Acronyms and Glossary

Acronyms

ACT —Automated Confirmation Transaction [System] (NASD)
ADP —Automatic Data Processing, Inc.
ADR —American Depository Receipt
AMEx —American Stock Exchange
BIS —Bank for International Settlement
BOTCC —Board of Trade Clearing Corp.
CBOE -Chicago Board Options Exchange
CBOT —Chicago Board of Trade
CCITT -Comite Consultatif International Telegraphique et Telephon (International Telecommunications Union)
CEA —Commodity Exchange Act
CEDEL —Centrale de Livraison de Valeurs Mobilieres
CFTC —Commodity Futures Trading Commission (U.S.)
CME -Chicago Mercantile Exchange
CNs -Continuous Net Settlement
DTC —Depository Trust Corp.
DVP -delivery-versus-payment
EC —European [Economic] Community
FIBv —Federation International des Bourses de Valeurs
FRB —Federal Reserve Board (U.S.)
FRs —Federal Reserve System
G-30 -Group of Thirty
GAO -General Accounting Office
GM -General Motors
ICC —Intermarket Clearing Corp.
ICCH —International Commodities Clearing House (U.K.)
INTEX —International Futures Exchange of Bermuda
IOSCO —International Organization of Securities Commissions
ISCC —International Securities Clearing Corp.
ISE —International Stock Exchange of the United Kingdom and the Republic of Ireland (in London)
IS0 -Organization for International Standards
ISSA —International Society of Securities Administrators
ITS —Intermarket Trading System
ITU —International Telecommunications Union
JASDEC —Japan Securities Depository Center (Japan)
JSCC —Japan Securities Clearing Corp.
KCBTCC —Kansas City Board of Trade Clearing Corp.
KV —Deutscher Kassenverein
LIFFE —London International Financial Futures Exchange
MATIF —Financial Futures Market (France)
MOF —Ministry of Finance (Japan)
MONEP —Paris Options Market (France)
MOU —Memoranda of Understanding
MSE —Midwest Stock Exchange
NASD —National Association of Securities Dealers
NASDAQ —NASD Automated Quotation system
Nikkei 225 —Nikkei 225 futures contracts (Japan)
NSCC —National Stock Clearing Corp.
NYMEX —New York Mercantile Exchange
NYSE —New York Stock Exchange
OCC -Options Clearing Corp. (U.S.)
OECD -Organization for Economic Cooperation and Development
ONA -Open network architecture (of computer systems)
OSE -Osaka Stock Exchange (Japan)
OSF50 -Osaka Securities Exchange Stock Futures (Japan)
OTC -Over-the-counter
PHLX —Philadelphia Stock Exchange
PSE —Pacific Stock Exchange
PTT —Postal, Telegraph, & Telephone [Authority]
S&P 500 —Standard & Poor 500 Stock Index
SCG —Securities Clearing Group
SDF —Same-Day Funds
SEAQ -Stock Exchange Automated Quotation system (London)
SEC —Securities and Exchange Commission (U.S.)
SEPON —The Stock Exchange POol Nominee (U.K.)
SIAC -Securities Industry Automation Corp.
SICOVAM -Societe Interprofessionnelle pour la Compensation des Valeurs Mobilieres
SIMEX -Singapore International Monetary Exchange
SIPA -Securities Investor Protection Act
SIPC -Securities Investor Protection Corp. (U. S.)
SPAN -Standard Portfolio Analysis of Risk
SRO —Self-Regulatory Organization
T+l —Trade Date Plus One Day
TALISMAN —Transfer Accounting and Lodgement for Investors, Stock Management for Principals (U.K.)
TARS —Trade Acceptance Reconciliation System (NASD)
TAURUS —Transfer and Automated Registration of Uncertified Stock (U.K.)

TIFFE	—Tokyo International Financial Futures Exchange
TIMS	—Theoretical Intermarket Margin System
TOPIX	—Tokyo Stock Price Index Futures
TIMS	—Theoretical Intermarket Margin System
TOPIX	—Tokyo Stock Price Index Futures Contracts (Japan)
TSE	—Tokyo Stock Exchange
UCC	—Uniform Commercial Code (U. S.)

Glossary

Access Deregulation: Changes in national laws or regulations that open the counties markets, especially membership on exchanges, to foreign participation.

American Depository Receipt (ADR): A receipt signifying ownership of shares in a foreign corporation. Transactions are made in the ADR in lieu of transactions in the security, which is usually held by a trustee. *The* ADR is usually issued by a foreign branch of an American bank.

American-Style Option: A put or call option that can be exercised at any time before expiration; all listed options are of this kind, including those on European exchanges. See "Option" and "European-Style Option."

Amex: American Stock Exchange, in New York, the second largest U.S. stock exchange.

Analog Signals: Resemblance or correspondence; used to describe traditional forms of electronic information such as pictures, speech, or written and printed characters, as opposed to digitized information.

Arbitrage: The simultaneous or closely related purchase and sale of the same product or related products in order to take advantage of price differences between them (which are presumed to be unrealistic and temporary). Arbitrage often involves stock and either futures or options; it may involve a basket of stock and a stock-index futures contract.

AURORA: An electronic system for the international trading of futures contracts being developed by the Chicago Board of Trade; it is now to be merged with the GLOBEX system (see GLOBEX) but details have not been worked out.

Bear Market: A market with generally declining prices. See "Bull Market."

Block: A large number of shares of a single stock; usually defined as 10,000 shares or shares whose value is at least $200,000.

Bond: A debt security; a long-term promissory note evidencing corporate or government debt, which pays interest to the holder.

Book-Entry: An item in a depository's computer records that identifies, or is used to transfer, ownership of stocks or bonds.

Broker: A securities firm or individual that represents customers in transactions (i.e., trades as an agent). See "Dealer."

Bull Market: A rising market; that is, a market with generally rising prices. See "Bear Market."

Call: See "Option."

Capital Markets: Markets where debt and equity securities are traded. Includes private placement as well as organized markets and exchanges.

Capitalization (of an exchange): The total value of listed securities.

Cash Market: The market in which transactions are completed immediately and assets will be delivered in return for payment; as contrasted with a futures market. Cash markets include organized, self-regulated exchanges and over-the-counter markets for stock and commodities.

Churning: Excessive trading of securities or other products by a broker or floor trader, usually in order to generate commissions. A form of market abuse.

Clearing or Clearance: The processing of transactions in stock, futures, or options markets, in which the buyer's and seller's records of a transaction are matched, in preparation for settlement. Clearing includes confirming the identity and quantity of the security or contract being bought and sold, the transaction price, date, and identity of the buyer and seller. In some clearing organizations, it also includes the netting of trades.

Clearing Member: A securities firm that is a member of both an exchange and its clearing organization; a clearing member handles (for a fee) the clearing of transactions of other members of the exchange who are not clearing members, as well as its own clearances.

Clearing Organization: An organization that handles clearing and (sometimes) settlement; clearing organizations do not exist in some countries.

Closing **a** Position: Eliminating an investment from one's portfolio, either by selling it or (in futures and options trading) making an offsetting transaction—e.g., a purchase of a futures contract offsets the sale of a futures contract.

Counterparty: Either party (buyer or seller) to a transaction.

Custodian: A bank or other financial institution that keeps stock certificates and other assets for a customer (an individual, corporation, mutual fund, or pension fund).

Dealer: A securities firm or individual acting as principal (trading for a proprietary account) rather than as agent (trading on behalf of a customer). If a firm acts as principal in some transactions and as agent in others, it is called a broker/dealer.

Debt Security: An instrument representing money borrowed, such as a bond, a bill, a note, or commercial paper. It specifies a fixed amount of money, a date or dates of maturity (repayment), and usually a fixed rate of interest or discount on the original purchase price.

Delivery v. Payment: A settlement term, meaning that delivery of a security requires payment at the same time; in effect, a cash-on-delivery transaction.

Dematerialized: Existing only in the form of electronic records, in lieu of a paper certificate (e.g., a dematerialized security).

Depository: Organizations that hold stocks and bonds for safekeeping, on behalf of their owners.

Derivative Products: Tradable futures and options contracts for which the pricing depends on (i.e., is derivative of) the price of a specified asset, such as a stock, a commodity, or the basket of stock represented in a stock index such as the Standard& Poor 500.

Digitization of data: The translation of data from traditional (analog) forms such as pictures or printed figures and text to binary-coded electronic signals.

Dow Jones, or Dow Jones Averages: Market indicators, issued by the Dow Jones & Co., to indicate changes in price of groups of stocks: for example, industrial, transportation, utility, and composite groups of stocks.

Efficient Market: A market in which the prices of securities immediately reflect all available informa- ion; for "free market" advocates, a market in which prices are relatively unloaded or "distorted" by transaction costs, taxes, regulatory costs, or other additions to fundamental stock value.

Equity Security: An instrument representing and conveying ownership interest in a corporation, i.e., stock.

Eurobond: A bond sold in a country other than the one in whose currency the bond is denominated; for example, a U.S. bond sold overseas.

Eurodollar: A U.S. dollar on deposit in a foreign bank; usually a European bank, possibly a foreign branch of a U.S. bank.

European-Style Option: An option that can be exercised only on its expiration date, rather than before that date. See "Option" and "American-Style Option."

Foreign Exchange: Foreign currency market; foreign currency is bought and sold for immediate or future delivery.

Forex: The informal market for foreign currency.

Fourth Market: Securities transactions made directly between institutions, without the intermediation of brokers or dealers.

Futures Contract: An agreement to buy or sell a commodity (including financial instruments) for delivery in the future, at a specified price. Each party to the contract is obligated either to fulfill the terms of the contract or to offset the contract by entering into an opposite transaction. The latter (the most commonly chosen alternative) can be done because the clearing organization becomes one counterpart to all transactions.

GLOBEX: An electronic system for international trading of futures contracts, developed by Reuters and the Chicago Mercantile Exchange, scheduled to become operational in 1990-91.

Group of Thirty: An independent, non-profit association of business persons, bankers,- and representatives of other financial institutions from 30 developed nations, who address major global financial topics at policy levels.

Hedge: Protecting one position by taking an offsetting position. Typically, one takes a position in a futures market opposite to a position in a cash market (a commodity or stock market) in order to minimize the risk of loss from an adverse price change. An institutional investor may use stock-index futures to hedge an indexed stock portfolio. Other means of hedging include selling short, buying a put option, or selling a call option.

Index: A market indicator that represents the average price of a specific basket or portfolio of stock.

Index arbitrage: The simultaneous purchase/sale of the basket of stock represented in an index (such as the Standard & Poor 500) and of the stock-index futures contract for that index in order to profit from temporary differences in their price.

Insider Trading: Trading a security on the basis of confidential or privileged information, to which one has access as an "insider" (e.g., as an officer, director, or attorney) of the corporation issuing the security. This is illegal in many countries, because it disadvantages other investors.

Instinct: A proprietary electronic securities trading system, owned by Reuters, that does about 13 million trades per day.

Institutional Investor: An institution with a large portfolio, such as a mutual fund, a public or private pension fund, a labor union, or an insurance company; the trading is usually the responsibility of a professional money manager.

Intermarket Trading System: An electronic network linking stock exchanges in the United States, allowing orders to be routed from one exchange to another exchange offering a better price.

Investment Banker: A firm that underwrites stock, advises other firms on how to raise capital, arranges acquisitions, etc. See "Underwriting."

Liquidity: The characteristic of a market (or of a listed security) with enough potential buyers and sellers to allow large transactions without a substantial change in the prevailing price.

Listed Security (also listed option, listed future): One that has been accepted for trading by an organized and regulated securities exchange. Unlisted securities are traded in the over-the-counter market.

Locked-In Trades: Transactions that are matched and confirmed by computer, usually at the place of the trade, before being sent to a clearing organization.

Long Position: Shares (or other instruments) owned by an investor or dealer.

Maintenance Margin Call: A call for additional funds to be put into a margin account because of an adverse market movement.

Margin: In securities markets, the amount that must be deposited with a broker by one buying securities-the broker extends credit for the remainder of the purchase. In the United States, minimum margin requirements are set by the Federal Reserve Board of Governors. In U.S. futures markets, both buyers and sellers put down initial margins, which are defined as performance bonds or good-faith deposits to assure that the trader will fulfil the contract. The minimum margin requirement is set by the clearing entity of the futures exchange. If the futures price moves adversely, the investor will be called on (daily or more often) to put up more money or collateral.

Marked-to-Market The daily or intra-daily adjustment of settlement obligations (in futures and options markets) to reflect current market prices. Marking-to-market determines the amount of margin that must be held, and is done by clearing organizations to limit their risk to one day's market movement.

Market-Maker: A dealer who makes firm bids and offers at which he will trade. In some markets (e.g., the U.S. over-the-counter market and the International Stock Exchange) there are competing market-makers; in others (e.g., the New York Stock Exchange) there is one designated market-maker for each stock, called a specialist.

Mutual Fund: A fund operated by an investment company that raises money from the public (by selling shares) and invests it in stocks, bonds, options, commodities, or money market securities.

Netting: The determination of the difference between one's total credit and total debt positions, which results in a single amount that a market participant either owes or is owed.

Offset: (1) In futures markets: to close out or cancel a position by taking an equal, opposite position-for example, one offsets purchase of a futures contract by selling a futures contract of the same kind. (2) In international trading, to open a position in one country and close it in another, under an agreement between the two exchanges.

Open Outcry: The method of trading on commodities (and futures) exchanges, where traders shout out their buy and sell offers.

Option: A contract conferring the right to buy (call) or to sell (put) a security at a designated price during a specified period.

Over-the-Counter: A market where stock transactions take place through dealers, but not on or through an exchange or centralized market.

Passing the Book: Transferring the responsibility for portfolio trading from one location to another in a different time zone, in order to trade for more hours of the day-the ultimate is "24 hour trading. "

Pit: The floor of a futures exchange, surrounded by tiered platforms on which traders stand to shout their bids and offers (see 'Open Outcry").

Position: An investor's or dealer's stake in a security or in a market. A long position equals the number of shares owned. A short position equals the number of shares owed.

Price-Earnings Ratio: The current market price of a stock divided by its earnings per share.

Private Placement: The distribution of securities, not listed on an exchange or organized over-the-counter market, to a small number of usually institutional investors. Such placements are exempt from many SEC and state registration requirements.

Program Trading: The simultaneous purchase (or sale) of a large, diversified portfolio of stocks, ordinarily using a computer to handle the complex order routing.

Prospectus: A description, e.g., of an issue of stock, giving essential information about the stock for the benefit of potential buyers; (in the United States) a summary of the registration statement filed with the SEC.

Prudential Regulation: Regulation aimed at assuring the fairness of a market, and protecting the investor from fraud, manipulation, or unrecognized risk.

Put: See "Option."

Rolling Settlement: An arrangement whereby trades can be settled on any business day, as opposed to one or more designated days for each trading period.

Same-Day Funds: Payment is final on the same day it is made (checks do not represent same-day funds, because it may take them several days to clear, during which the receiver of the check does not have access to the money).

SEAQ International: The automated trading support system used to facilitate translational trades at London's International Stock Exchange.

Seat: Membership on an exchange.

Secondary Market: The market in which stocks are traded after their initial issuance and placement. The exchanges and other markets discussed in this report are all secondary markets.

Security: An investment contract conveying participation in a common enterprise, in which there is expectation of profit resulting from the efforts of others; this includes stocks, bonds, and options, but not futures contracts.

Settlement: Payment to the seller and delivery of stock certificates (or other means of transferring ownership) for the buyer.

Short Position: The number of shares (or other instruments) owed by an investor or dealer; see 'short sale.

Short Sale: The sale of a security which is settled by delivery of borrowed securities (rather than securities owned by the seller). Generally, the seller expects to buy securities later, at a lower price, to cover the short sale.

Specialist: An exchange member who acts as designated market-maker on an exchange for one or more stocks; the specialist's functions are: 1) to assist other members on the floor find buyers or sellers with whom to trade, 2) to hold and execute limit orders (orders to buy or sell when the market reaches a certain price) for other brokers, 3) to buy for or sell from his own inventory when necessary to provide liquidity and to moderate or smooth out price jumps, and 4) through these and related means to maintain a fair and orderly market.

Standards: A criterion established by authority, custom, or general consent as a model or a measure of quality, quantity, form, size or some other parameter. In information technology, for example, general conformance to a standard makes possible interoperability or interconnectivity of systems.

Third Market: Trading exchange-listed securities over-the counter rather than on the exchange.

Treasuries: Bills, bonds, and notes issued by the U.S. Treasury.

Underwriting: The act of buying new issues of securities from issuing corporations, and reselling them. This is one of the activities of investment bankers, but it is usually carried out through the formation of an ad-hoc syndicate.

Universal Banking: The most common bank regulatory arrangement, whereby banks can engage in most financial activities, including securities underwriting and trading. In the United States and Japan, in contrast, banks are restricted from engaging in many securities-related activities, including underwriting.