



Christopher Stoakes
All You Need To Know About The City

GLOSSARY

The following is a rather dry list of definitions. For more colourful explanations, please see the book All You Need To Know About The City.

Accelerate	The act of a lender in having a loan repaid early, usually because of an event of default
AIM	Alternative Investment Market – the junior market to the London Stock Exchange, designed for younger companies with short trading histories
Agent or agent bank	The bank that gets the mandate from a borrower to arrange a syndicated loan for it and collects the repayments from the borrower during the life of the loan to distribute to the other syndicate members
Amortisation	Paying a loan back in a series of instalments
Arbitrage	The act of simultaneously buying and selling in two separate markets to gain from pricing differences between them
Arbitrageur	Someone who practises arbitrage – either professionally or over the internet from home in their pyjamas
Asset finance	Tax-favoured way of funding an asset where a bank (lessor) buys the asset and leases it to the borrower (lessee) for the asset's useful economic life in return for regular payments (rental) paid by the lessee over the life of the lease to reimburse the lessor for the capital cost of the asset plus interest
Balloon repayment	Used in loans and finance leases where the final instalment to be paid by the borrower under the financing is much larger than earlier instalments
Bank	An institution that is licensed to conduct banking business – see <i>Commercial bank</i> and <i>Investment bank</i>
Basis points	Hundredths of a per cent (0.01%) – so bankers will talk about a bond being priced at 25 basis points over Treasuries, meaning 0.25% over what US government bonds are paying
Basis rate or benchmark rate	The rate on which interest under a loan or bond is based, e.g. LIBOR, EURIBOR
Bear	An investor who thinks the market will fall
Bells and whistles	Swaps and options attached to a bond issue

Christopher Stoakes
All You Need To Know About The City

Bid / Offer	Brokers quote two prices for securities – the price at which they will buy from you (bid) and the price at which they will sell (offer) to you. The difference or ‘spread’ is their ‘turn’ (profit) since, obviously they will bid for less than they will offer
Block trade	Where a bank buys or sells an entire portfolio of securities, usually on behalf of an institutional investor
Bond	An I.O.U. issued by a corporate or bank (the terms ‘bond’ and ‘note’ are virtually interchangeable)
Book running	The role taken by a bank in arranging and syndicating a loan or bond issue
Bridge financing	Temporary financing used before the long-term funding is put in place – for instance, a loan taken out by a bidder in an M&A transaction which will then be refinanced by a share or bond issue once the takeover has been completed
Broker	Intermediaries that buy and sell securities as agent for institutions or on their own account. Include ‘broker dealers’ (market makers) and ‘inter dealers brokers’ (brokers that specialise in intermediating between dealers that want anonymity when trading in the markets)
Bull	An investor who thinks the market will rise
Bullet	Bank loan, the principal of which is repayable in one tranche on its maturity (i.e. no amortisation)
Bunny bond	A bond where the coupon allows the holder to take more bonds instead of interest – leading to a proliferation
Buy-side	That part of the market that buys securities – i.e. institutional investors
Cable	The \$/£ trade in the foreign exchange market
Cap	An upper limit or ceiling on the interest payable under a loan
Capital adequacy	A minimum amount of money (capital) that a bank is required to maintain as a ratio to the loans it has made (assets), for prudential reasons to ensure it is able to repay depositors; it is now based on an internationally-accepted framework (the Basel Accords) that assigns risk weightings to bank assets and minimum capital ratios
Cashflow	The strength of revenue or income flowing through a business; a business can be very profitable (i.e. make a large margin between its sales and its costs of production) but still go bust because its income lags its costs of sales; equally a business can have strong cashflow but only marginal profitability and still go on year after year

Christopher Stoakes
All You Need To Know About The City

Central bank	A government entity that may have a regulatory function (regulating local banks) or an economic policy function (e.g. controlling inflation) or both
Chapter 11	Named after the US legislation that allows an insolvent company to seek protection from its creditors, so enabling it to restructure and resume trading on a solvent basis
Clearing house	Usually used in the context of a derivatives market (futures and options), this provides the off-setting trade which ensures market participants are not exposed to their counterpart's credit risk
Collar	A lower limit or floor on the interest payable under a loan
Collateral	The security provided by a borrower for repayment of a loan
Commercial bank	A bank that takes in deposits and borrows in the wholesale market in order to make loans. The difference between the interest it receives and the interest it pays is the bank's margin. High street clearing banks are commercial banks
Commercial paper	A type of bond with a very short maturity – usually three months (called '90-day paper')
Committed facility	A loan that a bank is obliged to make up to an agreed maximum and that is available to a borrower for a specified period
Commitment	The amount of a loan agreed to be lent by a bank
Convertible	A bond that gives the holder the right to switch it into equity (shares)
Corporate social responsibility	A movement that requires companies to do more than make profit, but to have regard to their stakeholders (employees, customers, suppliers, local citizens) and their wider position in society as a whole
Countertrade	A part of trade finance involving the barter of goods and services, often in emerging markets that lack hard currency. For example, a New York law firm was once paid by a government in turkeys and denim. Countertrade specialists act as brokers in such deals.
Coupon	The rate of interest paid by a bond – traditionally bonds (other than debentures) were bearer so the issuer would pay interest only to the person bearing the coupon that came attached to the bond
Counterparty	The other side in a securities or derivatives trade
Credit agreement	The main document under which a loan or other debt-based funding is made
Credit risk	The risk that a counterparty may default

Christopher Stoakes
All You Need To Know About The City

Debenture	A corporate bond listed on the London Stock Exchange, often secured on the issuer's assets
Debt	The form of finance where a borrower agrees to repay the amount of the debt borrowed (the 'principal') and in the meantime usually to pay interest on it (also known as 'servicing' the debt); the only other form of finance is equity
Default	Failure to repay a loan or part of a loan on time – usually because the borrower is bust
Dematerialisation	The electronic record of securities ownership, replacing paper or hard-copy certificates
Disintermediation	Borrowers (companies and governments) tapping the capital markets (investors) directly rather than via banks. Banks loathe this idea – it cuts them out – but whenever banks are less creditworthy than their borrowers the latter bypass them
Drawdown or drawing	The point at which a corporate borrower gets the money it is borrowing
Due diligence	A detailed review of a borrower's financial position, made by a bank or lead manager in a bond or share issue, to satisfy lenders or investors of the borrower's credit standing
Equity	The form of finance where shareholders put up risk capital in return for the prospect of dividend payments and capital growth on their shares; dividends are paid out of the company's taxed income
EURIBOR	Like LIBOR: the euro zone interbank offered rate for the euro
Eurobond	The traditional name for an international bond – i.e. issued by a corporate outside its domestic jurisdiction in a currency other than its domestic currency (note: here, 'euro' has nothing do with the euro currency)
Event of default	One of the events entitling a lender to terminate a credit agreement and ask for the borrowing to be repaid immediately
Exit route	The way in which an investment is realised – e.g. in venture capital
Finance lease	See <i>Asset finance</i>
Financial covenants	Promises made by a borrower in a loan or credit agreement about the continued state of its business that, if broken, allow the lender to accelerate the loan
Float	The point at which a private company is listed on the

Christopher Stoakes
All You Need To Know About The City

	London Stock Exchange and offers its shares to the public; also known as ‘listing’ or ‘going public’ or an ‘initial public offering’ (IPO)
Forex	Foreign exchange – the largest money market in the world
FRN	A ‘floating rate note’ – i.e. a bond whose coupon varies in line with a benchmark interest rate (as opposed to fixed-rate bonds)
FTSE 100 FTSE 250	FTSE is the Financial Times stock exchange set of leading market indicators – FTSE 100 is the index of the top 100 UK listed companies by market capitalisation and the FTSE 250 the next 250
Fungible	Two or more securities that in terms of issuer, interest rate, par value and maturity are comparable
Future	A derivative that allows the holder to command a market position without actually holding the underlying security, by putting up a margin (a small percentage of the total exposure) and which is settled on expiry by payment or receipt of the difference between the future price and the underlying. Unlike an option which gives the holder the right but not the obligation, a future imposes the obligation which – together with the ability to trade on margin – is what makes futures so dangerous to novices
Gearing	The ratio of a company’s debt to its equity capital
Gilts	UK government bonds
Hedge fund	A collective investment scheme that takes high-risk positions in derivatives and currencies and uses short positions to generate high returns; the manager is usually on a performance-related fee
Hedging	The use of derivatives to protect an investment or market position against market fluctuations
In-the-money	An option that, if exercised, would produce a profit as opposed to one that is out-of-the-money (‘under water’), which would normally be allowed to expire without being exercised
Institution or institutional investor	The ultimate buyers of securities (equities and bonds) – insurance companies, pension funds and investment managers (who run funds such as OIECs and unit trusts)
Interest rate swap	An agreement to exchange a floating rate liability for a fixed rate or vice versa – the two parties notionally swap an underlying principal amount then pay each other interest as if they had made the swap; in practice the amounts are netted so that only one payment passes from one to the

Christopher Stoakes
All You Need To Know About The City

	other; the effect is to give each party a synthetic position as if it had borrowed at the swapped rate
Intra-day	Within the trading day
Investment bank	Called a bank but doesn't lend. Instead it underwrites the issue of securities by companies and governments and makes a market in those securities
Investment grade	The rating (provided by rating agencies) that means a bond is likely to be repaid and can be bought by pension funds
ISDA	The International Swaps and Derivatives Association, a trade body representing market users that provides standard legal documentation for these trades
Issuer	A company, bank or government that issues bonds or equities
Junior debt	Debt that ranks behind senior debt so is the last to be paid out on a borrower's insolvency
Junk	Below-investment grade bonds which most pension funds are not permitted to buy
LBO	Leveraged buy-out – like an MBO but where the ratio of debt funding to equity is high
Lead manager	The bank that leads a syndicated bond issue, liaises with the issuer and puts together the syndicate of other underwriters
Letter of credit or L/C	Used extensively in trade finance, a document issued by a bank at the instructions of the buyer in a transaction to pay the seller (called the beneficiary) a stated sum within a prescribed time limit – by being drawn on a bank, the L/C becomes a tradable instrument that the beneficiary can sell in the market, usually at a discount to its face value
LIBOR	London Interbank Offered Rate – the rate at which credit-worthy banks will lend to each other in the wholesale market
Liquidity	A measure of the tradability of a company's shares – affected by free-float of shares held by outside investors – the ease with which a security can be traded on the market
Limited recourse	Used in project finance where the lenders do not look principally to the borrowing entity for repayment but to the cash-generation of the project itself
Loan book	A commercial bank's portfolio of corporate loans
Long	To have a position in the market – i.e. to have bought a share or bond
M&A	'Mergers and acquisitions' – the activity where companies take each other over
Macro fund	An investment fund that tries to exploit big economic shifts

Christopher Stoakes
All You Need To Know About The City

	in, for instance, currencies, commodities (such as oil and steel) and interest rates
Mandate	The appointment by a borrower or issuer of a bank to arrange a syndicated loan or bond issue
Margin	The deposit required by a derivatives market to hold a futures position
Mark-to-market	The daily requirement to increase margin as a futures position deteriorates
Market risk	The risk that general market movements – for instance in interest rates, shares or currencies – will affect a particular investment
MBO	Management buy-out where the managers of a business (usually a division or subsidiary of a large public company) agree to buy it from the company, usually using venture capital to pay for the bulk of the purchase price
Merchant bank	A UK term for a bank that traditionally provided corporate finance advice to companies raising money and/or involved in M&A. Some also provided investment advice through a fund management arm. Most have been absorbed into commercial or investment banks. Called ‘merchant’ because they assisted UK exporters/importers by providing letters of credit
Mezzanine finance	Found in venture capital deals (e.g. MBOs and LBOs) where the capital is part-equity, part-debt, and ranks behind senior debt but ahead of junior debt and equity. Also used to describe debt that can flip into equity (e.g. convertible bond or loan)
Monoline	Specialist insurer that back-stops complex securitisations and project financings by providing a credit guarantee or completion bond
Mortgage-backed	A bond issue collateralised by a pool of mortgages
MTN	Medium term note – a bond of 3-5 years’ maturity; usually part of an ‘MTN programme’ where a panel of banks can be called upon to provide a wide range of financings to a corporate
Netting off	Where two parties owe each other a number of payments, each totals what it owes the other and only a single net amount passes from one to the other in settlement
Non-recourse finance	An absolute version of limited recourse, where the lenders do not look to the borrower for repayment but to the

Christopher Stoakes
All You Need To Know About The City

	income generated by the assets being financed
Office	Part of a bank or institution: front office is the client-facing, fee-earning part; back office is the administrative part (e.g. settlement of trades); middle office means those parts that are not fee-earning but are crucial to a bank's well-being such as IT, compliance, HR and legal
Option	A derivative that gives the holder the right to buy (call) or sell (put) an underlying security, but not the obligation. 'American' options are exercisable at any time up to expiry; 'European' options are only exercisable immediately prior to expiry
Origination	The investment bank activity of advising borrowers on the issue of bonds
OTC	Over-the-counter: a security or transaction that is not traded on an exchange but is bought bespoke from a bank. Also used to refer to virtual markets where trading is between participants without the structure of a regulated market
Placing	Where a broker or investment bank places an issue of shares or bonds with a small group of institutions – this means the issue is not public and less disclosure is required. Also known as a 'private placement'
Plain vanilla	A financing that is straightforward, e.g. a bond issue without any 'bells and whistles' such as swaps, options or warrants
Portfolio	A holding of different investments
Price/earnings ratio	A measure of the company's rating by the stock market – calculated by how many years' profit would cover the cost of the shares
Price or pricing	The interest rate at which a loan is made
Principal finance	The activity of an investment bank in buying and selling businesses for its own account, using its own capital, to generate a profit for itself
Privatisation	The term covering the many ways in which public sector activities are transferred to the private sector
Project finance	Also known as 'limited recourse' or 'non-recourse' finance because the lenders have recourse only to the project itself; often used to finance infrastructure projects where the state buys the output (e.g. hydro-electricity) which funds the lending, and the lenders have rights of 'step in' if the borrower (the project company) defaults

Christopher Stoakes
All You Need To Know About The City

Program trade	A computer-driven trading activity that is triggered by discrepancies between the price of bonds or shares and their related derivatives
Rating	The rating conferred on a bond issue by a rating agency that indicates the likelihood that the issuer will repay it
Rating agency	Independent agencies (Standard & Poor's, Moody's and Fitch are the best known) that assess an issuer's ability to service and repay a bond and provide a rating (triple A is the highest) to enable institutions and brokers to assess a bond's credit-worthiness quickly
REIT	Real estate investment trust: a type of property investment fund
Repo	Repurchase agreement – a method of providing a secured loan, usually for a three-month period, where institution A sells a bond to institution B for price X and in the same agreement agrees to buy the bond back from B for price Y: the difference between X and Y is the carry-cost or implied interest rate; the loan is secured since if A defaults, B has legal title to the bond and can sell it. Repos are one of the techniques used by central banks to control liquidity in the markets
Rescheduling	Where the banks agree to spread the repayment of a loan over a longer term to enable the borrower to repay it at all
Retail	Where the customer is an individual
Retiring debt	Paying off a loan or other debt funding
Revolver	Revolving credit facility – i.e. a bank loan that works like an overdraft: any principal repaid can be drawn again
Rights issue	A further issue of shares by a listed company – called a 'rights' issue because existing shareholders have a right to pre-emption in respect of the new shares in proportion to their existing holdings so that their stake in the company is not diluted
Security	Lawyers use this term to mean security for a loan but markets use it to mean an equity or a bond
Securitisation	Financial engineering that turns an income stream (for instance from a book of loans) into tradable securities, by selling the income stream to an SPV which then issues bonds. Also described as repackaging predictable cash flows from an asset class (such as mortgages) and refinancing them by issuing securities in transferable form
Senior debt	Loans that rank ahead of junior debt holders and shareholders on a company's insolvency

Christopher Stoakes
All You Need To Know About The City

Sell-side	That part of the market that sells securities – i.e. bond issuers such as companies and governments, as well as investment banks and brokers that underwrite, distribute, sell and trade them
Share	Evidence of equity ownership in a company
Sharia-compliant finance	Forms of financing that comply with Sharia (Islamic law). They typically replace interest with participation in profit and loss
Short	To have sold a share or bond without owning it (in the expectation that the price will go down so that the broker can buy it in at a cheaper price when required to deliver the security) – hence ‘shorting the market’
Square book	A term used by brokers and investment banks to mean that their positions in the market are completely off-setting
Spread	The difference between a broker’s bid and offer for a security – i.e. its turn or margin; the less liquid a market, the wider the spread
SPV	Special purpose vehicle – a shelf company used to make a bond issue, usually incorporated in a low-tax jurisdiction to reduce fiscal drag on the deal
Structured finance	A loose term that covers various activities from the repackaging of securities to the linking of derivatives to securities, preferably with a degree of complexity
Swap	A way of changing a floating rate loan into a fixed-rate and vice versa; also a way of changing a loan into a different currency by swapping interest streams but not the underlying principal, enabling each of the two counterparties to obtain a better rate or currency position than they would in their respective markets
Swaption	An option to enter into a swap
Syndicate	A group of commercial banks (lending to a single borrower) or investment banks (underwriting a bond issue)
Syndicated loan	A loan to a single borrower made by a group of banks on the same terms – often used where the sum borrowed is more than a single bank would wish to lend
Syndication	The banking activity of creating a syndicate for a loan or bond issue; usually done by the lead arranger
Systemic risk	Market risk – i.e. not risk that is peculiar to a particular security
Term loan	A loan with a fixed drawdown period, schedule of repayments and specified end-date
Technical	Using historic data about market movements to predict the

Christopher Stoakes
All You Need To Know About The City

analysis	future – practitioners are also known as chartists because they plot such movements on graphs
Tombstone	The rectangular advert that appears in the financial press announcing the successful syndication of a loan or bond issue, listing the borrower / issuer and syndicate members (so called because it looks like one)
Tick	Technically, the smallest price movement by which a future can go up or down; usually used to describe a bond, share or general market movement – it ‘ticked up’ or ‘down’
Trade finance	A method of ensuring that exporters get paid and buyers only pay when they have the goods; uses letters of credit (drawn on credit-worthy banks) that are then discounted in the ‘à forfait’ market; in this sense a sophisticated form of factoring
Tranche	A slice of a loan or bond – may apply to a particular part-repayment
Treasuries	US government bonds – the US government is the largest borrower in the world and is regarded as the safest (if it goes bust we might as well all pack up) so it commands the finest pricing of its bonds, which is the benchmark off which all international bond issues are priced
Trustee	Some bonds are issued with a trust structure allowing a corporate trustee to act on behalf of bond holders
Underwriting	Most issues of bonds or equities are underwritten by investment banks, which guarantee that the issuer will raise the intended amount of money even if, on the day of issue, market sentiment means that take-up of the issue is less than expected
Value-at-risk (VAR)	Computer-based risk analysis that enables a bank to gauge and manage its aggregate exposure to markets – done by devising models based on historic data of market movements, price volatility and correlations between markets
Vendor placing	Linked to M&A, where the target’s shareholders are paid in the bidder’s shares which are then sold in the market to give them what they really want – cash
Venture capital	Equity finance provided by specialist ‘venture capitalists’ in return for a shareholding in the business (usually a relatively new and small one); they realise their investment when the company floats or is sold in a ‘trade sale’; note that they also finance MBOs
Vulture funds	Think of these as investment funds run by arbitrageurs

Christopher Stoakes
All You Need To Know About The City

Warrant	A security that entitles the holder to buy further securities in that issuer in the future
Whole business securitisation	A securitisation where the entire income of a business is securitised
Wholesale	Where the customer is a business or government