

GLOSSARY:

A	
Aggregate Risk	Total amount of exposure a bank has with a customer for both spot and forward contracts.
American Style Option	The holder of an American style option has the right to exercise the option any time until the expiry of the option. The writer of an American option has to be ready to meet the obligation any time until the expiry of the option.
Arbitrage	A risk-free type of trading where the same instrument is bought and sold simultaneously in two different markets in order to cash in on the difference in these markets.
Ask	The price at which the instrument is offered. It is also called the sell price.
Asset Turnover	Net sales divided by total assets. This is a measure of how well assets are being used to produce revenue, also called total asset turnover.
Asset/Equity Ratio	The asset/equity ratio, also called the Equity Multiplier, shows the relationship of the total assets of the firm to the portion owned by shareholders, also known as owner's equity. The asset/equity ratio indicates a company's leverage, which is the amount of debt used to finance the firm.
At The Market	Orders which are intended to be executed immediately at the best obtainable price.
At The Money	An option is at-the-money if the strike price of the option equals the market price of the underlying security.
B	
Basis	The difference between the spot price and the future price.
Bear Market	A market characterized by falling prices.
Beta	A measure of an investment's volatility (risk), relative to an appropriate asset class. An investment with a beta above 1 implies that investment is more volatile than the overall market and vice-versa.
Bid	An offer to buy a specific quantity of an instrument that is subject to immediate acceptance. It is also called the buy price.
Bid-Offer Spread	The difference between the buy (bid) and sell (offer) price of a currency or financial instrument.
Bonds	Bonds are debt securities that pay a fixed rate of interest (coupon) and mature at a fixed time in the future.

Book Value	Book Value is the net value of an organization. It is the value at which an asset is carried on a balance sheet.
Broker	An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.
Bull Market	A market characterized by rising prices.
Buoyant	Describes a market in which prices have a tendency to rise easily with a considerable show of strength.
Buy And Hold	An investor who employs a buy-and-hold strategy actively buys stocks and holds them for a long period of time, regardless of fluctuations in the market.
Buying Hedge	Buying futures to hedge against the sale of a cash commodity. An investor might use a buying hedge if he/she expects to buy a certain amount of the commodity in the future, but is worried about price fluctuations. He/she will buy a futures contract in order to be able to buy the commodity at a fixed price later. It is also called a long hedge.
Buying Rate	Rate at which a bank is prepared to buy foreign exchange. Also known as the Bid Rate.
Buy-Sell Agreement	A Buy-sell agreement is an agreement between two parties in which the two agree to exchange goods or services. The agreement is often recorded to use as proof in case of any legal disputes. It is a record of the terms of a trade.
C	
Call	(1) An option that gives the holder the right to buy the underlying instrument at a specified price during a fixed period. (2) A period of trading. (3) The right of a bond issuer to pre-pay debt and demand the surrender of its instruments.
Carrying Charge	The cost to store and insure a physical instrument.
Chart	A graph of the price movements of a given security over a given time period, sometimes along with volume data.
Clearing Member	A member of the clearing corporation.
Close	A period of time at the end of the trading session when all orders are filled within the closing range.
Closed Position	A transaction which leaves the trade with a zero net commitment to the market with respect to a particular instrument.
Closing buy transaction	Means a buy transaction which will have the effect of partly or fully offsetting a short position.

Closing Range	A range of closely related prices in which transactions take place at the closing of the market; buying and selling orders at the closing might have been filled at any point within such a range.
Closing sell transaction	Means a sell transaction which will have the effect of partly or fully offsetting a long position.
Commission	The fee paid to a broker for his/her service in facilitating a transaction, such as the buying or selling of securities or real estate.
Common Stocks	Common stocks are the typical investment asset in any company Securities that represent an ownership interest in a corporation.
Constituent	A person on whose instructions and on whose account the Trading Member enters into contract for the purchase or sale of any security or does any act in relation thereto.
Contract	(1) A binding agreement between two or more parties for performing, or refraining from performing, some specified act(s) in exchange for lawful consideration. (2) In futures markets, a standardized traded instrument that specifies the quantity and quality of a commodity (or financial asset) for delivery (or cash settlement) at a specified future date.
Contract Month	The month in which a contract is required to be finally settled.
Convertible Bond	A convertible bond, or convertible debenture, is a type of bond that can be converted into shares of stock in the issuing company, usually at some pre-announced ratio during a particular period.
Convertible Preferred Stock	Preferred stock that includes an option for the holder to convert the preferred shares into a fixed number of common shares, usually anytime after a predetermined date.
Country Risk	Country risk relates to the likelihood that changes in the business environment will occur that reduce the profitability of doing business in a country. They are the financial risks of a transaction which relate to the political, economic, or social instability of the country, and are over and above the credit risk of the borrower.
Coupon	The periodic interest payment made to a bondholder during the life of the bond.
Coupon Rate	The interest rate stated on a bond, note or other fixed income security, expressed as a percentage of the principal (face value), also called coupon yield.

Cover Short	To buy futures contracts in order to offset previous selling.
Credit Risk	Risk that a borrower cannot fulfill his obligations in respect of the creditor, also known as the non-payment risk.
Cross-Rate	The exchange rate between two currencies, e.g., Yen /Euro.
Currency Risk	A form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.
Current Ratio	The current ratio is a financial ratio that measures whether or not a firm has enough resources (liquidity) to pay its debts over the next 12 months. It compares a firm's current assets to its current liabilities.
D	
Day Order	An order that expires on the close of trading if not filled during that day.
Day Trading	Buying and selling financial instruments on the basis of small short-term price movements.
Dealer	An individual or a firm acting as a principal, rather than as an agent, in the purchase and/or sale of securities. Dealers trade on their own account and risk.
Delivery	The settlement of a futures contract by receipt or tender of a financial instrument or currency.
Delivery Date	The date of maturity of the contract, when the exchange of the financial asset is made.
Delivery Notice	A notice of a clearing member's intentions to deliver a stated quantity of an instrument in settlement of a futures contract.
Delivery Risk	A term to describe counterparty risk when counterparty is not able to complete his side of the deal.
Delta	The rate of change of a financial derivative's price with respect to changes in the price of the underlying asset.
Derivatives	A collective term for securities whose prices are based on the prices of another (underlying) investment. The main derivatives are Futures, Options, Swaps, and Warrants.
Discount	(1) Forward rate is lower than spot rate. (2) An option that is trading for less than its intrinsic value. (3) The amount by which a bond's par exceeds its market price.

Discretionary Account	An account in which the customer authorizes another person to make full trading decisions.
Diversification	Diversification involves making investments in a wide variety of different assets in an effort to minimize risk. Because some investments rise in value while others decline, diversification can help to lower the overall level of risk for a given portfolio.
Dividends	Dividends represent a distribution of corporate earnings to company shareholders and usually take place in one of two forms -- cash or stock.
E	
European Style Option	The buyer of these options can exercise his options only on the expiry day.
Excess Returns	Returns in excess of those required by some asset pricing model, or the risk-free return.
Exchange Rate Risk	Also called currency risk, is the potential loss that could be incurred from a movement in exchange rates.
Ex-dividend date	Firms pay dividends to those who are shareholders on a certain date. The next day is called the ex dividend date. If an investor does not own the stock before the ex-dividend date, he or she will be ineligible for the dividend payout. Further, for all pending transactions that have not been completed by the ex-dividend date, the exchanges automatically reduce the price of the stock by the amount of the dividend. This is done because a dividend payout automatically reduces the value of the company (it comes from the company's cash reserves), and the investor would have to absorb that reduction in value (because neither the buyer nor the seller are eligible for the dividend).
Exercise Price (Strike Price)	The price at which an option may be exercised.
Expected Rate Of Return	Expected rate of return is the return that you expect to earn on an investment.
Expiry Date	The last day upon which an option can be exercised or the future can be traded by buying or selling the underlying security.
Exposure	The condition of being subjected to a source of risk.
F	
Financial instrument	A real or virtual document representing a legal agreement involving some sort of monetary value. It is an instrument having monetary value or recording a monetary transaction.

First Notice Day (FND)	The first day on which notice of intentions to deliver actual commodities against futures contracts can be made.
Floor Broker	A member who executes orders for the accounts of other members on the trading floor.
Floor Trader	An exchange member who fills orders for his own account by being personally on the floor. Normally called a "local."
Forward	A forward contract is a customized contract between two entities, where settlement takes place on a specific date in the future at today's pre-agreed price.
Forward Spread(Forward Points or Forward Pips)	Forward price used to adjust a spot price to calculate a forward price. It is based on the current spot exchange rate, interest rate differential and the number of days to delivery.
Futures	A futures contract is an agreement between two parties to buy or sell an asset at a certain time in the future at a certain price. Futures contracts are special types of forward contracts in the sense that the former are standardized exchange-traded contracts and can not be customized.
G	
Gap	The price Gap between consecutive trading ranges (i.e. the low of the current range is higher than the high of the previous range) Gap could also be interest rate gaps, maturity gaps etc.
Gross Settlement	A process where full payment of each transaction is made rather than clearing a group of transactions as currently occurs in the FX market. A method designed to eliminate capital risk.
H	
Hedging	A strategy used to offset market risk, whereby one position protects another. Transactions undertaken to reduce the volatility in portfolio value. This is accomplished by taking the opposite side of ones' portfolio exposure similar to insurance. The instruments used are varied and include forwards, futures, options, and combinations of all of them.
I	
Inter-Bank Rates	The bid and offer rates at which international banks place deposits with each other.
Interest Rate Options	An agreement permitting a party to obtain a particular interest rate, issued both OTC and by exchanges.
Interest Rate Swaps	An agreement to swap interest rate exposures from floating to fixed or vice versa. There is no swap of the principal. It is the interest cash flows be they payments or receipts that are exchanged.

Intermarket Spread	A spread between commodities that are traded on more than one market. For example, a typical intermarket spread might be made between Chicago wheat and Kansas City wheat.
In-The-Money	A call option is in-the-money if the price of the underlying instrument is higher than the exercise/strike price. A put option is in-the-money if the price of the underlying instrument is below the exercise/strike price.
Intra-Day Limit	Limit set by bank management on the size of each dealer's intra day position.
Intra-Day Position	Open positions run by a dealer within the day. Usually squared by the close.
L	
Last Trading Day (Ltd)	The final day in which trading may occur for a particular delivery month. After the last trading day, any remaining commitment must be settled for delivery.
Last Traded Price	The most recently traded price of a financial instrument.
Leveraged Portfolio	A portfolio that includes risky assets purchased with borrowed funds.
Limit	(1) The maximum price fluctuation permitted by an exchange from the previous session's settlement price for a given contract. (2) The amount that one bank is prepared to trade with another. (3) The amount that a dealer is permitted to trade in a given currency.
Limit Order	An order in which the trader sets a limit to the price, as contrasted with a market order on which no limit is set.
Limited Convertibility	When residents of a country are prohibited from buying other currencies even though non-residents may be completely free to buy or sell the national currency.
Liquidation	The closing out of a previous position by taking an opposite position in the same contract.
Liquidity	Liquidity refers to how quickly and cheaply an asset can be converted into cash.
Long	A position established by owning the actual instrument or by purchasing futures.
Lot Size	The unit of trading in a financial instrument, established by the exchange to which official price quotations apply.

M	
Maintenance Margin	The minimum margin which an investor must keep on deposit in a margin account at all times in respect of each open contract.
Make a Market	A dealer is said to make a market when he or she quotes bid and offer prices at which he or she stands ready to buy and sell.
Managed Float	When the monetary authorities intervene regularly in the market to stabilize the rates or to aim the exchange rate in a required direction.
Margin	A good faith deposit a speculator gives to his broker prior to initiating his first trade. It's the amount a futures market participant must deposit into his margin account at the time he places an order to buy or sell a futures contract.
Margin Call	A demand by a broker for additional to raise the deposit on a futures contract above the minimum acceptable level.
Market If Touched (MIT)	An order that may be executed only if the market reaches a specified point. (NOTE: Not all exchanges accept MIT orders.)
Market Maker	A market maker is a person or a firm authorized to create and maintain a market in an instrument.
Market Order	(1) An order to buy or sell a financial instrument immediately at the best possible price.(2) An order that is to be filled as soon as possible at the best possible price
Market Risk	Market risk is the risk that the value of an investment will decrease due to changes in market conditions. They are risk which is common to an entire class of assets or liabilities. The value of investments may decline over a given time period simply because of economic changes or other events that impact large portions of the market. It is also called systematic risk.
Matching	The process of ensuring that purchases and sales in each currency and deposits given and taken in each currency are in balance, by amount and maturity.
Maturity Date	(1) The last trading day of a futures contract. (2) Date on which a bond matures, at which time the face value will be returned to the purchaser. Sometimes the maturity date is not one specified date but a range of dates during which the bond may be repaid.

Mismatch	(1) A mismatch between the interest rate maturities of a banks assets and liabilities. (2) Forward purchases differ in the value date from the forward sales in a given currency.
Mutual Fund	A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures or even in assets like real estate, gold and other securities.
N	
Net Position	The difference between total open long and total open short positions in a given security held by an individual.
Netting	A process which enables institutions to settle only the net positions with one another at the end of the day, in a single transaction, not trade by trade.
O	
Offer	The price at which a seller is willing to sell. The best offer is the lowest such price available.
Offered Market	Temporary situation where offers exceed bid.
Offset	The closing-out or liquidation of a futures position.
Open Interest	Open interest is the total number of outstanding contracts that are held by market participants at the end of the day.
Open Position	Any position (long or short) that is subject to market fluctuations and has not been closed out by a corresponding opposite transaction.
Opening Range	Range of closely related prices at which transactions take place at the opening of the market; buying and selling orders at the opening might be filled at any point within such a range.
Opportunity Cost	The cost of an alternative that must be forgone in order to pursue a certain action. Put another way, the benefits you could have received by taking an alternative action.
Option	A contract conferring the right but not the obligation to buy (call) or to sell (put) a specified amount of an instrument at a specified price within a predetermined time period.
Option Class	All options of the same type - calls or puts -listed on the same underlying instrument.
Option Holder	A trading member who is the buyer of the Options Contracts.
Option Series	All options of the same class having the same exercise/strike price and expiration date.

Option Writer	A trading member who is the seller of the Options Contracts.
Out-Of-The-Money	A put option is out-of-the-money if the exercise/strike price is below the price of the underlying instrument. A call option is out-of-the money if the exercise/strike price is higher than the price of the underlying instrument.
Outstanding Obligation	The obligation which has neither been closed nor been settled
P	
Par Value	(1) The nominal value of a security or instrument. (2) The official value of a currency.
Permitted Derivatives Contract	A derivative contract which is permitted to be traded on the Futures and options segment of the exchange.
Pit	The area on an exchange floor where trading of financial instruments takes place.
Position Limit	The maximum position, either net long or net short, in one future or in all futures of one currency or instrument combined which may be held or controlled by one person.
Preferred Stock	A type of stock that pays a fixed dividend regardless of corporate earnings, and which has priority over common stock in the payment of dividends.
Premium	(1) The amount by which a forward rate exceeds a spot rate. (2) The amount by which the market price of a bond exceeds its par value. (3) In options, it is the price a put or call buyer must pay to a put or call seller to buy the option contract. (4) The margin paid above the normal price level.
Price Limit	The maximum price advance or decline from the previous day's settlement price permitted for an instrument in one trading session by the rules of the exchange.
Prime Rate	The rate from which lending rates by banks are calculated.
Profit Taking	The unwinding of a position to realize profits.
Purchasing Power Parity	Model of exchange rate determination stating that the price of a good in one country should equal the price of the same good in another country, exchanged at the current rate. Also known as the law of one price.
Put Call Parity	The equilibrium relationships between premiums of call and put options of the same strike and expiry.

Put Option	A put option confers the right but not the obligation to sell currencies, instruments or futures at the option exercise price within a predetermined time period.
Q	
Quota	(1) A limit on imports or exports. (2) A country's subscription to the IMF.
Quote	An indicative price. The price quoted for information purposes but not to deal.
R	
Rally	Quick advance in prices following a decline.
Range	The difference between the highest and lowest prices recorded during a given trading session, week, month, or year.
Rate	The price of one currency in terms of another.
Repurchase Agreement	Agreements by a borrower where they sell securities with a commitment to repurchase them at the same rate with a specified interest rate.
Reversal	Process of changing a call option into a put option.
Risk	The degree of uncertainty associated with an investment. The main elements that contribute to the riskiness of an investment are volatility, liquidity and leverage. All things being equal, a high degree of volatility and leverage makes an investment more risky. An illiquid market, where buyers are not always matched by sellers, also increases risk; and many investors can be left holding an asset that is falling in price.
Risk Capital	The money that a person allocates to investing in high-risk instruments.
Risk Disclosure Document	Refers to the document to be issued to all potential investors at the time of registration for disclosure of the risks inherent to derivatives.
Risk Management	The identification and acceptance or offsetting of the risks threatening the profitability or existence of an organization such as foreign exchange, market, sovereign, country, transfer, delivery, credit, and counterparty risk.
Risk Position	An asset or liability, which is exposed to fluctuations in value through changes in exchange rates or interest rates.
Risk Premium	Additional sum payable or return to compensate a party for adopting a particular risk.

Risk/Return	The relationship between the risk and return on an investment. Usually, the more risk you are prepared to take, the higher the return you can expect. Depositing your money in a bank is safe; therefore, a low return is regarded as sufficient. Investing in stock market exposes you to more risk (from capital losses) and so investors will expect a higher return.
Running A Position	Keeping open positions in the hope of a speculative gain.
S	
Same Day Transaction	A transaction that matures on the day the transaction takes place.
Scalping	A strategy of buying at the bid and selling at the offer as soon as possible.
Security	An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organization which offers evidence of debt or equity or limited partnership interests, and notes, as well as novel and unusual investment arrangements are referred to as securities.
Seller/Grantor	Also known as the option writer.
Selling Hedge	The sale of a futures or options contract to protect against the possibility of a decline in the price of securities or commodities that will be sold in the future.
Selling Rate	Rate at which a bank is willing to sell foreign currency.
Settlement Date	The date by which an executed order must be settled by the transference of instruments or currencies and funds between buyer and seller.
Settlement Price	The price at which the clearing house clears all transactions at the close of the day.
Settlement Risk	Risk associated with the non settlement of the transaction by the counter party. Risk that relates to making a fix payment to a counter party before the counter payment is received. This risk arises from the possibility that your counter party will never pay you.
Short Sell	The selling of a financial instrument that the seller does not own. Short sellers assume that they will be able to buy the instrument at a lower amount than the price at which they short sold. Selling short is the opposite of going long. That is, short sellers make money if the instrument goes down in price.
Soft Market	More potential sellers than buyers, which creates an environment where rapid price falls are likely.

Speculation	Buying or selling in hopes of making a profit.
Speculator	One who engages in speculation by buying or selling in hopes of making a profit.
Spot	(1) The most common foreign exchange transaction. (2) Spot or spot date refers to the spot transaction value date that requires settlement within two business days, subject to value date calculation.
Spot Delivery Month	The nearest delivery month among all those traded at any point in time. The actual contract month represented by the spot delivery month is constantly changing throughout the calendar year as each contract month reaches its last trading day.
Spot Month	The contract month closest to delivery or settlement.
Spot Price	The spot price/rate of a commodity, a security or a currency is the price that is quoted for the immediate (spot) settlement (payment and delivery).
Spread	The purchase of one futures contract and sale of another, in the expectation that the price relationships between the two will change so that a subsequent offsetting sale and purchase will yield a net profit.
Square Off	Purchase and sales are in balance and thus the dealer has no open position.
Stop-Loss Order	An order placed with a broker to buy/ sell an instrument when it reaches a certain price. It is designed to limit an investor's loss on a security position.
Strike Price	Also called exercise price. The price at which an options holder can buy or sell the underlying instrument.
Support	Any barrier to a price decline.
Swap	The simultaneous purchase and sale of the same amount of a given currency for two different dates, against the sale and purchase of another. A swap can be a swap against a forward. In essence, swapping is somewhat similar to borrowing one currency and lending another for the same period. However, any rate of return or cost of funds is expressed in the price differential between the two sides of the transaction.
Systematic Risk	The risk inherent to the entire market or entire market segment. Interest rates, recession and wars all represent sources of systematic risk because they affect the entire market and cannot be avoided through diversification.

T	
Thin Market	A market in which trading volume is low and in which consequently bid and ask quotes are wide and the liquidity of the instrument traded is low.
Tick Size	Tick size refers to a minimum change in price up or down. It's the smallest increment of price movement possible in trading.
Ticker Symbol	A ticker symbols is a sort of identification tag for a stock. It's a system of letters used to uniquely identify a stock or mutual fund.
Tradable Amount	Smallest transaction size acceptable.
Traded Options	Transferable options with the right to buy and sell a standardized amount of a currency at a fixed price within a specified period.
Trading cycle	The period during which the derivatives contract will be available for trading.
Trading Member	A member of the Derivative Exchange.
Trading Range	The amount that futures prices can fluctuate during one trading session—essentially, the price "distance" between limit up and limit down.
Transaction	An agreement between a buyer and a seller to exchange an asset for payment.
Transaction Date	The date on which a trade occurs.
Transaction Exposure	The risk faced by companies involved in international trade that currency exchange rates will change after the companies have already entered into financial obligations. Such exposure to fluctuating exchange rates can lead to major losses for firms.
Trigger Price	Price point at which certain action is taken. It is the price, which if touched, activates an order.
U	
Underlying	In an option contract, the security or the commodity that is delivered when the contract is exercised. In securities, the common stock that is the basis of the company's other types of securities, such as stock options or preferred stock.

Unsystematic Risk	The risk of price change due to unique circumstances of a specific security, as opposed to the overall market. This risk can be virtually eliminated from a portfolio through diversification. For example, news that is specific to a small number of stocks, such as a sudden strike by the employees of a company you have shares in is considered to be an unsystematic risk.
V	
Volume	The number of shares or contracts traded in a security or market during a specified period.
Y	
Yield To Maturity (YTM)	A rate of return measuring the total performance of a bond (coupon payments as well as capital gain or loss) from the time of purchase until maturity.
Z	
Zero-Coupon Bond	A debt security that doesn't pay interest (coupon) but is traded at a deep discount; thus, rendering profit at maturity when the bond is redeemed for its full face value.