

Financial Services SIG

With Finance being such an integral part of business today, I hope members might appreciate a little jargon busting.

Herewith a short Glossary of City Terms Part 1, A-L

AIM Alternative Investment Market – began trading in June 1995, is a smaller version of the Stock Exchange for small and growing companies.

Arbitrage The buying of securities in one market and selling them immediately in another market to take advantage of different markets.

Bid-offer spread “The difference between the price at which a willing to buy (bid) or sell (offer) an asset.

Big Bang 27 October 1986 when new regulations came into place in the Stock Exchange and the automated pips quotations system was introduced. This term is also used generically for the change which took place in the 1980s since 27/10/86.

Bill of exchange Also known as a “commercial bill “or” banker’s acceptance”. A form of payment. A company pays an acceptance house a fee and the acceptance house guarantees the bill. The company can then take the bill to a discount house, which will pay them money on the strength of the bill, subject to a discount of its face value.

Bond A financial instrument. A borrower issues a bond for a set amount and promises to pay interest on it and to pay back the full value by a specific date. Bonds are very liquid as they can be bought and sold easily.

Bulls Individuals in the stock market who expect the price of shares to go up and therefore buy shares hoping they can sell them at a higher price.

Capital adequacy The minimum amount of assets that a bank must have in order to operate.

Certificate of deposit Short-term interest-paying security saying that the holder has lent money to a bank or building society. It can be bought and sold until it matures when the bank has to pay the holder the value of the document. The face value of the CD will have the interest it has earned added to it.

Chaps Clearing House Automated Payment System – one of three systems used to settle clearing banks finance each day. (Others: BACS, cheque and Credit Clearing Company)

Clearing Bank A Bank which is a member of the cheque clearing systems whereby all cheques are presented to the bank on which they are drawn. This means that at the end of the day each bank pays the net amount it owes to each of the other banks. For example instead of Barclays giving Midland £25 for Bob’s shopping the system will calculate that Midland just needs to give Barclays £10. This means that each day a bank needs to deal with every other bank once only.

Coupon The interest payable on a bond (usually paid annually)

Crest The automated (paperless) systems for settling equities transactions in London.

Derivatives Financial instruments which derive their value from the value of an underlying asset. Futures and options (q.v.) are examples of derivatives: the underlying asset can vary from physical commodities such as coffee to other financial instruments or even a company’s credit rating.

EBRD European Bank for Reconstruction and Development based in the City of London.

Eurobond The bond issued in the Euromarket that is an offshore international financial market. So a bond issued in dollars in London is a Eurobond.

Eurocurrencies Currency owned and lent in the Euromarkets. That is outside its country of origin.

Euribor The euro equivalent of LIBOR (q.v.) This rate is used as the benchmark for many euro-denominated transactions.

FSA Financial Services Authority. The newly created regulatory body for UK financial services which will merge 9 previously separate regulatory bodies including responsibilities from the Bank of England and the Treasury.

Foreign bank No official definition – with increasing globalisation it is becoming increasingly difficult to use this term meaningfully. On one definition – deposit taking in its country of origin – there are 561 fbs in the UK.

Forex/FX Foreign Exchange: Forex dealing is the exchange of one currency for another at an agreed rate of exchange for settlement on an agreed date.

Fund management Pension funds life assurance companies unit and investment trust are looked after by fund management who save and invest funds to make them even more profitable. The funds are often spread amongst different fund managers to minimise risk. Fund managers are usually paid on a percentage of the assets they manage.

Future A legally binding contract of agreement giving the buyer the right to buy and receive and the seller the right to sell and deliver a certain product for an agreed price on an agreed date sometime in the future. The goods are normally of standard size and of particular quality – this promotes the liquidity of the future.

Gilt-Repo Repo is short for repurchase agreement. A gilt-repo is the sale of a bond for cash and a simultaneous agreement to repurchase equivalent securities from the buyer at a future date for cash.

Gilt-Strip A financial instrument composed of an individual payment from a Gilt. Thus if a gilt offers 10 annual interest payments and a repayment of the principal this could be marketed as 11 separate payments.

Gilts Bonds issued by the UK Government. Debts the government is obliged to pay.

Hedging When a trader buys or sells a financial instrument (including futures and options) to offset the risk of another deal. A trader will make a deal of similar value but of opposite outcome to protect the original risk.

IPE International Petroleum Exchange London

Junk Bonds Bonds which offer a high rate of interest in recompense for a high risk of default.

Leverage This term has two meanings. Firstly it can be used to describe an opportunity which involves a large profit for a relatively small cost. Alternatively it is the term used for the ratio of a company’s debt against its equities.

Libor London Interbank offered rate – the rate at which one bank will lend to another. As with Euribor (q.v.) this rate is used as the benchmark for many transactions.

LIFFE London International Financial Futures and Options Exchange. Opened for trading in 1982 it is now one of the largest derivatives exchanges in the world.

Liquidity The ease that a financial instrument can be exchanged for another (or for goods) without incurring loss. So cash is very liquid while a pension fund is less so.

(Part two in next issue)