relevance.
Official List	The main market of the London Stock Exchange, on which the shares of approximately 2,500 UK and international companies are traded.
OFT	See Office of Fair Trading.
OM London Exchange	A Recognised Investment Exchange, based in London, which allows the trading of Swedish derivatives.
On Exchange	A term used to describe a transaction conducted on a Recognised or Designated Investment Exchange.

One Way Pricing	A method of pricing collective investment schemes: the same price is quoted for both the sale and purchase of units or shares. In contrast to two-way pricing where a bid-offer spread is quoted.
Open Interest	A term used in derivative trading; it refers to the number of open positions in the market, i.e. the sum of all the longs OR all the shorts.
Open Market Operations (OMO)	An activity undertaken by the Bank of England which involves offering to buy money market instruments from financial institutions at an agreed rate. Used by the BoE to maintain interest rates at a desired level.
Open Offer	A type of rights issue, where the shareholders are not given the right to sell their rights.
Open-Ended	A term used to describe certain collective investment schemes that expand or contract depending on the level of demand for the units (or shares) of the fund.
Option	A derivative instrument that grants the buyer the right (not the obligation) to buy or sell an underlying asset at a fixed price on, or before, a given date in the future.
Ordinary Resolution	A binding decision made by the shareholders of a company which requires the approval of the holders of a simple majority of the voting capital. This type of resolution is required for such matters as the appointment of directors and auditors and the approval of the annual financial statements.
Ordinary Shares	Otherwise called equity shares (or, in the US, common stock). An ordinary share represents true ownership of a company. Ordinary shareholders receive dividends reflecting the success of the company, and are entitled to vote in company general meetings.
Out Of The Money (OTM)	An option which has no intrinsic value, i.e. for calls – strike price is above cash price, for puts – strike price is below cash price.
Overnight Index Swaps (OIS)	An OIS is merely a standard IRS where the floating rate is fixed against the overnight index rate (e.g. SONIA or EONIA) rather than the historically more usual three month or six month LIBOR rate.
Over The Counter – OTC	A term used to describe a deal struck outside the confines of a formal exchange.

P

Panel On Takeovers And Mergers (POTAM)	The body responsible for ensuring that all shareholders in a takeover scenario are treated fairly and equally. The rules of guidance the Panel produce is called the 'City Code' (or 'Blue Book').
Par Value	The nominal value of a security.
Part IV Permission	The FSA permission that needs to be applied for in order to fulfil the general requirements of FSMA 2000 to carry out investment business.
Passive Fund Management	An investment strategy designed to mimic the characteristics of a particular financial market index, such as the FTSE-100. Tracker funds are an example of passive management.

Personal Account Notice	A written document given to all employees of a regulated firm detailing the rules on own-account dealing.
Personal Allowance	An allowance given every tax year which reduces an individual's taxable income. Unused personal allowance is lost.
Personal Equity Plans (PEPs)	Until 5 April 1999 investors were permitted to invest up to £9,000 per year in Personal Equity Plans, which enjoyed tax-free status. No further investments are allowed but plans entered into prior to 5 April 1999 will continue to run.
Placing	A method of issuing shares where an 'issuing house' (or 'lead manager') initially buys new shares from an issuing company before offering them to selected investors such as pension funds and wealthy individuals. Placings are sometimes referred to as 'selective marketing'.
POCA	Stands for Proceeds of Crime Act. The law that covers money laundering.
Portfolio Valuations	Used where the firm is acting as the customer's investment manager; generally sent out on a six-monthly basis.
Position Risk Requirement	The risks associated with the investments held on the firm's trading book. It forms part of the firm's capital resources requirement.
Pre-Arranged Trades	These are trades agreed in advance between two (or more) parties which are therefore not exposed to an exchange's pricing mechanism.
Predator	A company making a hostile takeover bid of another company.
Preference Shares	Corporate securities that usually do not carry the right to vote in company meetings but receive a fixed rate dividend payable before ordinary dividends.
Premium	In a foreign currency forward transaction, a situation where the overseas currency is MORE EXPENSIVE at the forward price.
Price/Earnings Ratio	Measures the relationship between the price of a share and the profits earned by it. Calculation: market price per share divided by the earnings per share.
Price Factor	The price factor is used to bring into line the value of the (real) deliverable bond with the value of the (notional) bond underlying a bond futures contract.
Primary Market	The market into which new shares (or bonds, or any other type of securities) are issued for the first time.
Prime/LIBOR	Uses the average rate of the daily Prime rate from the H15 Statistical Report (quoted on a money market basis) usually for a three month period, adjusted by the spread and settled against three month LIBOR.
Principal	A member firm acting for its OWN account.
Principles For Businesses	Eleven principles set down by the FSA giving specific objectives that must be fulfilled by an authorised firm.
Principles Of Business	Produced by the Financial Services Authority, the principles set out the standards expected from authorised firms carrying on investment business.
Professional Client	A client who is considered to have some knowledge and experience of the markets. Professionals can be automatically so (a 'per se' professional) or can opt up (an 'elective' professional).
Programme Trading	A term describing the arbitrage process in the index futures market. The name comes from the fact that a computer is needed to carry out the complex calculations.


Prospectus Directive	An EU directive that sets out the requirements for the contents of a prospectus when an issuer offers securities or seeks admission to a regulated market in the EU.
Proxy	A person acting on behalf of a shareholder who attends a company meeting in order to exercise the shareholder's voting rights. See general proxy and special proxy.
Prudential Supervision	Rules laid out by the FSA which involve such matters as the financial solvency and custody procedures of a regulated firm.
Public Sector Net Cash Requirement (PSNCR)	The shortfall in government funds in a given year due to spending in excess of revenue. Funded by gilt and T-bill issuance.
Public Sector Net Debt Repayment (PSNDR)	Where government revenues exceed expenditure in a year it may repay debt. This is known as Public Sector Net Debt Repayment.
Put Option	An option that gives the right to SELL the underlying asset.
Put-Call Parity	The theory which explains the relationship between the premium of a call option and the premium of a put option with the same underlying asset, strike price and expiry date. It suggests that arbitrage between put and call options will ensure that premiums are always traded at, or around, their fair value.
	
Quick Ratio	Similar to the current ratio and therefore a measure of the liquidity of a company.
Quorum	The number of shareholders required to conduct business at a company meeting.
	
RAO	See Regulated Activities Order.
RCH	See Recognised Clearing House.
RDC	See Regulatory Decisions Committee.
Readily Realisable Securities	Securities listed or regularly traded on an EU exchange. A liquid security.
Recognised Clearing House	An organisation, recognised by the Financial Services Authority, which is responsible for the clearing and settlement of security and derivative transactions. The FSA recognises two clearing houses in the UK: CREST and LCH.Clearnet.


Recognised Investment Exchange	An investment exchange (i.e. market place for the trading of shares) which has been recognised by the Financial Services Authority. In order to achieve recognised status, an exchange must deliver high standards of investor protection and maintain market integrity.
Reconciliation	The process of keeping track of client assets and money by a firm.
Record Date	Also known as 'register date' or 'books closed' date. This is the date when a company inspects the register of shareholders in order to establish which shareholders will be sent a dividend. The record date is usually the Friday after the ex-div date.
Registered Securities	A security registered in the owner's name, e.g. ordinary shares, debentures.
Registrar	The person (usually a bank or a specialist company) responsible for maintaining a register of shareholders. Also responsible for other shareholder administration including dividend distribution, rights and scrip issues and, where necessary, the issue of share certificates.
Regulated Activities Order (RAO)	The secondary legislation attached to FSMA 2000 identifying what activities and investments constitute a 'regulated activity'.
Regulatory Decisions Committee (RDC)	The RDC take on the responsibility of monitoring the ongoing process of investigations by the FSA. The RDC are given the responsibility of making decisions for the FSA based on the information gathered.
Repo Rate	The rate of interest charged on the sale and repurchase of gilts.
Reserves	The amounts 'left-in' a company by shareholders. The two most common types of reserve are the revaluation reserve and the profit and loss reserve.
Residence	The place a person resides/lives during any given fiscal year. If an individual is present in the UK for over half of a fiscal year or visit the UK for an average of 3 months per year over a four year period they will be UK resident.
Retail Client	A client that is neither a professional client nor an eligible counterparty. These clients have the least knowledge of the market.
Retail Price Index (RPI)	A monthly index, compiled by the National Statistics Office, which measures the rate of inflation on a bundle of goods and services in the economy. The index includes the level of mortgage interest repayment.
Retail Sales Index (RSI)	A monthly figure published by the Office of National Statistics which measures the volume of sales in the retail sector. It is often referred to as an indicator of consumer confidence.
Reverse Cash And Carry Arbitrage	An arbitrage process exploiting the inconsistency between the price of a future and the price of the underlying. It is performed when the future's price is trading BELOW fair value and involves buying the future and selling the underlying.
Reverse Repo	A purchase and subsequent resale of a gilt at a pre-agreed price. It is the other side of a gilt repo transaction.
RIE	See Recognised Investment Exchange.
Rights Issue	An invitation to existing shareholders to buy new shares in proportion to their holding of old shares. Investors can take up their rights, sell their right, split their right or do nothing. Rights issues are open, typically, for 21 calendar days. The name arises from the company law principle of pre-emptive rights. See also Open Offer.

Ring	The term used on the London Metals Exchange to describe an open outcry session that is organised along the lines of five minutes trading for each metal in turn. There are four rings per day on the LME, two in the morning and two in the afternoon.
Rolling Settlement	A term used to describe the system of settling a transaction a fixed number of days after the bargain is struck, e.g. the LSE operates on a T+3 basis.
Rolling Stock Check Method	A method of reconciling customer assets held in safe custody; it requires that all investments be counted and reconciled at some stage during a six month period.
RPIX	A monthly index, calculated by the National Statistics Office, which is the Retail Price Index excluding mortgage interest payments. It also referred to as underlying RPI.
	
Safe Harbours	See Statutory Exceptions.
SBF 250	Comprises 250 French blue chips to provide a wider overview of the French economy compared to the CAC-40.
SEAQ – Stock Exchange Automated Quotation System	A price dissemination service used to disseminate market makers' quotes for middle ranking stocks.
Second Banking Co-ordination Directive (BCD)	European legislation that allows certain credit institutions (i.e. banks and building societies) to set up branches in other European countries without having to seek local authorisation.
Secondary Market	The market in which EXISTING securities are traded, in contrast to the primary market where securities are issued for the first time.
Securities And Investment Institute (SII)	The main examination and membership body for the securities and investment industry.
Segregation	The necessity to keep the assets of a client separate from the firm's assets.
Serious Organised Crime Agency (SOCA)	SOCA is a government agency set up to combat serious organised crime such as money laundering, terrorism and the trade in illegal immigrants.
SETS – Stock Exchange Electronic Trading Service	The electronic order book used to trade the London Stock Exchange's blue chip stocks.
Share Capital	The long-term finance raised by a company through the issue of equity.
Share Premium	When a company issues shares, the price is often above the nominal value, e.g. a £1 nominal value share may be issued for £1.50. The excess over nominal value, in this case 50p, is called the premium.

Short Dated Gilt	A gilt-edged security maturing within seven years, (or less than five years if the examiner specifies FT or LSE as classifying the bond).
Short Hedge	The use of derivatives to remove the uncertainty of owning an asset. For example, a person who is long the underlying (and concerned about prices falling) should sell futures on the underlying.
Short Position	The term used to describe the seller of a future, option, or its underlying, where they do not hold the instrument at the time of trade.
Short Sterling Futures	Also known as 'STIRs' - Short Term Interest Rate futures'. These futures are contracts for differences on the value of a rate of interest (a 'reference rate'). Entering into the contract is the equivalent to buying or selling an interest rate in advance.
Short Straddle	A derivative strategy in which a call option and a put option, both with the same strike price, are sold.
SII	See Securities And Investment Institute.
Simulated Performance	A performance measure that reflects not the target investment but a similar investment. This can only be used when non performance measure is available for the actual investment.
SOCA	See Serious Organised Crime Agency.
Society Of Worldwide Interbank Financial Telecommunications – SWIFT	A global electronic telecommunications system, originally set up to inform member banks of transfers between each other.
Softing	The process of providing a service (e.g. advice) free of charge in return for a certain level of business.
SPAN	Stands for Standard Portfolio Analysis of Risk. A system created by the Chicago Mercantile Exchange (CME) and used by several clearing houses to calculate initial margin.
Special Proxy	A person appointed by a shareholder to vote on their behalf at company meetings. Special proxies are instructed by the shareholder on how they are to vote.
Special Resolution	A binding decision made by the shareholders of a company which requires the approval of the holders of 75% of the voting capital. This type of resolution is required for such matters as changing the name or status of the company.
Sponsor	A corporate broker or investment bank, appointed by a company seeking a listing, that has responsibility for all matters connected with a new issue. These matters include the fairness of the impression given by the prospectus, and ensuring that the company is aware of and capable of complying with its obligations as a quoted company.
Spot	A currency trade where the standard settlement convention is two business days or less after the trade date (T+1, T+2).
Spot Foreign Exchange	The rate at which one currency can simultaneously be exchanged for another on the spot value date. Rates are displayed bid-ask (low-high) in reference to the first currency shown. Market makers will buy the first currency specified at the low rate and sell at the high. The rate is the value of 1 unit of the first currency expressed in terms of the second currency e.g. EUR/USD; 1 EUR = 1.2088USD.
Spread	In quote driven markets: the difference between a market maker's bid and offer price. In derivatives trading: the simultaneous purchase and sale of derivatives in order to reduce risk at the cost of reducing potential return.

Stabilisation	The process whereby a share price is artificially supported by the lead manager after a primary offering of securities.
Stamp Duty	A UK tax payable on purchases of UK registered assets such as real estate and certain securities. The principal securities affected are UK registered and certificated equities and certificated convertible loan stocks. Stamp Duty is an ad valorem tax, it is chargeable on the agreed purchase price. The equivalent tax for uncertificated purchases is Stamp Duty Reserve Tax.
Stamp Duty Reserve Tax	Stamp Duty is a form of UK taxation payable on transfers of assets such as real estate and certain securities. However, where there is no transfer document (e.g. securities held within CREST), the tax is known as Stamp Duty Reserve Tax.
Standard And Poors 500 Index – S&P 500	A market capitalisation weighted index comprising 500 US stocks selected from industrial, transportation, financial and utility sectors.
Statements Of Principle	Seven principles set down by the FSA giving specific objectives that must be fulfilled by an approved person.
Statutory Exceptions	These are defences against Market Abuse and tend to represent particular rule books, that if followed, prevent prosecution. Formerly known as safe harbours.
Statutory Notice	This refers to the Warning, Decision and Supervisory notices issued by the FSA/RDC during investigations.
STIR Futures	Stands for Short Term Interest Rate Futures, Also known as 'short sterling'. These futures are contracts for differences on the value of a rate of interest (a 'reference rate'). Entering into the contract is the equivalent to buying or selling an interest rate in advance.
STIR Options	Stands for Short Term Interest Rate Options; these are options on futures positions.
Stock Borrowing And Lending Intermediary – SBIL	A Stock Exchange member firm which has access to large blocks of institutionally held stock which can be lent out to provide liquidity in the secondary market and can help market makers cover their short positions.
Stock consolidation	Where a firm consolidates several lower value shares into one larger value share. The reverse of a stock split.
Stock splits	A stock split involves splitting the issued shares of a company into shares with a smaller nominal value. It is a method used by companies that believe their share prices are too high, but do not want to make bonus issues and capitalise reserves.
Straddle	A derivative strategy involving the purchase or sale of one call and one put option, both with the same strike.
Strangle	A derivative strategy involving the purchase or sale of one call and one put option, with different strikes.
Strike Price	The price at which the option specifies the underlying asset may be bought or sold. Also known as the exercise price.
STRIPS	Stands for Separate Trading of Registered Interest and Principal of Securities; it allows the future interest payments on a gilt to be traded separately from the principal of the loan.
Subscribers	The first shareholders of a company.
Suitability Report	A report issued after advice confirming with a client what has been agreed.

Swaption Volatilities	A swaption is the right but not the obligation to enter an Interest Rate Swap as the payer or receiver of the fixed side of the swap. The implied volatility quoted is that which will calculate a fair value equal to the current trading option price. As with other options, the higher the volatility the greater chance there is of a movement in the underlying instrument, leading to a greater chance that the option will be exercised and therefore at a more expensive premium. The volatilities are quoted for strike prices 'at the money'.
Switching	The excessive switching from one packaged product to another in order to generate commission for the firm.
Synthetic Long	The combination of a LONG CALL option and a SHORT PUT option. This creates the same profit and loss profile as owning the underlying asset directly.
SYSC	Stands for Senior Management Responsibilities, Systems and Controls. A sourcebook in the FSA Handbook.
	
Tap	A process used by the DMO to issue gilts into the market slowly by controlling the volume of gilts issued at any one time, i.e. like turning a tap on and off.
Taper Relief	An allowance given for capital gains tax for periods of ownership after April 1998. Taper relief replaced indexation allowance.
TAPO	Stands for 'Traded Average Price Options'. Options on the LME where the strike price is calculated retrospectively using an average price.
Target	A company subject to a takeover bid.
TCF	See Treating Customers Fairly.
TESSA-Only ISA	Prior to 5 April 1999, investors could invest cash into a 'Tax Exempt Special Savings Account' which was a bank or building society savings account. The maximum investment was £9,000 and the account had a life of five years. Upon maturity, £9,000 can be transferred into a TESSA-only ISA which will continue to enjoy tax-free benefits. Such a transfer does not affect normal ISA subscription limits.
The Panel	See Panel of Takeovers and Mergers.
The Securities And Exchange Commission (SEC)	The main regulator of the US securities market.
The Treasury	See Her Majesty's Treasury.
The Tribunal	See Financial Services and Markets Tribunal.
Theoretical Ex-Bonus Price	The theoretical price of a company's shares following a bonus issue. Theoretical nil paid price is the price someone would (theoretically) pay for the right to subscribe for a discounted share in a rights issue.

Tick	The minimum price movement, up or down, in the price of a derivative or security.
Time Value	Part of the value of the premium of an option: if the option has a long time to maturity, it is likely to have a high time value; as maturity approaches, time value will decrease.
Timely Allocation	A firm must ensure that the transactions it has executed are allocated PROMPTLY to customer accounts.
TOPIX	Stands for Tokyo Stock Price Index. It comprises all stocks that are traded on the TSE open-outcry system.
Total Count Method	A method of reconciling customer assets held in safe custody; it requires that all investments be counted and reconciled at the same date.
Tracker Fund	An investment fund where the constituent elements are designed to perform in line with a stock exchange index.
Traded Option	The name given to individual equity options traded on Euronext.liffe; they are settled by physical delivery.
Transaction report	A trade confirmation report which matches the details input by buyer and seller. A matched bargain will then proceed to settlement.
TRAX	The trade confirmation system for Eurobond transactions.
Treasury Bill	A short term government debt security; usually has a life of three or six months until redeemed.
Treating Customers Fairly (TCF)	A set of six principles created by the FSA in order to change the culture of the financial services when dealing with 'Retail Customers'.
Trustee	A financial institution which is responsible for the custody of a unit trust's assets and ensures that the manager acts within the regulatory framework.
	
UCITS	Stands for Undertakings for Collective Investment In Transferable Securities. These are unit trusts which are 'designated' by the Financial Services Authority and are permitted to be marketed throughout the European Economic Area.
UK Listing Authority – UKLA	The body responsible for ensuring certain conditions are met before a company is admitted to the Official List. The UKLA is currently the Financial Services Authority.
Undated Gilt	A gilt-edged security where there is no obligation for the government to redeem, but they may still do so at their discretion. Sometimes referred to as irredeemable gilts.
Underlying	The underlying asset which drives the value of the future. It is also referred to as the 'cash asset'.
Underwriting	The process where (usually) a bank guarantees an issue of securities by buying up shares not taken up by the normal investor base.
Unit Trust	An open-ended collective investment scheme; a number of investors pool their resources which are then invested in a wide range of securities, ensuring that risks are reduced through diversification and costs are reduced by dealing in bulk.

V

Valuation Point	The point in time when the price of units in a collective investment scheme is established. The price of the units is calculated by dividing the underlying assets of the fund by the number of units in issue; this exercise is usually carried out once a day.
Value at Risk (VaR)	Value at Risk (VaR) is a widely used measure of the risk of loss on a specific portfolio of financial assets. For a given portfolio, probability and time horizon, VaR is defined as a threshold value such that the probability that the mark-to-market loss on the portfolio over the given time horizon exceeds this value (assuming normal markets and no trading) is the given probability level.
Vanilla Swap	An interest rate swap where the institution swaps one type of floating rate for another type of fixed rate.
Variation Margin	The margin payments which relate to daily gains and losses on open derivative positions.
Vertical Spread	An option strategy involving two calls or two puts, with the same expiry but different strikes.

W

Warrant	A financial instrument that grants the holder the right to subscribe for new shares in a company at a pre-determined price on a future date.
Wash Trade	A trade designed to create a false impression of the volume of trading in a particular instrument, e.g. A sells to B who then sells back to A who then sells back to B etc.
Weekly Official Intelligence – WOI	A weekly LSE publication providing general information about companies listed on the Exchange.
Whistleblowing	Informing a person or institution in authority that wrongdoing is occurring.
Withholding Tax	Tax deducted at source before receipt of income. Foreign interest and dividends are usually paid after deduction of a withholding tax in the country where the income arises; the withholding tax will be allowed as a credit against the investor's tax liability.
Writer	The term used to describe the SELLER of an option. Also called the short position.



Tullett Prebon (www.tullettprebon.com) operates as an intermediary in wholesale financial markets facilitating the trading activities of its clients, in particular commercial and investment banks. The business now covers the following major product groups: Volatility, Rates, Non Banking & Sterling Cash, Treasury, Energy, Credit, Environmental and Equities. Tullett Prebon's Electronic Broking division offers electronic solutions to some of these products.

In addition to its brokerage services, Tullett Prebon offers a variety of market information services through its IDB Market Data division, Tullett Prebon Information.

Tullett Prebon has its principal offices in London, New Jersey, Hong Kong, Singapore and Tokyo, with other offices, joint ventures and affiliates in Bahrain, Bangkok, Calgary, Frankfurt, Jakarta, Kuala Lumpur, Luxembourg, Manila, Mumbai, Paris, Salt Lake City, Seoul, Shanghai, Sydney, Toronto, Warsaw and Zurich.



Tullett Prebon Information is a leading provider of independent, real-time price information from the wholesale, inter-dealer brokered, financial and commodity markets. A wholly owned subsidiary of Tullett Prebon and the benchmark for OTC data, Tullett Prebon Information delivers the highest quality independent price data using state of the art technologies and data publication standards.



7city Learning is a global financial services training company providing leading edge solutions for financial and professional skills training. Based in London, New York and Singapore and servicing a blue chip client base, we are at the forefront of learning and development and acknowledged for our innovative approach and level of professional service. 7city achieved The Sunday Times Virgin Atlantic Fast Track status in 2005, 2006, 2007 and 2008.

Our leading range of training solutions – from benchmark exams to professional qualifications, introductory level financial product training to graduate programmes and high level quantitative finance courses – are uniquely designed to increase professional skills, improve performance and ensure the most effective and flexible approach to enhancing financial knowledge.

We deliver training of the highest quality through a wide range of learning media – whether it is in the classroom, on the internet or through hardcopy publications. Our range of training solutions enable us to make effective use of classroom time with learning tools and a wide spectrum of training simulations providing real-life, practical experience in a classroom environment.

Web: www.7city.com

For more information please contact
Tel: +44 (0)845 072 7620

For more information please contact
Tullett Prebon Information on:

Europe: +44 (0)20 7200 7600

Americas: +1 877 639 7300

Asia: +65 6536 5843

sales@tpinformation.com

www.tpinformation.com