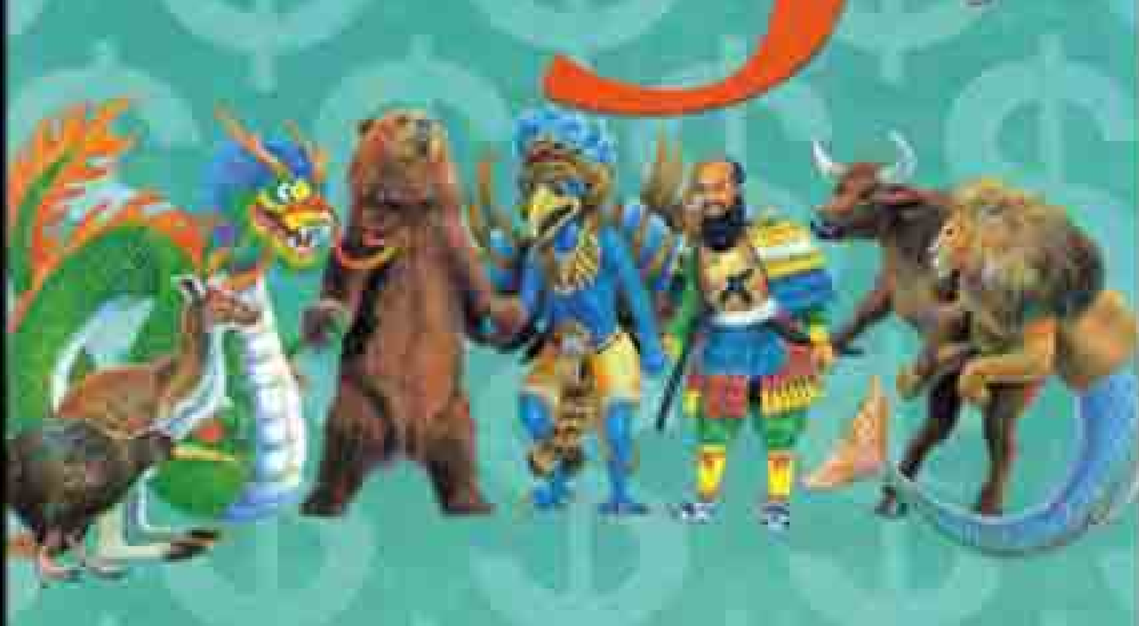
EDNA CAREW

REVISED • UPDATED • EXPANDED

The Language of Money 3



THE LANGUAGE OF MONEY 3

This page intentionally blank

Edna Carew

THE LANGUAGE OF MONEY 3

ALLEN & UNWIN

First published in 1996
Allen & Unwin Pty Ltd
9 Atchison Street, St Leonards, NSW 2065 Australia

Phone: (61 2) 9901 4088
Fax: (61 2) 9906 2218
E-mail: 100252.103@compuserve.com

National Library of Australia
Cataloguing-in-Publication entry:

Carew, Edna, 1949-.
The language of money 3

ISBN 1 86373 966 1.

1. Money — Dictionaries. 2. Economics — Dictionaries. I. Carew, Edna, 1949-. Language of money. II. Title. III. Title: Language of money three. IV. Title: Language of money.

332.403
Set in 10.5/12.5 pt Palatino by DOCUPRO, Sydney
Printed by Australian Print Group, Maryborough, Victoria

10 9 8 7 6 5 4 3 2 1

PREFACE AND ACKNOWLEDGMENTS

Many people have helped with the successive editions of *Language of Money* over the past eleven years. It was the glossary in the first edition of *Fast Money,* published in 1983, which sowed the seeds of *Language of Money.* The work that has emerged goes further than a dictionary, though it stops well short of an encyclopaedia. The *Language of Money* covers many areas — it is not a lexicon specifically of finance or economics, or accounting, superannuation or foreign exchange. It is a collection of commonly used words and phrases from a variety of fields connected with money, and it is designed for those who work with and read about money matters.

In the pursuit of the true meaning of these terms I have tapped the knowledge of a range of experts, who have accumulated years of experience in banking, finance, economics, money-market and foreign-exchange trading, securities markets, futures markets, accounting, law and superannuation. Some are involved in industry, others in academia; they all made a generous contribution to the definitions included in this book. Those who helped with the first two editions will have read in those texts how much I appreciated their generous assistance. Their contribution continues in this book.

The following provided invaluable help with this third edition: Michaela Anderson, Rob Beutum, Stephen Chambers, Rahoul Chowdry, Bruce Freeland, John Logan, Paul McCarthy, Haydn Park, Paul Pinnock, Bob Rankin, Paul Robertson, John Stroud, John Shanahan, Tom Valentine, Peter Van Dongen, Bill Warner, James Watts.

And I also thank: Margaret Arblaster, Les Austen, Simon Barraket, John Bills, Bob Biven, Geoff Board, Jenelle Bonnor, Geoff Bowmer, Peter Crone, Lucio Dana, Jeff Duncan-Nagy, Lin Enright, Ray Evans, Tony Gill, Marianne Gizycki, Chris Golis, Brian Gray, John Green, Stephen Grenville, Ray Gunston, Tricia Hazelwood, Vern Harvey, Tony Hinton, Warren Hogan, John Keith, Haj Kobayashi, John Kyriakopoulos, Jim Larkey, Wayne Lonergan, Andrew Low, Neil Mackrell, Paul McCullagh, Tyrell McGeever, Nola McMillan, Anne Neil, Sarah Niner, Janet O'Connor, Clive Powell, Malcolm Rodgers, Rowan Ross, Bill Shields, Dr Peter Smith, Malcolm Starr, Paul Talbot, Alan Temperley, Janet Torney, Ian Town, Warren Whitley.

Hoffers once again met the challenge of editing an increasingly daunting project.

Edna Carew

Cairns 1996

HOW TO USE THIS BOOK

The Language of Money 3 is a dictionary dedicated to the idea of plain speaking. For an equally plain understanding, its structure has been kept as simple as possible. A few points, however, need to be explained.

ENTRIES are listed alphabetically. The only exception to this is a number of economists, who are grouped together under the headword **economists.** Each name also occurs in the general alphabetical sequence, for example you will find the entry **`Keynes, John Maynard** see **economists'.**

ABBREVIATIONS. Financial jargon uses a great many acronyms and abbreviations. Both the full and the abbreviated forms are listed in alphabetical sequence, but the definition will be found under the full form. For example, at the headword **FRA** you will simply find **FRA** *abbrev.* **forward-rate agreement.** At the end of the entry **forward-rate agreement** you will find *`Abbrev.* **FRA'.** All abbreviations and acronyms have been treated this way for the sake of consistency, even those which are usually referred to in their shortened form, such as **CEDEL.**

OTHER INFORMATION. At the end of the entries, as well as an abbreviation, you may also find variant forms and cross-references. The entry for non-bank financial institutions is an example of all three kinds of information:

> **non-bank financial institution** any institution which is not a bank as defined by legislation but is involved in finance . . . Also

> *non-bank financial intermediary. Abbrev.* **NBFI.** See **Australian Financial Institutions Commission, Campbell Report.**

CROSS-REFERENCING is thorough. Financial terminology is a finely tuned language in which shades of meaning can be crucial to a full understanding. It may be helpful to read cross-referenced entries in conjunction; sometimes the further reference will provide additional information. Corresponding terms, such as **long term** and **short term,** are also cross-referenced to each other.

Another kind of cross-referencing picks out words or expressions used in definitions but not deserving their own definition. Thus, should you come across the expressions **jawboning** and **window guidance** you will find them under the alphabetical listing in the dictionary, but they will simply be cross-referenced to **moral suasion,** of which they are variant terms.

As well as this, the cross-referencing makes sure that words used in any definition, if not immediately apparent as ordinary English, appear in the dictionary. Thus the words **onsell** and **onlend** are given entries.

NOUN OR VERB? Several entries have a use both as noun and verb, or as other parts of speech. This book places less emphasis on grammatical distinctions than a conventional dictionary, but where a word has more than one use examples of different uses are given, for example **discount** and **rollover.**

AUSTRALIAN USAGE is given preference. Where UK or US usage lends a different meaning to a term, I have attempted to explain this.

COMMERCIAL USAGE is also given preference. The language of money has adopted many common words and ascribed particular meanings to them. For example, in this book **subscriber** means a person who agrees to buy securities; **security** has more to do with shares and bonds than with locks and alarms.

The Language of Money 3 attempts to cover an area of terminology that is still alive and growing. Financial markets are changing rapidly and linguistic inventiveness of the type that gave us **bears, bulls** and **butterfly spreads** continues. Any gaps in this text are evidence of the pace of innovation.

Definitions are of course hazardous things, but one feels impelled at least to attempt one.

EDWARD I. SYKES

The Law of Securities

This page intentionally blank

A

AAA the top credit rating accorded by ratings agencies such as the US's Moody's Investors Service and Standard & Poor's.

AARF *abbrev.* **Australian Accounting Research Foundation.**

ABA *abbrev.* **Australian Bankers' Association.**

ABAFRA terms terms and conditions formerly applying to forward-rate agreements (FRAs), recommended by the $A forward-rate agreements working party of banks and merchant banks operating under the auspices of the Australian Bankers' Association (ABA). ABAFRA terms have been replaced by Aussie ISDA. See **Aussie ISDA.**

abnormal items an accounting term describing events that arise in the normal course of a company's business but which have been unusually large during the reporting period.

above par a bond, debenture, share or other security which is at a price higher than its face value is said to be above par. If a bond has a face value of $100 and its market price is quoted at $103, then it is well above par. Securities carrying coupons — such as commonwealth bonds — are above par if their market yield is below their coupon rate. See **below par, discount, face value, par, premium.**

above the line all items in the profit-and-loss statement that are included in determining the operating profit or loss after income tax, ie, normal revenue and expenditure items are above the line. See **below the line.**

ABS *abbrev.* **asset-backed security.**

ABS *abbrev.* **Australian Bureau of Statistics.**

accelerator theory this explains business investment in terms of a disproportionate adjustment to changes in demand. When the economy is improving, business is supposed to over-invest, a process that ultimately causes the economy to `hit the ceiling'. Then the process is reversed until the economy `hits the floor'. The theory was fashionable in the Keynesian heyday of the 1960s. One of its flaws, however, is the long life of the goods in which business invests. While still to be found in textbooks, the theory has been superseded by concepts such as the stock adjustment cycle or replacement cycle where a company would replace stock proportionately each year in response to demand.

acceptance the acknowledgment of, and agreement to abide by, the terms of a contract.

acceptance fee a commission charged by a bank or merchant bank for the drawing of bills of exchange under a line of credit. It is an additional expense for a borrower.

accepting house one of a select group of UK merchant banks whose main function is `accepting' bills of exchange, thereby facilitating the lending of money. Originally accepting houses bought the bills to finance trade; their activities have extended into other areas of finance, such as taking deposits, making loans and arranging clients' investments. UK accepting houses with solid pedigrees include Hambros, Hill Samuel, Morgan Grenfell, Rothschild, J. Henry Schroder Wagg, and S.G. Warburg. See **International Banks and Securities Association, investment bank, merchant bank.**

acceptor the party to whom a bill of exchange is addressed and who accepts the primary liability to pay the face value of the bill to the holder on the due date. See **bill of exchange.**

accommodation bill (of exchange)the type of bill of exchange most commonly used in Australian financial markets. The accommodation bill grew out of the trade-related bills of exchange which had been widely used since the last century in financing world trade. At present, accommodation bills are a means of providing finance (lending) without necessarily having an underlying trade transaction (whereas trade bills are based on specific transactions). Accommodation parties are defined under the Bills of Exchange Act 1909-1973 thus: `An accommodation party to a bill is a person who has signed a bill as drawer/acceptor/endorser, without receiving value therefor, and for the purpose of lending his name to some other person.' The idea behind the accommodation bill is to lend the weight of the stronger party's name (through accepting/drawing/endorsing the bill) to another party whose name is less marketable. See **bill of exchange, trade bill.**

Accord see **Statement of Accord.**

accountancy the profession that specialises in the organised classification, recording and analysing, in money terms, transactions and events affecting a business or individual. Practitioners are accountants. See **accounting.**

accounting the application of the process of analysing and recording, in money terms, the financial transactions and events of a business or an individual. Accounting includes the presentation and interpretation of the results of this financial activity so that financial performance can be assessed. Accounting provides the economic information necessary for making investment decisions.

accounting period the period of time for which a company reports on its financial activity, usually one year, although interim reports are often drawn up at monthly, quarterly or half-yearly intervals for use by management or the financial markets.

accounting standards specific accounting policies concerning particular topics or industries, providing descriptions of acceptable methods of treating elements of accounting. They are issued by the Australian Accounting Standards Board (AASB). AASB and the Public Sector Accounting Standards Board (PSASB) jointly develop Statements of Accounting Concepts and can jointly or exclusively develop Australian Accounting Standards (AAS). An AAS differs from an applicable accounting standard issued by the AASB in that applicable accounting standards have the authority of law through the Corporations Law and apply to all companies. See **Australian Accounting Standards Board, Australian Accounting Research Foundation, reporting entity.**

accounts payable amounts owed by a business or individual, usually for goods bought or services rendered.

accreting principal swap a swap whose notional principal increases (whereas with conventional swaps the notional principle is static). Also *accumulation swap.*

accrual basis of accounting the method of adjusting accounts to allow for expenses and revenue when they are generated rather than when cashflow arises from the transactions. There are two systems:

- *partial accrual,* where accounts are based on cash and credit transactions;
- *full accrual,* where end-of-period adjustments are made for accrued expenses and accrued revenue.

accrued expenses expenses incurred but not yet paid.
accrued interest interest accounted for but not yet due for payment; a receivable not yet due. See **receivables.**
accrued revenue income earned but not yet received.
accumulated profits see **unappropriated profits.**
accumulation fund a type of superannuation fund in which the benefit a member receives reflects total contributions plus whatever they have earned, less expenses and tax, so the benefit reflects the performance of the fund's investments. An alternative type is **defined benefit fund.** Also *accumulation plan.*
accumulation index an index, such as a share price index, which measures both price and income on the assumption that dividends are reinvested. See **All-Ordinaries index.**
acid test see **current ratio, liquid ratio.**
across the board in most instances, or as a whole. The phrase `interest rates rose across the board' indicates a range of rises on most financial instruments and maturities.
ACTU *abbrev.* **Australian Council of Trade Unions.**
actuary a professional mathematician who takes gambling to the status of a fine science. Actuaries use empirical evidence and educated guesses to calculate, for example, the probable lifespan of people buying insurance policies or superannuation pensions. The insurance or superannuation companies base their premiums (prices) on the actuarial forecasts. See **insurance, superannuation.**
ACU *abbrev.* **Asian currency unit.**
ad valorum `according to value'. The phrase is used when a duty or tax on an item is levied as a percentage of the value of the item, rather than at a flat rate. See **excise, purchase tax, sales tax.**
ADB *abbrev.* **Asian Development Bank.**

ADF *abbrev.* **approved deposit fund.**

adjustable long-term puttable securities see **dual-currency bond.** *Abbrev.* **ALPS.**

adjustable rate mortgage see **variable rate mortgage.** *Abbrev.* **ARM.**

ADR 1. *abbrev.* **alternative dispute resolution,** 2. *abbrev.* **American depositary receipt.**

advance any extension of credit. Bankers talk of advances when the rest of us say loans. An advance from a banker in this context could be in the form of a drawing under an overdraft facility, a fully drawn advance or term loan, a line of credit with a bill option, a bill facility or a personal loan.

AFC *abbrev.* **Australian Finance Conference.**

AFCUL *abbrev.* **Australian Federation of Credit Unions Limited.**

affidavit a voluntary statement of facts sworn or affirmed before a witness of a category described in the Oaths Act — for example, a solicitor. The affidavit, which gives details of the person swearing it (the deponent), may be admitted as evidence in a court of law, unlike a statutory declaration, which is witnessed but not sworn. See **statutory declaration.**

AFIC abbrev. **Australian Financial Institutions Commission.**

AFMA *abbrev.* **Australian Financial Markets Association.**

AFTA *abbrev.* **ASEAN Free Trade Area.**

after-tax real rate of return the yield from an investment after the nominal earnings are reduced by income tax and the rate of inflation. See **real interest rates.**

aggregate demand a country's demand for goods and services, usually identified as gross domestic product minus imports, plus exports. See **gross domestic product.**

aggregate supply what is produced in a country for domestic consumption, plus its imports.

agio the fee charged for changing one form of money for another; eg, silver to gold, paper to metal. In its Italian origin, the word conveyed the sense of a payment for the `convenience' of using a moneychanger's services.

agiotage the moneychanging business; also, stock-jobbing or speculating in securities.

AGM *abbrev.* **annual general meeting.**

AIBD *abbrev.* **Association of International Bond Dealers.**

air-pocket stock a US term describing a share that has fallen abruptly, usually following the release of bad news about the company or the industry in which it is involved. The share price plummets — as does a plane in an air-pocket.

algorithm at its simplest, a series of formulae — a model — used to solve a problem. The Black-Scholes option pricing model is an example of an algorithm used in financial markets.

All-Ordinaries index an Australian Stock Exchange measure of the share-price movements of more than 300 Australian companies. The market capitalisation of these companies totals about 95 per cent of the value of shares listed on the exchange. The All-Ordinaries index was established in January 1980 with a base of 500 (so that an index of 2000 indicates a fourfold increase in the value of the stocks since 1980). It is calculated continuously and is published daily. Other share indexes calculated from Australian Stock Exchange trading include:

- All Industrial index — a measure of price movements of about 220 industrial companies listed on the exchange;
- All Resources index — follows the prices of a selection of mining and exploration companies;
- 50 Leaders index — a narrower measure than the All-Ordinaries, choosing the 50 largest companies in terms of market capitalisation;
- 20 Leaders index — the `blue-chip' index, following price changes in the shares of Australia's twenty largest companies by market capitalisation;
- specific industry indexes — a group of about 30 indexes, each measuring share-price movements in an industry such as banking or the media, used mainly by stockbrokers' analysts and portfolio managers.

Each stockmarket index is matched by an `accumulation index' which provides an alternative measure based on share price and dividend income, assuming that all dividends are reinvested. See **Dow Jones index, Financial Times index, Nikkei 225 index.**

All-Ordinaries share price riskless indexed notes instruments which securitise the price movement in Australian domestic shares, as represented by the All-Ordinaries index, over the term of the notes. Designed by Bankers Trust Australia. *Abbrev.* **ASPRIN.**

all-or-nothing option an option whose pay-off is predetermined if the underlying asset or index is at or beyond the strike price when the option expires. The value of the pay-off is unaffected by the difference between the underlying and the strike price. Also *binary option, digital option.* See **pay-off.**

alligator spread a US commodity traders' expression for a transaction where the commission is so large that it `eats' the client (swallows the client's cash).

allocated pension a popular variety of pension or annuity purchased with a superannuation payout on retirement. It is distinctive because the amount of pension drawn each year can vary at the discretion of the annuitant, within maximum and minimum levels set by legislation. Each year's drawings include part of the principal purchase amount, so the principal eventually runs out.

allonge the strip of paper attached to a bill of exchange to provide extra space for endorsement signatures when the back of the bill is already filled. See **chain of title.**

alpha the abnormal return on an overvalued or undervalued investment. Analysts employ asset-pricing models and other market theories in predicting market rates of return, then apply various factors to determine whether the selected investment should produce a higher or lower return than the market. This delivers a positive or negative alpha (Greek symbol α) which may be useful in adjusting portfolios. See **beta, delta, theta.**

ALPS *abbrev.* **adjustable long-term puttable securities.**

alternative dispute resolution settling commercial disagreements by negotiation and arbitration instead of litigation. ADR has become a specialist field of law practice, largely in response to the high cost and lengthy delays involved in taking disputes to court. *Abbrev.* **ADR.**

alternative option an option on the return of the best call or worst put from two or more securities or indexes during a specified period. Also *better-of-two-assets option.*

AMBA *abbrev.* **Australian Merchant Bankers Association.** See **International Banks and Securities Association.**

American depositary receipt a document, held by a US bank, representing shares owned by a US citizen in an overseas company. The shareowner is entitled to dividends paid by the foreign company which issued the shares. The receipts are tradeable and are a convenient way for non-US companies to issue equity in the US. *Abbrev.* **ADR.**

American optionan option that is tradeable and can be exercised at any time up to the date it is due to expire. The options traded on the Sydney Futures Exchange are an example of an American option. See **European option.**

American Stock Exchange located in Manhattan, New York, this exchange ranks in the top half-dozen US exchanges in terms of trading volume. Its activities go back to the 1849 gold rush, and it was known until 1921 as the Kerb Exchange because trading took place outdoors (at the kerb). The American Stock Exchange trades small and medium-sized companies' shares, whereas the New York Stock Exchange carries the big-name, mature companies. *Abbrev.* **AMEX.**

AMEX *abbrev.* **American Stock Exchange.**

amortisation an accounting description of the writing-down of the book value of an asset over time or the systematic repayment of a debt. Amortisation of a debt is the gradual reduction in value of the debt through the payment of regular instalments until the total amount has been discharged. A loan which is not amortised would involve the payment of interest only during the term of the loan and then the repayment of the principal in full. Accountants use the term `amortisation' to describe what others would call `depreciation' when writing down the value of intangibles such as patents or capitalised oil exploration expenses. See **depreciation.**

amortising cap an interest-rate cap covering decreasing notional principal amounts which usually reflect repayment of the principal of an underlying instrument.

amortising collar an interest-rate collar covering decreasing notional principal amounts.

amortising option an interest-rate option covering decreasing notional principal amounts.

amortising swap an interest-rate swap with a decreasing principal amount. Preferably the amortisation schedule of the swap takes place at the same rate as the amortisation of the underlying instrument, otherwise a fixed-rate receiver risks prepayment or extension.

annual general meeting the yearly gathering of the directors and shareholders of a company. AGMs are open to all shareholders but usually only a small proportion of them attend. The meetings can become lively if a disgruntled shareholder decides to air his or her views about, for example, the fees and other benefits taken by directors. For the most part they are routine affairs at which the company chairman announces results for the year, delivers reassuring reasons for their not being as satisfactory as the shareholders might like, or being more satisfactory than they appear, and makes guarded forecasts about the coming year. Journalists, stockbrokers and other professional outsiders are often the most interested parties. *Abbrev.* **AGM.**

annuity an investment designed to produce retirement income, usually managed, for a fee, by a life assurance company or investment fund. The retiree pays the life office or fund a lump sum and in return receives a series of payments — in effect, a self-funded pension. Each time the fund makes a payment, the annuitant is getting back part of the money initially outlaid, plus interest. The amount received by annuitants depends on interest rates, mortality expectations (actuaries calculate how long clients are likely to live) and the pattern of payments. The basic form is a *life annuity* whereby payments continue until the death of the annuitant. A lucky (or healthy) person might live to get his or her money's worth, and much more, from the annuity; an annuitant who departs this life shortly after arranging the scheme enjoys the income stream as planned but leaves what could be a considerable sum of money with the life company. An alternative form of annuity is the *life annuity with guaranteed period* or *term-certain annuity.* These provide for payments to go to the annuitant's beneficiaries in the event of death before the stipulated time. The life annuity with guaranteed period continues payments until the death of the policyholder even if he or she lives beyond the period of the guarantee. With a term-certain annuity, the payments cease at the end of the agreed term, so that the annuitant may be left with no income except a social security pension. Annuities can be arranged on a joint basis, so that if one life expires the payments continue for the other, perhaps at a reduced rate, and can be indexed to inflation. See **allocated pension, deferred annuity, superannuation.**

annuity swap a swap involving an initial payment or receipt then an exchange of equal coupons during the life of the swap.

anomaly in financial markets, as elsewhere, a departure from the norm. Traders talk of anomalies in the yield curve when it deviates from the conventional shape. Money can be made by those who are quick to spot the anomalies and trade to take advantage of them. Anomalies can emerge between markets, between securities such as bills and bonds, and between time zones. See **arbitrage, window open, yield curve.**

APCA *abbrev.* **Australian Payments Clearing Association.**

APEC *abbrev.* **Asia Pacific Economic Cooperation.**

applied economics the use of economic theory in the analysis of real-world situations. It often highlights the gap between theory and reality.

appreciation the increase in the value of an asset or the increase in the value of a currency against other currencies.

approved deposit fund a fund with particular taxation advantages, designed to accommodate sums of money which would otherwise be taxed at higher rates, such as accumulated superannuation benefits paid to someone leaving a job. The funds, which can only accept eligible termination payments, began to be established by banks, merchant banks and life offices in the mid-1980s following legislation which increased the tax payable on lump-sum superannuation payouts after June 1983. Approved deposit funds are intended to encourage people to preserve their savings to provide their own retirement income. *Abbrev.* **ADF.** See **eligible termination payments, rollover, superannuation.**

APT *abbrev.* **automated pit trading.**

arbitrage to take advantage of different rates, prices or conditions between different markets or maturities. Arbitragers make the most of inconsistencies between prices in different markets; for example, if a stock sells for a lower price in one market than in another, an arbitrager would buy it at the lower price and sell it at the higher. Pure (riskless) arbitrage involves no risk, eg, trading foreign exchange forward while borrowing in one currency, trading it spot and investing in a foreign currency. See **risk arbitrage, window open.**

ARF *abbrev.* **ASEAN Regional Forum.**

ARM *abbrev.* **adjustable rate mortgage.** See **VRM.**

arrears amounts — such as rent, interest or instalments — owed but not yet paid.

arrears swap see **in-arrears swap.**

Article 65 a provision of Japan's Securities Exchange Law, enacted after the Second World War, which prohibits Japanese commercial banks from underwriting, dealing, broking and distributing securities other than government, local government and government-guaranteed bonds and debentures. It is Japan's version of the US **Glass Steagall Act.**

articles of association the documents that define a company's constitution, setting out the rules by which the company is internally governed (whereas the memorandum of association spells out the nature of the company). See **memorandum of association.**

ASC *abbrev.* **Australian Securities Commission.**

ASEAN *abbrev.* **Association of South-East Asian Nations.**

ASEAN Free Trade Area a grouping of the six ASEAN member nations — Thailand, Singapore, Malaysia, Indonesia, the Philippines and Brunei — negotiated in January 1992 for the purpose of cutting tariffs on inter-country trade in manufactured goods to less than 5 per cent over fifteen years. *Abbrev.* **AFTA.** See **Asia Pacific Economic Cooperation.**

ASEAN Regional Forum established in July 1993 as the first region-wide forum specifically aimed at discussing political and security issues. It held its first meeting in July 1994 in Bangkok. The government forum, comprising foreign ministers, involves all ASEAN states, plus Russia, China, Laos, Papua New Guinea and Vietnam. *Abbrev.* **ARF.**

ASFA *abbrev.* **Association of Superannuation Funds of Australia.**

Asia Pacific Economic Cooperation a kind of Asian OECD though on less formal lines, this seventeen-nation forum was established in 1989 and held its first meeting in Canberra. Until 1993, and the first APEC leaders' meeting in Seattle, the group was conducted at ministerial level, involving foreign, trade and economic ministers. The Seattle session provided additional impetus to promoting liberal trading arrangements in the Asia-Pacific region — an implicit objective of APEC's since its inception. In the wake of APEC's establishment, an ASEAN Free Trade Area (AFTA) agreement was negotiated in January 1992, under which Thailand, Singapore, Malaysia, Indonesia, the Philippines and Brunei are to cut tariffs on manufactured goods to less than 5 per cent over fifteen years. APEC is complementary to the Pacific Economic Cooperation Council (PECC) which has played a supporting role to APEC. *Abbrev.* **APEC.** See **Asean Free Trade Area, Closer Economic Relations, General Agreement on Tariffs and Trade, North American Free Trade Association, Pacific Economic Cooperation Council.**

Asian Clearing Union an arrangement between Bangladesh, Burma, India, Iran, Nepal, Pakistan and Sri Lanka to settle international payments, using the Asian monetary unit as the unit of account. See **Asian monetary unit.**

Asian currency unit the department of a Singapore bank which is licensed by the Monetary Authority of Singapore to deal in external currencies. Its activities in the Singapore domestic currency market are restricted. See **Monetary Authority of Singapore.**

Asian Development Bank founded in 1966 as a regional version of the World Bank, headquartered in Manila, to provide economic and technical assistance to the developing member countries (DMCs) in the Asian region. *Abbrev.* **ADB.**

Asian dollar bonds bonds issued in, say, Hong Kong or Singapore, denominated in $US.

Asian dollar market see **dragon market.**

Asian monetary unit the unit of account used by the member countries of the Asian Clearing Union. It has the same value as the special drawing rights issued by the International Monetary Fund.

Asian option see **average price/rate option.**

ASPRETTE a short-dated, capital-guaranteed certificate of deposit linked to the All-Ordinaries share price index; it is the short-term (less than one year) version of ASPRIN. See **ASPRIN.**

ASPRIN *abbrev.* **All-Ordinaries share price riskless indexed notes.**
asset anything of value. Assets can be in the form of money, such as cash at the bank or amounts owed to you; they can be fixed assets such as property or equipment; or they can be intangibles such as your company's goodwill or brand-names. Net assets are what is left after liabilities (what you owe) are deducted from total assets (what you own). For accounting purposes, assets are things with future economic benefits, for example providing future cost savings or generating future revenue. For banks, loans are their assets (deposits their liabilities). See **liabilities.**
asset allocation selecting and weighting assets in an investment portfolio.
asset backing what's behind your shares. To find out their net asset backing, divide the estimated value of the company (use total assets less liabilities) by the number of shares on issue. Get the figures from the company's latest annual report. A company can have a poor earnings-per-share rate but still have a solid asset backing. This could make it an attractive takeover target for an asset-stripper. See **asset stripping, takeover.**
asset-backed security a financial instrument secured by a pool of assets such as property, a mortgage or credit-card receivables. *Abbrev.* **ABS.** See **mortgage-backed security, securitisation.**
asset-based swap a swap where the fixed payment stream of the swap is generated by an asset, eg, a bond, held by a party to the swap. A fixed-for-floating interest-rate swap.
asset stripping buying an undervalued company and selling off some or all of its assets. A company's market value (the total worth of its shares) may have fallen, because of inefficient management or adverse markets, to a level below the total value of its individual assets, such as property, plant, patents or subsidiary activities. Stripping the assets, while ruthless, can be profitable. See **corporate raider.**
associate company a company of which between 20 and 50 per cent is owned by another.
Association Cambiste Internationale an international society of foreign-exchange dealers with its headquarters in Paris.
Association of International Bond Dealers a professional asso-

ciation of more than 350 member institutions, formed in Zurich, Switzerland, in 1969. It makes recommendations about dealing regulations, and collates and publishes quotes and yields for the eurobond market. *Abbrev.* **AIBD.** See **eurobonds, euromarkets.**

Association of South-East Asian Nations an alliance formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand (Brunei joined later) to cooperate in cultural, economic and social development. Its objectives include the elimination of trade barriers between members. *Abbrev.* **ASEAN.**

Association of Superannuation Funds of Australia the professional body of the superannuation industry. The association presents the views of superannuation funds to the government, argues for appropriate changes in legislation and has a significant role in promoting the education and self-regulation of trustees, fund administrators and advisers. *Abbrev.* **ASFA.**

ASTC *abbrev.* **ASX Settlement and Transfer Corporation.**

assurance the term commonly used in connection with life policies, which do not depend on a possibility, as does insurance, but on a certainty — either death or reaching a certain age. The two terms have become interchangeable in the context of life policies (as evidenced by the Life Insurance Act 1945). See **insurance.**

ASX *abbrev.* **Australian Stock Exchange Limited.**

ASX Derivatives the Australian Stock Exchange's derivatives market, trading a range of options over shares.

ASX Settlement and Transfer Corporation the operator of the Clearing House Electronic Subregister System which settles ASX transactions within five days of trade date. *Abbrev.* **ASTC.** See **CHESS.**

at-best order a futures trader may execute an at-best order at a price that he or she believes to be the best price that can be achieved on the trading day. It is a type of order with discretion, giving the trader freedom to accept a price without reference to the principal, and carries a degree of urgency. See **order with discretion.**

at call able to be withdrawn on demand or without notice. In the short-term money market, funds can be placed at 11am call or 24-hour notice of call, in contrast with being lodged for a specified period. See **11am call money, 24-hour call money.**

at market see **market order.**

at par see **par value.**

at the money a term used in option trading to describe an exercise (or strike) price that is at or about current market levels. See **in the money, out of the money.**

Atlantic option see **Bermuda option.**

ATM *abbrev.* **automatic teller machine.**

ATS *abbrev.* **automated trading system.**

audit a periodic, independent examination and verification of the assets and liabilities and financial transactions and controls of a company to determine the reliability of its accounting records. The objective is to enable the auditor to express an opinion on the financial information provided. Auditing is a branch of the accountancy profession, carried out by professionals qualified to form an independent opinion about the accuracy of a company's accounts. The audit aims to ensure that the company's financial statements provide relevant and reliable information, although it cannot be assumed that an auditor's opinion is an assurance about the future viability of the company or about the efficiency of management in running it.

audit committee a group drawn from the board of directors of an organisation, with a majority of independent directors who have the authority to oversee the financial reporting and auditing process. Audit committees are not obligatory but are increasingly common because of the perception that they improve the quality of financial information, increase the confidence of shareholders in the organisation's management and enhance the independence of both internal and external auditors. Companies listed on the Australian Stock Exchange must disclose in their annual accounts whether or not they have an audit committee. See **board meeting, corporate senate.**

audit trail the stockpile of records and source documents that enables accounting entries to be tracked back to their source. Useful for management, customers and auditors of a company. Also *transaction trail.*

Aussie ISDA full title *The Australian Guide to AFMA/ISDA Standard Documentation,* this provides standardised documentation for all Australian risk-management products as well as a guide for netting these transactions between counterparties. Aussie ISDA dates from the development, in the 1980s, of a standard master agreement for documenting risk-management products by the New York-based International Swaps and Derivatives Association (ISDA). In 1991, at the request of the Australian Financial Markets Association (AFMA), the legal firm Mallesons Stephen Jaques, with the cooperation of ISDA, prepared an Australian guide to facilitate the use of the ISDA master agreement in Australia. See **Australian Financial Markets Association, International Swaps and Derivatives Association, netting by master agreement.**

Austraclear Australia's answer to CEDEL and Euroclear; a computerised cash and securities settlement system for the money market. See **Centrale de Livraison de Valeurs Mobilieres, Euroclear.**

Australian Accounting Research Foundation established in 1986, jointly sponsored and funded by the Australian Society of Certified Practising Accountants and The Institute of Chartered Accountants in Australia, as the research branch in the process of issuing accounting and auditing standards. *Abbrev.* **AARF.** See **Australian Accounting Standards Board.**

Australian Accounting Standards Board responsible for issuing accounting standards, the board was established by section 224 of the Australian Securities Commission Act as the successor to the Australian Standards Review Board which operated from 1988 to 1991.

Australian Association of Permanent Building Societies a Canberra-based industry association established in 1964 to promote the Australia-wide development of permanent building societies.

Australian Bankers' Association industry mouthpiece for the banks; it also undertakes research on banking issues. *Abbrev.* **ABA.**

Australian Bureau of Statistics the government's numbers machine. It can provide information about demography, debts, defence, details about finance or forestry and the manufacturing and minerals industries, and answer any questions about what adds up to Australia. *Abbrev.* **ABS.**

Australian Competition and Consumer Commission watchdog and enforcement agency formed in late 1995 by a merger between the Trade Practices Commission and the Prices Surveillance Authority The commission is responsible for enforcing the competition and consumer protection provisions of the Trade Practices Act and the provisions of the Competition Code, access arrangements and for prices surveillance, inquiries and monitoring under the Prices Surveillance Act. *Abbrev.* **ACCC.** See **Prices Surveillance Authority, Trade. Practices Act, Trade Practices Commission.**

Australian Conciliation and Arbitration Commission see **Industrial Relations Commission.**

Australian Council of Trade Unions the central body organising trade union activity in Australia. It was formed in 1927 with headquarters in Melbourne. The ACTU Congress, held every two years, is the policy-making body and its decisions are binding on affiliated trade unions. State-level counterparts are the Labour Councils or Trades and Labour Councils. Unions cannot affiliate with the ACTU unless they are affiliated with a state body. *Abbrev.* **ACTU.**

Australian Federation of Credit Unions Limited formed in 1966 as a Sydney-based trade association to represent the interests of the credit-union industry to government and to carry out research. *Abbrev.* **AFCUL.**

Australian Finance Conference a national industry body of financial institutions in Australia, formed in 1958, it is concerned with the maintenance of ethical standards of borrowing and lending, and represents the member companies in discussions with government and other authorities on matters relevant to the finance industry and its users. The organisation also conducts research on financial, legal and other matters affecting members. *Abbrev.* **AFC.**

Australian Financial Institutions Commission the regulatory body, established in 1992, which supervises non-bank financial institutions — mainly building societies and credit unions — in the same way that the Reserve Bank oversees banks. The commission sets prudential standards and effects active supervision through State Supervisory Authorities (SSAs) which have strong enforcement powers. Building societies and credit unions must report at intervals to the SSAs on various aspects of their operation. *Abbrev.* **AFIC.**

Australian Financial Markets Association a national cooperative organisation created in 1986 in response to a need to streamline financial markets practices, to establish trading standards and conventions and to foster education and the development of Australia's financial sector along self-regulatory lines. *Abbrev.* **AFMA.**

Australian Merchant Bankers Associationsee **International Banks and Securities Association of Australia.**

Australian Payments Clearing Association jointly owned by the banks, (including the Reserve Bank), building societies and credit unions, the association's chief role is the management and reform of payments clearing in Australia. Included as a priority is improving control of settlement risk. *Abbrev.* **APCA.**

Australian Securities Commission established in 1991 as the successor to the National Companies and Securities Commission, the Australian Securities Commission is sole national authority responsible for administering a national Corporations Law regulating companies and securities and futures markets. The commission, established under the Australian Securities Commission Act 1989 (which superseded the NCSC Act of 1980), advises the attorney-general on the operation of the law, including proposals for statutory change, and is accountable to the commonwealth parliament through the attorney-general. *Abbrev.* **ASC.**

Australian Society of Certified Practising Accountants the largest professional accounting association in Australia, with more than 80 000 members. It was formed in 1952 as the Australian Society of Accountants and changed its name in 1990. The society presents courses and seminars as part of its educational role. With the Institute of Chartered Accountants in Australia, the society sponsors and funds the Australian Accounting Research Foundation. *Abbrev.* **ASCPA.** See **accounting standards, Australian Accounting Research Foundation, Australian Accounting Standards Board, certified practising accountant, chartered accountant, Institute of Chartered Accountants in Australia.**

Australian Stock Exchange Limited a national organisation that came into being on 1 April 1987, replacing Australia's previous network of six state-based exchanges. The establishment of the Australian Stock Exchange facilitated the development of electronically-traded sharemarkets through SEATS (stock exchange automated trading system), a nationwide trading system where trades are executed at 1/100th of a second. *Abbrev.* **ASX.**

authorised capital the amount of equity capital, measured at par value, that a company is allowed to raise by issuing shares, as set out in its memorandum of association. A company does not necessarily issue shares to the limit of its authorised capital; its authorised capital might be $10 million and its paid-up capital

$5 million. On the other hand, by issuing shares at a premium, a company can raise considerably more cash than its authorised capital. The authorised capital may be increased by the vote of a general meeting of the company's shareholders, provided this is permitted by the articles of association. See **articles of association, issued capital, memorandum of association, paid-up capital.**

authorised dealer (in the short-term money market) one of the companies nominated by the Reserve Bank of Australia as an operator in the `official' short-term money market, similar to the UK's discount houses and the US's primary dealers. The authorised dealers were established in 1959-60 primarily to stimulate trading in government securities and to provide safe investment opportunities for ultra short-term (overnight) cash that would otherwise lie idle in a bank account (banks at that time could not pay interest on such short-term balances). The dealers went on to play a key role as a conduit for the Reserve Bank's monetary policy and liquidity management operations. However, in 1995, in line with a proposed overhaul of the payments and settlements system, the Reserve Bank announced that the dealers would be phased out, with their role as counterparties for the Reserve Bank in its market operations being taken over by the banks. Also *official dealer.* **See discount house, primary dealer.**

automated pit trading the electronic after-hours trading system used at LIFFE-LTOM (the product of the merger between the London International Financial Futures Exchange and London Traded Options Market). *Abbrev.* **APT.**

automated trading system a computerised trading system that links major trading centres in a country. *Abbrev.* **ATS.**

automatic teller machine a robotic cash-dispensing terminal which enables the client of a bank, building society or credit union to operate an account without entering a branch. Instead of dealing with a human teller, the customer inserts a plastic card, enters a personal identification number (PIN) and operates a numeric keypad to withdraw cash, transfer funds between accounts and obtain account balances. *Abbrev.* **ATM.** See **EFTPOS, electronic funds transfer, personal identification number.**

average price/rate option an option whose settlement value is based on the difference between the strike and average price or rate of the underlying instrument on specified dates during the life of the option or some other nominated period which would also end with expiration of the option. Its premium is generally lower because the averaging process reduces volatility. Its theoretical value is also less than that of a corresponding conventional option. Also *Asian option.*

average weekly ordinary-time earnings the most relied-upon measure of average wage costs, in terms of their impact on unit costs of production. It excludes overtime which can fluctuate considerably and so produce distortions. The information, relevant for measuring inflation, is collected and published by the Australian Bureau of Statistics. *Abbrev.* **AWOTE.**

award (rate) the basic minimum rate of payment that can legally be made for any employee, excluding bonuses, overtime and penalties, usually expressed as an amount per hour. The 1990s are seeing a shift towards negotiating wages and conditions by groups of workers with individual employers or industries; however, award rates are seen as the minimum for those not able to negotiate enterprise agreements. See **Industrial Relations Commission, enterprise agreement.**

award superannuation superannuation contributions provided by an employer on behalf of employees, as set down by an industrial award. Since the mid-1980s a large number of employees have received superannuation contributions as part of their industrial awards. This led to the establishment of **industry superannuation funds** to cater for these contributions.

AWOTE *abbrev.* **average weekly ordinary-time earnings.**

B

B/A see **banker's acceptance.**

back bond the security created when a debt warrant is converted. Also *virgin bond.* See **warrant.**

back office while the front office of, say, a bank or investment bank, handles the dealing, the back office is the administrative centre, seeing to the confirmation and settlement of transactions and ensuring that deals conform with the various regulatory and documentation requirements. See **middle office.**

back-to-back in the futures market, back-to-back describes an equal number of bought and sold contracts held by one trader in one month.

back-to-back credit a credit opened by a bank on the strength of another credit. The term derives from the business of British finance houses acting as middlemen between foreign buyers and foreign sellers.

back-to-back loan offsetting loans, often made in one currency in one country against a loan in another currency in another country. Loans of this type emerged in the 1960s to circumvent currency restrictions. See **parallel loan.**

backdoor listing the process of achieving stock exchange listing for an enterprise by acquiring an already-listed company structure and injecting new activities into it. Companies which for some reason fail to meet the stock exchange listing requirements may find that `backdoor' entry is a cost-effective solution to the problem. See **listing rules.**

backwardation a futures and commodity market situation where prices are higher in the nearer delivery months than in the distant months. The opposite is a **contango.**

bad debt a debt whose recovery is so unlikely that the amount is written off as a loss. Companies whose sole business is lending money are most vulnerable to bad debts, although most make provision in their balance sheets for bad and doubtful debts. The only certain way to avoid bad debts is never to lend money, give credit or sell any goods and services. See **non-performing loans, provisions.**

BAD tax see **bank accounts debit tax.**

Bahrain Inter Bank Offered Rate the key interest rate used to determine the rate of interest for loans and deposits in Bahrain. *Abbrev.* **BIBOR.** See **LIBOR, HIBOR, SIBOR.**

balance date the date at the end of an accounting period, by which all ledger accounts must be in balance. Most Australian companies balance at 30 June.

balance of payments the record of a country's financial transactions with the rest of the world, often used as a measure of a country's economic health, although it is not necessarily the most accurate one. The balance of payments is made up of two accounts, the current and capital accounts. The current account records transactions of goods (imports and exports), services (eg, tourism), income (dividend and interest payments) and transfers (eg, migrants' gifts overseas). The capital account records investments in Australia and Australian investments overseas by government, the Reserve Bank and the private sector. See **exchange rate.**

balance sheet a detailed statement summarising the assets and liabilities of a business and giving a picture of its wealth at a particular time. Balance sheets tend to be out of date when published (by three months on average) and cannot be used as a reliable guide to the company's present or future condition; it is safest to regard a balance sheet as a snapshot of a company's position at a specific date.

balance sheet equation the basis of all accounting reports: assets = liabilities + owners' equity. Rearranging the equation, the difference between assets and liabilities represents the owners' claims on the business. Owners' equity equals assets minus liabilities. The change in owners' equity from period to period (after adjustment for capital transactions and dividends) represents the owners' income or profit from the business. See **liability.**

balanced fund a fund or portfolio which invests in all major asset classes, ie, cash, fixed interest, property and shares, both local and overseas. It provides long-term capital growth and a reasonable level of income. This type of fund usually maintains a judicious level of growth assets in its portfolio, say, around 50 or 60 per cent, with the balance in cash and fixed-interest related securities. See **capital growth fund, capital guaranteed fund, capital stable.**

balancing item a statistical device used in calculating a country's balance of payments to ensure that it does indeed balance. It could be seen as an arbitrary `correction' representing lags and other aberrations in the flow of funds. See **balance of payments, capital account, current account, exchange rate.**

balloon payment a single large payment at the end of a loan arrangement which wipes out the borrower's debt.

bank from the Italian *banca* meaning `bench', the table at which a dealer in money worked. A bank is now a financial institution which offers savings and cheque accounts, makes loans and provides other financial services, making profits mainly from the difference between interest paid on deposits and charged for loans, plus fees for accepting bills and other services. In Australia, banks are financial institutions authorised under the Banking Act or under state legislation. Other relevant legislation includes the Banks (Shareholdings) Act and the Reserve Bank Act. The Reserve Bank Act gives the Reserve Bank of Australia (the central bank) a wide range of powers over the banking sector.

bank accounts debit tax a federally levied tax on debits (withdrawals) from bank accounts where a cheque is used. It was introduced in April 1983. *Abbrev.* **BAD tax.** See **FID.**

bank bill of exchange a bill of exchange on which the name of a bank appears, either as acceptor or endorser. When the bank is the acceptor, the bill ranks as a bank-accepted bill; where the bank has endorsed the bill on the back, either through buying the bill in the market or for a fee to raise the bill's status, it ranks as a bank-endorsed bill of exchange. See **bill of exchange.**

bank cheque a cheque on which the drawer is a bank or other financial institution drawing on itself; no individual or company name appears. The customer buys the cheque for cash and a small fee and uses it in the same way as cash. Bank cheques are widely regarded as being as `safe as a bank', however, there have been instances of bank cheques being dishonoured. See **bounce.**

bank cheque funds funds loaned in the unofficial market and settled between banks next day after being processed overnight through the clearing house. Also known as *next-day funds.* Under real-time gross settlement, all money-market transactions are sameday funds. See **clearing, exchange settlement accounts, real-time gross settlement, same-day funds.**

Bank for International Settlements established in 1930, originally to facilitate the payment of First World War reparations by Germany, the BIS has evolved into a central bank for many of the world's central banks. The BIS's main objective is to promote cooperation among central banks and, to this end, it provides a key forum for consultation. Since the early 1960s, the BIS has hosted regular meetings of central bank governors of the G-10 countries who meet to discuss issues of common interest. The BIS is organised as a commercial bank, with 84 per cent owned by central banks and the remainder held by private investors (these shareholders have no say in the running of the bank). Under an international treaty, the bank is immune from government interference and taxes. The BIS also has a number of important sub-committees, such as the Basle Committee on Banking Supervision (which devised an international agreement on minimum capital standards for banks that has been adopted by central banks in all OECD countries), the Committee on Payment and Settlement Systems, the Euro-Currency Standing Committee and the Gold and Foreign Exchange Committee. Central bank members of the BIS total 33 of which the only non-European central banks are the Reserve Bank of Australia, the Bank of Canada, the US Federal Reserve System, the Bank of Japan and the South African Reserve Bank. *Abbrev.* **BIS.** See **capital adequacy, Group of Ten, International Monetary Fund, risk-weighted assets.**

Bank Interchange and Transfer System launched in 1987, this is an electronic high-value funds transfer system owned and operated by the four major Australian banks (ANZ, Commonwealth Bank, National Australia Bank and Westpac) and the State Bank of New South Wales. All five banks have bilateral communication linkages with each other which enable on-line exchange of payments throughout the day. *Abbrev.* **BITS.** See **Reserve Bank Information and Transfer System, real-time gross settlement.**

bank line a flexible line of credit granted by a bank to a customer, enabling the customer to draw up to a specified amount during a specified period. See **line of credit.**

Bank of England the UK central bank, founded in 1694 and known affectionately as the Old Lady of Threadneedle Street because of its location in that street in London.

bank paper See **paper.**

bank-accepted bill of exchange a bill of exchange on which a bank's name appears as acceptor. The bank has the primary liability to pay the amount of money due on the bill's maturity date to the holder of the bill. See **bank bill of exchange, bill of exchange.**

Bankcard the Australian banks' joint credit card, introduced in 1974 for domestic use. At one time the dominant plastic card in use in Australia, Bankcard has faced increasing competition from major international credit cards. See **automatic teller machine, credit card, debit card, electronic funds transfer.**

banker's acceptance the US version of a bank-accepted bill of exchange. It is a negotiable money-market instrument, based on an underlying trade transaction. A banker's acceptance is created by a bank's customer drawing a bill of exchange on the bank, which the bank accepts (ie, agrees to pay the holder the face value on maturity). Two names, the customer's and the bank's, appear on the bill. The bank charges a fee for its acceptance of the paper, which is discounted at the prevailing market rate. *Abbrev.* **B/A**

bankruptcy a term applied to insolvent individuals who surrender, voluntarily or otherwise, their assets in satisfaction of their debts (insolvent companies are wound up). A debtor may be declared bankrupt by the Federal Court (at his or her own instigation or that of creditors), which will place his or her estate in the hands of an official receiver for distribution. An individual can have substantial assets but still be made bankrupt if the assets cannot be rapidly converted into cash to pay debts as they become due. The word `bankrupt' comes from the Italian *banca rotta,* meaning `broken bench'. See **bank, liquidation, scheme of arrangement.**

bargain basement money-market transactions that take place above or below the market level (depending on whether the observer is a lender or borrower). They are attractive deals for one side.

barrier option an option whose pay-off pattern and survival to expiration depend on not just the final price of the underlying asset but on whether the underlying asset sells at or beyond a barrier price during the life of the option: *down-and-in* barrier options carry the right to have an option but the option does not come into play unless the market falls to a predetermined level which triggers the option's existence; *up-and-in* options carry the right to have an option but the option does not come into play unless the market rises to a predetermined level which triggers the option's existence; *down-and-out* options carry the right to have an option but if the market falls to a predetermined level the options expire; *up-and-out* options carry the right to have an option but if the market rises to a predetermined level the option expires. See **barrier price, knock-in, knock-out options.**

barrier price the instrike/outstrike price that activates or kills a barrier option. See **barrier option.**

barter the custom of exchanging goods or services of equivalent value, instead of using money (which involves a sale and so probably a sales tax). Barter has come to be used in modern trade finance; it is particularly useful for a country whose so-called `soft' currency makes it unattractive as a trading partner, or for a country which has limited access to `hard' currencies such as the $US or sterling. See **countertrade.**

base metal a commercial metal, such as lead, zinc or copper. The term distinguishes these metals from the superior precious metals such as gold and silver.

base rate the standard lending rate announced by financial institutions. It is seldom reflected in the business done with borrowers; loans are usually written at a margin above the published base rate, with the margin varying according to the borrower's credit ranking. In the UK, `base rate' is the term for the rate at which the Bank of England lends to the discount houses, a rate that more or less underpins lending rates throughout the financial system. See **minimum lending rate, prime rate.**

basis in its most common usage, the difference between the cash market price and the futures market price. Hence, *basis trading* involves trading to make a profit from changes in the relative prices of derivatives and their underlying instruments.

basis point one-hundredth of 1 per cent: 100 basis points =

1 per cent; 10 basis points = 0.1 per cent; a bill yield that moves from 5.20 per cent to 5.30 per cent has risen by 10 basis points.

basis risk the possibility that an imperfectly matched hedge could produce a loss, eg, a hedger has taken offsetting positions in two related but not perfectly matched markets such as using bank-bill futures to hedge a position in two-year bonds.

basis swap an interest-rate swap carried out between two floating rates set against two different reference rates. The interest payments exchanged are calculated from two different floating-rate indexes, usually in $US, such indexes being the commercial paper or US prime rate, LIBOR, certificate of deposit rate or US treasury bill rate. Also *floating-floating swap.*

basis trading see **basis**

basket in economic jargon, a mixture or a selected variety. A basket of currencies is a mixture of different currencies, combined to produce a single unit of value which can be used as an index. A basket of goods and services goes into the calculation of the consumer price index, which is used to measure Australia's inflation rate. See **consumer price index, trade-weighted index.**

basket of currencies see **currency basket.**

basket option an option on a basket of underlying stocks selected on the basis of their being suitably representative of certain industries, sectors or economies.

basket warrant a facility that enables an investor to invest directly in a basket of commodities, usually metals, not by buying commodities or commodity futures but by buying a call option (generally for more than one year) on a basket of commodities. The maximum the investor can lose is the cost of the warrant so risk is limited while potential exists for good profits.

Basle Concordat formulated in 1975 and revised in 1983, this agreement by the Basle Supervisors' Committee sets out the principles governing the supervision of banks' foreign establishments by parent and host authorities. The Concordat deals exclusively with the responsibilities of central banks in their role as monitors of the prudential conduct and soundness of banks' foreign branches and subsidiaries. Responsibility is allocated between the parent bank and the host authority so that no foreign banking operation escapes the supervisory net.

BBSW the Australian Financial Markets Association's bank-bill reference rate, published daily on AAP Reuters page BBSW and on Telerate page 2676. The Australian equivalent of LIBOR, SIBOR etc.

bean counter a dismissive term for an accountant, unfairly categorising him or her as someone capable only of adding and subtracting. An extension is the `bean-counter mentality', which insists that everything should be measured, even those things that cannot be. Such a mentality is sometimes encountered among academics hungry for research topics. A bean counter is generally considered less analytical than a number-cruncher. See **number-cruncher.**

bear someone who believes prices are heading down (or interest rates heading up). A bear market is one in which there is a sustained fall in prices and which does not look like recovering quickly. A terminology guide used by the Australian Stock Exchange explains a bear as one who `claws prices down'. The 1984 annual report of the Sydney Stock Exchange provides some colourful interpretation: `London of the late seventeenth and early eighteenth century is the period responsible for the zoological terms that have become part of today's stock market jargon . . . bears attack by clawing the prices down — the sellers undercutting each other with lower offers to produce a falling market — a "bear" market . . . The term "bearskin jobber" was often used for those jobbers who "sold short" (sold stock they did not own) in anticipation of purchasing when the price had fallen.' The report says that the essayist Joseph Addison, writing in a 1709 edition of the London *Tatler,* likened short selling to `selling the bear's skin before one has caught the bear' — hence the UK term `uncovered bear' which indicates someone selling short. See **bull.**

bear floater a structured security whose interest rate is periodically reset at a multiple of the floating reference index rate minus a fixed rate. The floating rate rises or falls by a multiple of the change in the floating-rate index to make a leveraged play on the upward direction of the short-end of the yield curve (rising trend in short-term interest rates). Bear floaters operate on assumptions about the degree and direction of anticipated changes to the yield curve; they work when the yield curve is inverse, ie, short rates are higher than longer-term rates. See **reverse floater.**

bear spread an options market technique that aims to take advantage of a fall in price of a commodity or share. A trader would buy and sell options of the same class — sell lower strike price, buy higher strike price — for example, buy and sell call or put options on the same commodity or share, with the objective of benefiting from a fall in the price of the underlying commodity or share. The attraction of a bear spread is that the premium outlay is reduced because of the options sold; however, this also places a limit on the potential profit generated. See **bull spread.**

bearer the person in possession of a document (cash cheque, promissory note or bond) which may contain the instruction `pay to the bearer'. In the case of bearer securities the owner is not registered with the issuer but physically holds the documents. Bearer securities are payable to the holder on maturity and transferable by delivery. Losing them is like losing currency notes. Australian Savings Bonds could be purchased in the early 1980s as bearer bonds and their anonymity made them popular as a way of avoiding income tax; they were subsequently withdrawn.

bed-and-breakfast deals a UK term for stocks purchased and held overnight only.

beggar my neighbour trading practices based on agreements which benefit some countries (those making the agreement) at the expense of others. Protectionism and tariffs are such mechanisms. The General Agreement on Tariffs and Trade was aimed partly at mitigating the effects of beggar-my-neighbour practices. See **General Agreement on Tariffs and Trade, tariff.**

Belfox *abbrev.* **Belgian Futures and Options Exchange.**

Belgian dentist generic term for the European retail buyer of eurobonds. The mythical figure represents the high-income professional such as a dentist, doctor or lawyer who is keen to minimise tax and maximise the return on investments. The buying enthusiasm has been tempered at times by a flood of issues and, in the Australian case, by a sharp fall in the value of the currency. The buyers tend to favour known names, such as German banks and prime corporate issuers.

Belgian Futures and Options Exchange opened in 1991, the exchange trades financial futures and option contracts, including government bond futures and options. *Abbrev.* **Belfox.**

bells and whistles special add-on attractions that dress up an otherwise conventional investment or financial instrument to give it novelty. Bells and whistles additions can range from retail products such as a cheque account with an interest-bearing sweep to more exotic capital market bonds and warrants. They are often used to improve the credit of securitised assets. The new twists are limited only by the imagination of the inventors — typically the Wall Street *wunderkinder.* See **rocket scientist, vanilla product.**

bellwether (from the sheep which leads the flock) a barometer. Financial markets commentators speak of a particular bond being the bellwether stock, meaning that movements in its price are indicative of the mood or health of the market in general.

below par trading at less than face value. See **above par.**

below the line all items in the profit and loss statement that are below the `operating profit or loss after income tax' line, for example extraordinary items. See **above the line.**

benchmark any point or item of information used as a basis for comparison. The term is used frequently in financial markets and industry to indicate a minimum performance objective. See **best practice.**

benchmark rate a rate used as a yardstick for measuring or setting other interest rates; for example, a bank's prime lending rate, which it uses to price loans, or the commonwealth bond rate, which is widely used as a base from which other securities such as corporate debentures are priced. See **prime rate.**

beneficial owner the person entitled (as the real owner) to enjoy the benefit of property or goods of which the legal title may be vested in a trustee.

Bentham, Jeremy see **economists.**

Bermuda option like its namesake, the option falls somewhere between Europe and America — between a European option which can be exercised only at maturity and an American option which can be exercised at any point chosen by the holder. A Bermuda option usually can be exercised at any one of a number of points and this is stated in the option contract. Its premium value should fall between those of an American and European option, reflecting its midway position. Also *Atlantic option.*

best practice a business management approach developed in a period of heightened competitiveness between manufacturing countries and companies within particular industries. It entails a company determining which enterprise is the most efficient and productive in the world, or in its industry, then emulating the methods by which it achieved that rank. While it may seem that efficiency and productivity would be pursued automatically by companies, studies (including one in 1994 by the Australian Manufacturing Council) show that those adopting deliberate best-practice programs perform significantly better in sales, innovation, cost control and employee relations. See **benchmark.**

best-buy option a partial or full lookback call option. See **lookback option.**

best-efforts basisa general commercial agreement to try hard without promising a particular degree of success. Selling an issue of shares or other securities this way does not involve a full underwriting commitment as to price or amount. The sellers agree to market the securities to the fullest extent possible at the best price available.

beta a measure of the price volatility of a security or portfolio, compared with the market as a whole. The market is said to have a beta (β) of 1. A security with a beta of 2 moves twice as far in either direction as the rest of the market. The measure can be used in portfolio management to limit risk by containing the overall volatility of the investment to a predetermined band. See **alpha, delta, theta.**

better-of-two-assets option see **alternative option.**

BIBOR *abbrev.* **Bahrain Inter Bank Offered Rate.**

bid and ask buy and sell prices. Traders also speak of a *bid price,* the price offered; the *asking price* is the price requested. These usually indicate the top price a purchaser will pay and the lowest price a seller will accept.

bid-ask spread the difference between the bid and offer prices. This can say a great deal about a market — about its liquidity, volume, depth and the enthusiasm or otherwise of its participants.

bid rate an alternative expression (used in share and bond markets and foreign exchange) for buying price.

Big Bang the freeing up of the UK stockmarket which took place on 27 October 1986, when stockbroking firms were allowed to incorporate, foreign companies could buy into British broking firms and the previous system of jobbers and brokers was dismantled. Automated share trading was also introduced on that date. See **May Day.**

Big Board the New York Stock Exchange. Companies listed on the Big Board are larger and longer-established than those on smaller exchanges. See **main board.**

big figure in foreign exchange markets, and in US bond and futures markets, the figure on the left of the decimal point. If the $A were quoted at 72.10 US cents, then the `big figure' would be 72. When rates fluctuate wildly, traders talk of `even the big figure jumping'. See **figure.**

Big Four the four largest UK clearing banks: Barclays, Lloyds, Midland and National Westminster.

Big Mac index a whimsical application of the theory of purchasing-power parity, devised in 1986 by *The Economist* to show whether exchange rates are at their `correct' level. The index compares the price of a McDonald's Big Mac hamburger in the United States with the prices (in $US at prevailing exchange rates) in the 70-odd countries in which the burgers are produced locally. If the price is higher or lower than the US price, the implication is that the currency is overvalued or undervalued against the $US. See **purchasing-power parity.**

big ticket (items) investments such as aircraft, power stations or manufacturing plants whose cost can run into many millions of dollars. See **leveraged leasing, project finance.**

bilateral netting an agreement between two parties under which they exchange only the net difference between what each owes the other. The chief objective is to reduce exposure to credit and settlement risk. See **netting by novation.**

bill line a line of credit from a bank or merchant bank, funded by discounting bills of exchange.

bill of exchange a negotiable instrument, similar to a post-dated cheque, which is usually sold at a discount. The person holding it has proof of debt. A bill is an unconditional order in writing, addressed by the drawer to the drawee, requiring the drawee to pay a sum of money on demand or at a specified future time to the payee (who might be the drawer or another party) or to the bearer. If the drawee accepts the bill, by writing on it and signing it, he becomes the acceptor and therefore primarily liable to pay the bill when it becomes due. If the acceptor fails to pay, the drawer or an endorser must compensate the holder. (Every endorser of a bill of exchange is in the nature of a new drawer and is liable to every succeeding holder should the acceptor and drawer default on payment.) The formal definition of a bill of exchange under the Bills of Exchange Act 1909-1973 is: `An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed and determinable future time, a sum certain in money to the order of a specified person, or to bearer.' Bills of exchange date from the fourth century BC and became popular in the eighteenth and nineteenth centuries as a means of financing expanding world trade. They are widely used in the money market, issued by companies borrowing funds and traded through a range of holders until they mature, at which point the holder receives face value from the acceptor. Bills of exchange can be bank-accepted or bank-endorsed, or can rank as commercial bills, in which case no bank name appears on the bill. Parties to a bill of exchange include the following:

- *acceptor,* the party to whom a bill of exchange is addressed and who accepts a bill of exchange drawn on him. Until the bill is signed and accepted, this party is called the drawee. The acceptor agrees to pay the person presenting the bill on the due date the face value of the bill. The acceptor of the bill has a direct liability through the bill; he is primarily liable to pay out the funds on the due date. But if the acceptor fails to pay, the drawer has to compensate the holder of the bill or any endorser who has paid out.
- *drawee,* the party to whom the bill of exchange is addressed, who is required to pay the stipulated sum of money (the face value of the bill) at a specified future date to the payee named on the bill or to bearer. Once the drawee accepts the bill, by writing on it and accepting it, he becomes the acceptor and is primarily liable to pay out when the bill matures.
- *drawer,* the party who issues the bill, who makes the order for the bill to be accepted and paid. The drawer signs the bill as its maker and has a contingent liability on the bill until it matures as, in the event of default by the acceptor, the drawer is obliged to pay out the face value of the bill on its due date to the holder.
- *endorser,* (sometimes written *indorser*) the party signing on the reverse of the bill as confirmation of purchase and title to the bill. The list of endorsers' signatures on the back of the bill establishes the chain of ownership of the bill.
- *payee,* the person to whom the face value of a bill of exchange

is to be paid (as with a cheque). The payee appears as the first endorser on the reverse of the bill and this endorsement starts the chain of ownership of the bill. The picture becomes complicated when it is remembered that the payee on a bill of exchange can also be the drawer or another party. See **bank bill of exchange, bank-accepted bill of exchange, trade bill.**

bill of lading a receipt issued by a shipping company for goods transported. The bill serves as a record of the contract, setting out terms and conditions.

bill of sale a document assigning rights to goods or property or mortgaging goods. In most circumstances, state laws require registration of such documents. In the US, a bill of sale is a document giving evidence of sale-and-purchase.

bill option in futures, an option over a bill futures contract. In banking, a line of credit which includes the option of using bills of exchange rather than cash, so that the loan can be liquidated by selling the bills. See **exchange-traded option, over-the-counter option.**

bill strip a technique that creates a synthetic longer-dated bill of exchange by setting end-on-end a physical bill and a series of futures contracts. This can be done to achieve a higher yield than would be available from either the physical bill or the futures market alone, or can be used as means of locking in a term rate for, say, one year.

binary option see **all-or-nothing option.**

BIS *abbrev.* **Bank for International Settlements.**

BITS *abbrev.* **Bank Interchange and Transfer System.**

black the comfortable side of the credit-debit balance. When you are `in the black' you have money in the bank or are making a profit. In bank ledgers, debits (what you owe the bank) used to be written in red ink, credits (what is owed to you) in black ink. See **red.**

black economy the cash-in-the-hand part of a country's output of goods and services which (illegally) is not declared as taxable income. The Australian government has attacked the black economy by placing the onus on people employing casual labour to document payments and, in some cases, to make tax deductions and remit them to the Taxation Office.

Black Friday any day that sees a sharp drop in financial market prices. It takes the name from a Friday in September 1869 when an attempt in the US to corner the gold market triggered a panic and then a depression.

black knight a corporation or individual who makes a takeover offer that is unfavourable and/or unfriendly to the target company's management. See **white knight.**

black market buying or selling prohibited or controlled goods or currencies through illegal or unlicensed traders, often taking a risk for profit or getting around a government regulation such as price control. Part of the risk is that if a black-market deal falls through there is probably no recourse to the law.

Black-Scholes option pricing model a device developed in 1973 by two US economists, Fischer Black and Myron Scholes, to help assess the value of option contracts. The model was influential in persuading the US Commodity Futures Trading Commission to allow options to be traded again (they had been banned since 1933) as it showed the potential of options for limiting risk. It has become the basic option-pricing formula. With the spread of computers, many companies have developed proprietary formulas of increasing complexity but most are in some way derived from the Black-Scholes model.

black tax see **witholding tax.**

blended interest-rate swap a combination of two or more interest-rate swaps where usually one starts spot and the other forward to produce payments calculated on a weighted average of rates.

blue-chip the highest-valued gambling chips are blue, and this mark of quality has flowed from the casino to the stockmarket, where `blue-chip' stocks are those of the highest market value and supposedly the highest safety. Blue-chips are not infallible, though, or invulnerable to losses. In the UK, Rolls-Royce was revered as a blue-chip stock right up to its collapse in 1971.

board boy see **chalkie.**

board meeting a formal, often monthly, meeting of a company's directors (board members) to examine business performance and discuss plans for the future. Increasing scrutiny by regulatory authorities of directors' duties and liabilities has made these meetings much more onerous occasions than was once the case — when directorships were largely occupied by an old-boys' network distinguished less by commercial skills than by loyalty to the club. Modern boards generally show a keen concern for the interests of their shareholders and the efficiency of the company management. See **boardroom, director.**

board order see **market-if-touched order.**

boardroom a space reserved for regular meetings of company directors. Some critics of company spending warn that the opulence of a boardroom's furnishings is likely to be in indirect proportion to the prosperity of the company's shareholders — although discreetly panelled cocktail bars tend to be used less in these times of greater attention to directors' performance. Boardroom proceedings have high status in the affairs of a company and `being in the boardroom' has been used as an excuse by executives seeking refuge from other mundane demands. That is presumably what prompted a well known Sydney hotel to name one of its bars exactly that: The Boardroom.

BOATs warrants whose value is tied to the yield between French OATs and German bunds, often referred to as the Maginot spread. See **Maginot spread, warrant.**

bond a statement of debt, similar to an IOU. Bonds are issued by governments, companies, other entities and individuals in return for cash from lenders and investors. The borrower pays interest to the lender or investor throughout the life of the bond. Borrowers seeking funds from the public through bond issues usually announce the issues through the financial press and electronic media, and spell out the details in a prospectus available from stockbrokers, banks and, in the case of commonwealth securities, the Reserve Bank. Bonds are generally medium to long-term fixed-interest securities. An early definition of a bond was `a coupon security offering more than one interest payment' but the emergence of zero-coupon bonds has complicated the picture. Australian commonwealth (Treasury) bonds are sold by periodic tender, mostly to large-scale investors who set the price levels. See **commonwealth bond, fixed interest, tender, zero-coupon bonds.**

bond market the market trading bonds — commonwealth, state and corporate. Bond trading is carried out by phone and screen by organisations such as professional bond brokers and dealers, banks, investment banks and life assurance companies.

bond option an option whose underlying security/instrument is a bond. See **interest-rate option.**

bond tender a form of auction through which Australian commonwealth bonds have been sold since July 1982. See **tender.**

bonus issue shares in a company which are issued free to existing shareholders, sometimes called a `scrip issue'. A company might make a bonus or scrip issue as an alternative to increasing its dividend payout. New shares are issued to shareholders in proportion to their holdings, for example, one bonus share for every five shares held. See **entitlement issue, rights issue, scrip.**

book money market and foreign exchange traders' expression for total purchases and sales. Their `book' is a record of how much they have bought and sold, borrowed and lent.

book value the value of an asset as stated in a company's financial records. Accountants distinguish between *book value* and *net book value.* The former is the original (historical) purchase price of the asset, possibly revalued. It is not necessarily the price the asset would fetch if sold in the market, or what it would cost to replace. Net book value is the original value of the asset less depreciation which has been charged against it. See **market value.**

booth moll futures market slang for the (usually female) clerk standing at the phone booth on the trading floor, passing orders to and from the floor trader. The phrase is less frequently used in the discrimination-conscious 1990s.

Boston option See **break-forward.**

bottom line the final result. The term comes from the layout of the accountant's financial statement, in which the bottom line shows the extent of the profit or loss after all income and expenses have been taken into account.

bottomish jargon to describe a market that has fallen to a level that indicates an imminent reversal of the downward trend. Opposite of toppy. See **toppy.**

bounce (of cheques) to be dishonoured. A cheque bounces when a bank declines to pay the amount for which the cheque was written because the drawer's account contains insufficient or uncleared funds, or for some technical reason, eg, the amount in words differs from the amount in figures. The cheque returns, or is `bounced' back to the bank which presented it, endorsed `refer to drawer' or `present again'. If endorsed `refer to drawer' it would be `bounced' back to the original presenter; if endorsed `present again' it would be returned to the clearing house. Banks charge a hefty fee to drawer and presenter when a dishonour is necessary. See **clear, uncleared funds.**

bourse French for `stock exchange', but strictly `purse'. The expression has become widely used as an effete alternative for the stockmarket.

boutique in the financial world, a small, specialised bank or broking firm that concentrates on a narrow range of products that appeal to a correspondingly narrow group of clients, in contrast to the financial supermarket or one-stop money shop. See **financial supermarket, niche.**

bracket creep this occurs as companies compensate employees for rising inflation by giving them pay increases, which in turn push the tax-paying employees into higher income tax brackets. The pattern depends on the existence of a progressive system of tax, in which marginal tax rates rise with increasing income. The result is increased tax collections by the government without any change to tax regulations.

break-even analysis the study of the relationship between fixed costs, variable costs and revenue to determine the point at which total costs equal total revenue (that is, no profit, no loss), so that any further revenue will represent profit.

break-forward a foreign exchange contract that can be unwound at a predetermined date. The contract is similar to forward and option contracts in that it allows the buyer to hedge or protect against adverse currency movements by locking in a fixed rate. Unlike options, though, break-forwards do not require a premium to be paid when the contract is made, as all costs are included in the fixed rate. Also *Boston option, forward with optional exit (FOX).*

Bretton Woods the New Hampshire (US) location of the 1-22 July 1944 international conference which led to the establishment of: a new international monetary system, the International Monetary Fund (IMF), and the International Bank for Reconstruction and Development (World Bank). Representatives of 44 nations devised a modified version of the gold standard. Under the new system most currencies were tied to the $US (some, such as the Australian currency, were tied to sterling) and the $US was in turn tied to gold.

The objectives of the Bretton Woods conference were to establish an international monetary system with stable exchange rates, to eliminate exchange controls and to bring about the convertibility of all currencies. Exchange-rate fluctuations were to be held to a narrow band around parity and no change in parity was to take place without IMF approval. The $US held a key role in this system: when that currency ceased to be convertible in 1971, following consistently large US balance of payments deficits, its fall brought the Bretton Woods system down with it. New exchange-rate parities were set up under the Smithsonian Agreement but the fixed exchange rate system was on the way out and in early 1973 most of the major countries floated their currencies. See **fixed parity, float, gold standard, International Monetary Fund, Smithsonian Agreement, World Bank.**

bridging finance short-term funding from a bank, finance company or other source pending arrangements by the borrower for longer-term, cheaper loans. Bridging finance is often used when buying and selling houses, to `bridge' the gap between the payment of a deposit on one property and the receipt of proceeds from the sale of another. Bridging finance is generally considered a last resort because its convenience is usually rivalled, if not outweighed, by its cost.

Brigden Report the report of a committee set up in 1927 and chaired by J.B. Brigden to examine the pros and cons of Australia's protection policy. The report appeared in 1929 and found that, on balance, Australia's protection policies had been beneficial but warned against further extension of tariffs. Soon after the release of the report, and despite its recommendations, the Scullin Labor government dramatically raised tariffs. More recently, in 1992, both sides of government pledged to reduce tariffs. See **free trade, Premiers' Plan.**

broad money the widest measure of Australia's money-supply growth, showing the liabilities of all financial institutions. It is still calculated but has been superseded as a popular measure of monetary movements by credit. See **credit, money supply.**

broken date a forward deal with a non-standard maturity. Forward contracts are normally based on standard quoted periods, such as one, two or three months forward. A forward contract with a maturity date in, say, seven weeks would be termed a `broken date' contract. Also **cockdate, odd date.**

broker an intermediary, someone who buys and sells on behalf of clients. In the world of financial intermediaries there are sharebrokers, foreign-exchange brokers, fixed-interest brokers and futures brokers.

brokerage the broker's commission for buying and selling on the instructions of clients. Brokerage is usually calculated as a percentage of the amount invested. Brokerage rates are negotiable between broker and client, however a strong client who places regular large orders would be able to whittle down the brokerage charged; a small retail client has less clout.

bucket shop a trading operation on or beyond the fringe of conventional business practice. Once anyone selling at a discount was said to be running a bucket shop. In the UK the term became commonly applied to travel agents selling cheap airline tickets. Those recognised as bucket shops were not members of the National Association of British Travel Agents (and so were considered less reputable) but they received an allocation of tickets for discount sale. The term came to mean a fringe operator taking a client's money ostensibly to invest in futures contracts but instead retaining the funds, paying out to a client whose position showed a profit but pocketing funds when the market moved against the client. If too many customers picked the market correctly the bucket shop closed and relocated. Bucket shops flourished in various guises in Australia in the early 1980s until futures industry legislation introduced in 1986 put a lid on their operations.

budget a plan for income and expenditure over a future period which is supposed to achieve stated objectives — in a government's case raising taxes and other revenue and spending to provide services such as defence, education or social security. The Australian government announces (`brings down' in the jargon of the Westminster parliament because it was always brought down to the floor of the house) an annual budget in May, showing expected revenue and expenditure, forecasting how much it expects to borrow and outlining any changes in the way it will raise revenue. Sometimes a government will bring down a mid-year mini-budget or `economic statement' to change a previously decided course. Companies draw up budgets, perhaps giving departments control over their spending. The word `budget' originally meant `a bag containing papers'.

buffer stock what is kept on hand for a rainy day or unexpected demand. Also parcels of stock which have been deliberately stored, to be sold later to influence prices.

building societies cooperatively owned organisations established chiefly to lend funds for housing. Australian building societies date from the 1840s and are modelled on the UK institutions which originated in the self-help movement of the late eighteenth century. Building societies in the past 40 years have become increasingly important in the Australian financial system, as an alternative source to banks in the provision of housing finance. The societies raise funds from individuals and the wider markets and use these funds to lend to home-buyers. The societies have to compete for funds with other financial institutions such as banks, credit unions and cash management trusts. The number of building societies peaked in the 1970s; between the mid-1980s and mid-1990s, a decade that saw the banking system deregulated and expanded, a number of building societies converted to bank status, a trend that reduced the total number of societies from 71 to 29. However, the status of building societies was boosted by the establishment in 1992 of the Australian Financial Institutions Commission which, for the first time, provided a prudential framework for the societies. See **Australian Financial Institutions Commission.**

bull someone who is optimistic about the market and interest rates — who sees share prices rising and interest rates falling — and whose activities reinforce those trends; the opposite of a bear. A bull market is characterised by enthusiastic and sustained buying. The Australian Stock Exchange explains that bulls `attack by tossing the prices into the air with their horns — the buyers bidding in competition with each other to produce a rising market — "bull" market'. The Sydney exchange's 1984 annual report concedes that the origins of `bull' are less distinct than those of `bear' but comes up with an early eighteenth-century reference to the term `bull' in the poetry of Alexander Pope, who alludes to the Greek mythology and the passion of the god Zeus for Europa. Zeus turns himself into a bull and carries her off to Crete. This happy legend crops up in some lines written to celebrate the (short-lived) bullish attitude to the South Sea Company of the early eighteenth century: *Come fill the South Sea Goblet full;/The Gods shall of our Stock take care;/Europa, pleas'd accepts the Bull./And Jove with Joy puts off the Bear.* See **bear, South Sea Bubble.**

bull spread a technique involving the purchase and sale of the same class of options, although it can be used with conventional futures contracts. A bull spread would be the purchase and sale of call or put options (buy low strike, sell high in the same class of options) on the same commodity, designed to benefit from a rise in market prices. See **bear spread, option spread.**

bulldog bonds sterling-denominated bonds issued in the UK by foreign borrowers; the UK equivalent of Samurai and Yankee bonds. See **Samurai bonds, Yankee bonds.**

bullet loan a euromarket term denoting a single-repayment loan with no amortisation; that is, a loan that is not paid off in instalments.

bullion gold or silver of specified weight.

Bundesbank (Deutsche) the central bank of Germany.

bunds German government bonds.

burnout what overstressed traders and executives suffer — exhaustion, usually associated with a serious feeling of disenchantment for the work they do — for the occupation that earns them high salaries but at the price of considerable personal stress. The term can also refer to a tax shelter that is no longer effective — what began as a shelter has begun to produce income on which tax has to be paid. See **corporate menopause.**

business confidence a fragile but desirable quality which every government hopes to promote and foster. Its fluctuations are measured by economists through regular surveys of the expectations of businesses.

business cycle fluctuations between good times and bad times. Also known as the *trade cycle.* As the term implies, the fluctuations are fairly regular. Business cycles can be politically influenced, for example ahead of an election when a government initiates an expansionary policy.

butterfly spread first used in fixed-interest markets and later in options to describe a spread or straddle position in the pattern of one-two-one; for example, a trader's position would be an agreement to sell one option contract maturing in, say, March, to buy two options maturing in June and to sell one option contract maturing in September. A butterfly spread — so called because when plotted on a profit expiry diagram it has the shape of a butterfly — enables a trader to change the mix of bought and sold securities in a way that does not alter the overall position, while exposures will differ depending on what happens to the yield curve (ie, to interest rates). It is a sophisticated trading strategy for managing risk; it has been popular with fund managers in the US and is expected to be used more frequently in other markets. See **spread, straddle.**

buy-back an agreement that the seller will repurchase securities within a specified time at a predetermined price. Known in the money market as `repos'. See **repurchase agreements.**

buyers over a futures market term to describe what occurs when a trade has taken place at a given price and buyers remain unsatisfied in the market. See **sellers over.**

buyers' market a market where supply outstrips demand. Prices fall, so that buyers are able to set the terms and conditions. See **sellers' market.**

C

cable foreign exchange traders' jargon for the $US/sterling exchange rate quote.

CAC *abbrev.* **Corporate Affairs Commission.** See **Australian Securities Commission.**

CAC-40 Index French share index (compagnies des agents de change-40), launched by the Paris Bourse in 1988, representing 40 shares each of which is a leader in its sector. CAC-40 futures were introduced on MATIF later that year and CAC-40 options followed on Monep.

Cairns Group a group of fourteen agricultural `fair-trading' nations, including Australia, New Zealand, Indonesia, Malaysia, Fiji, New Zealand, the Philippines, Thailand, Argentina, Brazil, Chile, Colombia, Canada and Hungary, formed to ensure that their economic interests are not adversely affected by world trade reforms proposed in the US and Europe. The Cairns Group was an Australian initiative, so called because it first met in Cairns, Far North Queensland. See **Asia Pacific Economic Cooperation, General Agreement on Tariffs and Trade, North American Free Trade Association.**

calendar roll closing a futures or options position in one contract month and opening a position on the same side of the market in a more distant month.

calendar spread see **bull spread.**

call when a company makes a `call' on shares it asks the holders of partly paid shares to contribute more money. A `call' in futures trading refers to a `margin call'. Funds can be placed on the money market `at call' which means they have not been lodged for a fixed term. See **11am call money, margin call, 24-hour call money.**

call option see **options.**

call protection provisions in a bond issue which stipulate a period during which the issuer cannot call an issue or must pay a premium over parity to retire the issue.

call provision a term in a bond issue which gives the issuer the right to call the bond for redemption and/or refunding at certain prices and certain times.

callable swap a swap agreement in which the fixed-rate receiver can terminate the swap on one or more specified dates before the stated maturity date. The potential early termination offers a chance to protect against large, adverse changes in interest rates; in the case of a fixed-rate receiver, against a large rise in rates which would cut the present value of cashflow from the swap. See **puttable swap.**

cambist a person dealing in foreign currencies. The word can also refer to a handbook of currency tables. It comes from the Italian *cambio,* `a money exchange'.

Cambridge School a branch of economic thinking influenced by economists at the University of Cambridge, England, since the late nineteenth century. Alfred Marshall was an early influence on the Cambridge School; he held the Chair of Political Economy until 1908. The school's theories have continued in various guises since then. After the Second World War, the Cambridge School rejected the ideas of the neo-classical school, and instead further developed the ideas of John Maynard Keynes, while retaining some influence of the early classical period. Joan Robinson was a leading figure in the era after the Second World War, when the Cambridge School emphasised the macroeconomic, as distinct from the microeconomic, approach of the neo-classical school. The theories of the Cambridge School have progressed through many stages and produced a number of splinter groups, including the New Cambridge School, which has very distinctive ideas about economic policies and the role of the exchange rate. Cambridge School thinkers have been an important influence, and are particularly so in the UK; they are prone to frequent changes in ideas, which has led their critics to label them a bunch of eccentric economists. See **classical econom-,**

ics, neo-classical economics and **Keynes, John Maynard, Marshall, Alfred,** and **Robinson, Joan,** in **economists.**

Campbell Report the result of the Australian Financial System Inquiry, conducted by a committee chaired by Keith (later Sir Keith) Campbell (1928-83), who was chairman and chief general manager of Hooker Corporation Ltd. The Campbell Committee, as it became known, was established in 1979 to examine the Australian financial system and to recommend changes. It was the first such inquiry since the 1936-37 Royal Commission into Money and Banking; it covered a wider range of issues, reflecting the increased complexities of the financial system.

The terms of reference of the committee were to inquire into, and report on, the structure and operations of the Australian financial system, including the following institutions:

- banks and non-banks, including their role in foreign exchange;
- the official and unofficial short-term money market;
- specialist development financial institutions including the Australian Resources Development Bank, the Australian Industry Development Corporation, Commonwealth Development Bank and Primary Industry Bank of Australia.

The committee was to inquire into, and report on, regulation and control of the system, and make recommendations for improvements in its structure and operations, regulation and control. It was also to make recommendations on existing legislation concerning the financial system, including the Reserve Bank Act, the Banking Act and the Financial Corporations Act.

The interim report of the Campbell Committee was tabled on 28 August 1980. It examined the existing structure and operations of the financial system, and identified the issues which had emerged from submissions and from the committee's deliberations. The final report was tabled on 17 November 1981. In the intervening years, the committee had listened to and read an enormous mass of evidence, through public hearings and written submissions.

Changes which flowed from the committee's findings included:

- a tender system for selling treasury bonds;
- removal of controls on the interest rates banks could pay and charge, on the terms for which they could lend and the direction of their lending;
- greater flexibility for semi-government borrowers and the establishment of central borrowing authorities;

- ➢ increased flexibility for authorised money-market dealers;
- ➢ more flexible asset structure for savings banks;
- ➢ freer foreign-exchange market, float of the $A and removal of exchange controls;
- ➢ deregulation of the stockmarket and incorporation of broking firms; and
- ➢ the entry of foreign banks.

The Campbell Committee had been created by a Liberal-Country Party coalition government under prime minister Malcolm Fraser. That government lost an election in March 1983; on gaining office, the Hawke Labor government established the Martin Group to examine some of the findings of the Campbell Committee in the light of Labor's economic and social objectives. See **Martin Committee** (Review Group).

Members of the Campbell Committee, other than the chairman, were: Alan Coates, then general manager, AMP Society; Keith Halkerston, financial adviser; R.G. (Dick) McCrossin, general manager, Australian Resources Development Bank Ltd; Jim Mallyon, chief manager, Reserve Bank of Australia; Fred Argy, first assistant secretary, Department of Treasury.

cap a ceiling set on interest rates, offering a form of protection or insurance in that a borrower cannot pay more than the rate agreed under the cap. A cap can be customised, ie, written by a financial institution for an individual client, or it can be in the form of a stripped cap which is separated from a capital market transaction. Also *interest-rate condom.* See **collar.**

CAP *abbrev.* **common agricultural policy.**

cap and floor see **interest-rate collar.**

capacity utilisation (rate) the proportion of a country's manufacturing plant and equipment that is being used in production, relative to peak output. Factories and machines working to their limit are indicative of a strong and growing economy; manufacturing capacity that is idle or under-used reflects sluggish economic activity. Economists see investment in `new capacity' as signalling industry's confidence in future growth, although this investment often lags behind real activity as production catches up with existing capacity.

capital the value of your investment in your house or business, represented by total assets less total liabilities. The basic funds and assets used by people, governments and businesses to sustain and equip their income-earning activity. That is the economic definition of capital; the accounting concept of capital refers to issued capital and retained earnings of the company representing the owners' or shareholders' initial contribution to the business and the wealth that generates. See **authorised capital.**

capital account the record of a country's inflow and outflow of loans and investments, as distinct from trade income and expenditure. The capital account keeps track of borrowings and loans by government and private-sector companies, investment and short-term capital flows. It is also a measure of the country's foreign debt — the amount that must be borrowed to offset the shortfall in the current account, which measures export income and import spending. Together, the two accounts make up the country's balance of payments. See **balance of payments, current account.**

capital adequacya key principle in bank supervision which regards capital as the cornerstone of a bank's strength. The Bank for International Settlements (BIS) devised a risk-weighted framework for bank capital adequacy which has been adopted in all OECD countries. Under these guidelines, banks must hold a minimum of 4 per cent of risk-weighted assets (ie, weighted for credit risk) as `core' (Tier 1) capital and a ratio of total capital (Tiers 1 and 2) of no less than 8 per cent of risk-weighted assets. Tier 1 capital consists of paid-up ordinary shares, non-repayable share premium account, general reserves, retained earnings, non-cumulative irredeemable preference shares and minority interests in subsidiaries. Tier 2 or supplementary capital includes general provisions for doubtful debts (subject to a limit), asset revaluation reserves, cumulative irredeemable preference shares, mandatory convertible notes and similar capital instruments, perpetual subordinated debt and redeemable preference shares and term subordinated debt (up to a limit). Tier 1 capital must always exceed Tier 2. The BIS is proposing to adjust the minimum capital requirement to capture market risk.

capital asset pricing model a model that shows the relationship between expected risk and expected return on an investment, based on the accepted theory that the higher the risk associated with an investment, the higher the required return. The model shows that the return on an asset incorporates the risk-free return plus a premium that increases with the extent of risk involved. Given that a sensible portfolio is one that covers a mix of investments rather than a concentration in one area, as diversification spreads the risk, the capital asset pricing model is useful as it shows the contribution made by each investment to the overall risk of a portfolio. *Abbrev.* **CAPM.**

capital base the issued capital of a company, that is, the money contributed by the shareholders who first acquired shares in the company, plus reserves and retained profits.

capital-based position limit a ceiling on the level of futures or option contracts a company can hold at a given point in time, measured as a percentage of its net tangible assets (NTA).

capital employed the money used by a business to fund its operations — that is, to buy stock, pay wages, install new equipment.

capital expenditure payment made, or to be made, for the acquisition of a long-term asset, such as land, a house or machinery. In accounting, this would be recorded in the long-term asset account.

capital flight what happens when investors panic and send their money out of the country in large quantities. Political upheaval domestically or a severe economic downturn often pushes people to send their money overseas as a protective measure. The process becomes self-fulfilling as word spreads that money is fleeing the country and a trickle turns to a flood as investors seek alternative, often temporary but hopefully safer, havens for their money. Also *capital exports.*

capital gain the result of selling a capital asset at a higher price than it cost. Whether an investor makes a capital gain or not depends on the purchase price of an asset compared to its selling price, the effect of depreciation on its value and whether inflation has bitten into the investor's profit margin. Capital gain has different meanings for the tax department, the economist and the accountant. See **capital gains tax.**

capital gains tax a tax on income (gain) arising from changes in the market value of assets. Capital gains tax does not raise huge revenue for governments; rather, its support stems from the notion of introducing equity into the tax system by differentiating between tax on income and tax on capital gains. Countries with a capital gains tax often do not apply the tax to the profit made on the sale of the family home (as is the case in Australia).

A professional sharetrader is liable for tax on all profits but benefits by being able to claim tax deductions for trading losses and expenses such as brokerage. The decision concerning a taxpayer's liability or otherwise for tax rests with the Commissioner for Taxation and the courts. See **wealth tax.**

capital-growth fund an investment fund which invests principally in assets most likely to increase in value, such as shares and property. The objective is to provide investors with good prospects for maximising capital growth over the long term with little emphasis on the level of income. This investment policy can provide high eventual profits for investors if the capital growth continues but markets can behave perversely. See **capital guaranteed fund, capital stable.**

capital-guaranteed bonds see **life insurance bonds.**

capital-guaranteed fund an investment fund offered by life offices which promises that the individual will be repaid the full capital value of the investment. See **capital-growth fund, capital-stable.**

capital-intensive a term referring to industries which make heavy use of assets and machinery but have few employees, such as farming, as distinct from labour-intensive operations such as clothing manufacturers. The tide of technology is changing previously labour-intensive industries such as banking or car assembly into highly computerised capital-intensive operations.

capital markets securities markets, generally for medium to long-term, large-volume investments and fundraisings, as distinct from money markets which focus on the short term (from overnight up to one, possibly three, years).

capital-stable a generic description of a pooled investment fund with most of its assets (about 70 per cent) in fixed interest and cash and the remainder in growth assets such as shares and property. This type of fund aims to provide a moderate level of income with the prospect of some capital growth. The fund is designed to reduce fluctuations in the capital value of an investment. However, a sudden and significant rise in long-term bond interest rates could see the market price drop sharply. Normally, though, the low volatility of the fixed-interest market gives reasonable long-term stability to the asset price. Also marketed as `capital protected', `capital safe' or `capital secure' funds. See **capital-growth fund, capital-guaranteed fund.**

capitalised expenditure expenses carried forward in the balance sheet as assets to be matched against future revenue.

capitalism a form of economic and social organisation under which the means of production, distribution and exchange remain predominantly under private (not state) ownership and resources are allocated according to relative prices.

caplet an interim cap component in a multiperiod interest-rate cap agreement.

CAPM *abbrev.* **capital asset pricing model.**

capped call a long call position with a maximum payout.

capped floater a security which does not pay interest if market rates move above a specified level.

capped home loan a loan, generally to buy a house, where the maximum interest rate is `fixed' by the cap for, say, the initial one or two years of the loan. This effectively means that regardless of any upward movement in market interest rates, the borrower will not have to pay more than the rate stated under the cap for the specified period. However, under a cap facility, the borrower still receives the benefit of any downward shift in market rates.

capped lookback call a call option with a lookback strike and a maximum settlement price. See **lookback option.**

capped swap an interest-rate swap with a cap on the floating-rate payment.

caption an option to buy a cap.

captive market a market where purchasers are obliged, either through legislation or lack of alternatives, to buy a particular item, range of products or type of securities. To the extent that banks are obliged to hold a certain level of commonwealth government securities for ratio purposes (prime assets ratio) they are an example of a captive market for government bonds. See **prime assets ratio.**

CAR *abbrev.* **certificate for automobile receivables.**

carat a measure of weight for precious stones, equal to 200 milligrams. Carat is also a measure of the quality of gold: pure gold is 24 carats; 18-carat gold consists of 18 parts gold and six parts baser alloy.

CARD *abbrev.* **certificate of amortising revolving debt.**

career-limiting move an ill-thought-out strategy, such as a onesided arbitrage. *Abbrev.* **CLM.**

CARP *abbrev.* **controlled adjustable rate preferred stock.**

cartel a number of businesses or organisations which have grouped together and agreed, often implicitly, to influence the price or supply of certain goods. Generally this is considered a pejorative term, implying underhand manipulation of markets by powerful interests for their own benefit. Most capitalist governments legislate to control cartels and monopolies. See **monopoly.**

cash accounting a method of accounting where entries for revenues and expenses are made only at the point when cashflows occur. Contrasts with **accrual accounting.** See **accrual accounting.**

cash and carry a futures market practice involving the purchase of a physical commodity against the forward sale of that commodity on the futures market, for example, the purchase of $1 million of bank bills of exchange against two bank-bill futures contracts. The physical commodity is delivered to fulfil (or close out) the futures contract. Cash and carry is useful when the distant futures months are trading at a premium over the physical spot price. For example, if March gold futures is at a premium to (ie, is at a higher price than) the spot gold price, a trader would buy the physical gold, sell March futures and deliver the physical gold to satisfy the March futures position — and would have earned a good return on the futures market. See **close out, futures.**

cash base the cash base of the financial system is the sum of currency in circulation, deposits of the banks with the Reserve Bank of Australia and other RBA liabilities with the private sector; the narrowest money measure. It is known as Little Mo in the UK. Also *money base* or *monetary base.*

cash cow a company that generates a constant flow of cash, usually in a mature industry and with a loyal pool of customers, for example a brewery (unless the world were to turn its back on beer). Cash cow companies are often favoured takeover targets because they generate regular dividends, so providing funds to pay for other, possibly non-income-producing, activities.

cash market the physical market for a commodity as distinct from a futures market, either in the form of a regulated exchange trading the physical commodities (bullion or grain or equities) or an over-the-counter market dealing in, say, government bonds or currencies.

cash ratio similar to liquidity ratio, this is the amount of cash and easily marketable securities held by a company as a proportion of its current liabilities.

cash settlement settlement by payment of cash which is based on the difference between settlement price and a nominated benchmark or index. For example, settlement of futures contracts with a cash payment which reflects the difference between the settlement price and a chosen benchmark rather than by physical delivery of the instrument on which the contract is based, eg, bank-bill futures. Cash settlement can also refer to cash that is exchanged for securities delivered for settlement of a physical trade.

Cash Transactions Reports Act anti-laundering legislation requiring the reporting of any transaction in which $10 000 or more in cash changes hands. The act set up the Cash Transactions Reports Agency to pursue the proceeds of white-collar crime and drug-trafficking, although some inadequate definitions in the legislation have created administrative problems for banks and legitimate businesses which routinely handle large cash amounts, such as real estate and travel agencies.

cash-box company a company with significant amounts of cash and a well-known name running it and its investments. The company is able to raise cash not because of its asset base, but because of the reputation of its management who, investors believe, can maximise returns on funds.

cashflow the net amount of money received by an individual or business in a given period. If cashflows are budgeted correctly, enough funds should be available to meet cash payments as they occur. Cashflow should not be confused with profits and losses; many companies have gone out of business while making profits, simply because they ran out of cash.

cashflow accounting non-accrual accounting. The basis of accounting for government departments, not for organisations seeking to account for profit.

cashflow swap a swap with irregular cashflows.

cash-futures swap see **exchange for physical.**

cash-management trust a type of unit trust first introduced in

Australia in December 1980 by the merchant bank Hill Samuel Australia Ltd (since 1985 trading as Macquarie Bank Ltd). A number of banks, merchant banks, broking firms and building societies subsequently launched cash trusts. Cash-management trusts took off in the US in the 1970s as money-market mutual funds and prospered there, as they did in Australia, because of their coincidence with soaring interest rates and a steeply inverse yield curve. The trusts were a response to the prevailing controls on interest rates offered by the traditional borrowers of household dollars, such as the banks. The trusts operate by pooling investors' money into high-yielding money-market instruments normally only available to professional investors with hundreds of thousands of dollars. Investors can buy into cash trusts with as little as a few thousand dollars. Cash trusts operate with a trust deed, a trustee overseeing activities and a management company responsible for investment strategy See **money-market mutual funds, yield curve.**

cash-settled option an option settled for an amount of cash equal to the difference, when the option is exercised, between the strike price and the spot price of the underlying instrument or asset. Traditionally, option contracts are settled by delivery of the underlying asset.

CATS *abbrev.* 1: **computer-assisted trading system.** 2: **certificate of accrual on treasury securities.**

caveat emptor Latin for `let the buyer beware'. In common law, if someone is sold defective goods, he or she has no redress; the buyer has a responsibility to examine the goods closely or read the fine print carefully. The principle has been modified, almost reversed, by consumer protection legislation and warranty provisions.

CBA *abbrev.* **central borrowing authority.**

CBOE *abbrev.* **Chicago Board Options Exchange.**

CBOT *abbrev.* **Chicago Board of Trade.**

CCA *abbrev.* **current cost accounting.**

CD *abbrev.* **certificate of deposit.**

CEDA *abbrev.* **Committee for Economic Development of Australia.**

CEDEL *abbrev.* **Centrale de Livraison de Valeurs Mobilières.**

ceiling price the highest a buyer will bid; from the same metaphor as floor price. See **floor price.**

central bank government agency which, in developed countries, oversees the monetary system, controls the issue of currency notes, and acts as banker to the government and the banking system. Through its open-market operations a central bank influences interest rates and currency levels. Australia's central bank is the Reserve Bank; in Japan, it is the Bank of Japan, in the UK the Bank of England, in the US, the Federal Reserve System and in Germany the Bundesbank. See **central-bank intervention, open-market operations, Reserve Bank of Australia.**

central-bank intervention action taken by a central bank to influence monetary conditions. Intervention can be by direct controls, for example interest-rate ceilings, quantitative lending controls and exchange controls, or through open-market operations and informal chats. The open-market operations could involve purchases or sales by the central bank in foreign-exchange or domestic financial markets, to influence the level of interest rates and the exchange rate. See **moral suasion.**

central borrowing authority a group of semi-government (state-based) authorities which band together to streamline their borrowings rather than approach the market individually. Australian semi-government authorities grouped into CBAs state by state in 1983; the move had been recommended by the Campbell Committee on efficiency grounds. In New South Wales all semi-government authorities are grouped under the borrowing umbrella of NSW Treasury Corporation, known as TCorp. In some states major borrowers such as electricity commissions chose to remain independent. The change to centralised borrowings is based on the principle that big borrowers have more clout in competing for funds. The CBAs, active in debt management, have had considerable impact, consolidating debt into a few large lines with a common maturity and coupon which brought an unprecedented element of liquidity to the market in state government paper. *Abbrev.* **CBA.**

Centrale de Livraison de Valeurs Mobilières a computerised system for the delivery, settlement and safe custody of eurobonds and other securities. Founded in 1970 by a group of international financial institutions, the system operates from Luxembourg. *Abbrev.* **CEDEL.**

CEO *abbrev.* **chief executive officer.**

CER *abbrev.* **Closer Economic Relations.**

certificate for automobile receivables pass-through securities issued by a trust against a pool of car loans. The certificates are bought and traded by institutions. *Abbrev.* **CAR.** See **securitisation.**

certificate of amortising revolving debt pass-through securities issued by a trust that has acquired credit-card receivables. One of a number of instruments created by Salomon Brothers. *Abbrev.* **CARD.**

certificate of deposit a negotiable bearer security issued by a bank or company as proof of debt. A certificate of deposit is repayable at a fixed date. The paper trades at a discount from face value and bank certificates of deposit trade at rates similar to equivalent maturities of bank-accepted bills of exchange. *Abbrev.* **CD.**

certificates of accrual on treasury securities receipts written against US treasury bonds sold at a deep discount from face value, paying no interest during the life of the bonds and full face value on maturity. Devised by Salomon Brothers, these zero-coupon securities are listed on the New York Stock Exchange and actively traded. *Abbrev.* **CATS.** See **DINGOS, TIGR.**

certificates on government receipts Lehman's equivalent of Merrill Lynch's TIGRs and Salomon Brothers' CATS, these are securities representing future principal/coupon payments to be made on specified issues of US Treasury bonds. *Abbrev.* **COUGARs.**

certified practising accountant an accountant who has qualified under the auspices of the Australian Society of Certified Practising Accountants which, unlike the Institute of Chartered Accountants in Australia, does not insist on a university degree as part of the qualification nor a period with a professional accounting firm. A certified practising accountant takes the exams set by the society. See **chartered accountant.**

CFTC *abbrev.* **Commodities Futures Trading Commission** (US).

chain of title the list or chain of ownership of a security or property throughout its life. In the days before Austraclear, when bills of exchange were physically traded instead of transactions being electronically recorded, the list of endorsers appeared on the back of the bill showing who had bought and sold it and thus who had a contingent liability through the bill until it matured. The chain of title to real estate is recorded in the series of conveyances between the various owners. See **bill of exchange.**

chalkie a breed that became rare with the advent of electronic trading in stock exchanges. Chalkies marked the prices at which the listed stocks traded, with a piece of chalk on a board. Also *board boy.* See **Stock Exchange Automated Trading System.**

CHAPS *abbrev.* **Clearing House Automated Payments System.**

Chapter 11 the section of the US Bankruptcy Reform Act which sets out flexible measures for dealing with business insolvency. Before the introduction of Chapter 11, in cases of insolvency creditors had complete claim over owners, which often led to the collapse of a business that might otherwise have survived. Unless a court rules to the contrary, Chapter 11 enables the indebted owner to remain in control of the business. Creditors and owners can devise plans to restructure debt and arrange repayment schedules.

charge a form of security, giving a creditor such as a bank, finance company or individual lender the right to receive payment from a specific fund or from the proceeds of the sale of a specific item or property or asset of a business, should a borrower default. If your bank has a charge over, say, your car, it may have the power to sell that car and recover its debt from the proceeds if you default on a repayment of a debt to the bank or on performance of any other obligation.

All charges are either fixed or floating. With a *fixed charge,* a lender or creditor has a charge over and claim to a particular asset of the borrower (debtor) as security for a debt. With a *floating charge* the creditor's charge or claim is not lodged over one particular asset of the borrower but fixes on a specific asset or assets if the borrower defaults. This process of fixing on an asset or group of assets is called crystallisation of the charge. A floating charge leaves the debtor free to sell, buy and vary the assets subject to the charge until he or she defaults, at which time the floating charge crystallises and the lender can deal with any of the assets then existing. See **prior charge.**

chartered accountant someone who has met the specific academic and professional requirements of a body such as the Institute of Chartered Accountants in Australia. Prerequisites to being able to use the title chartered accountant are a university degree, participation in the professional year (passing exams set by the institute) and either three years with a professional firm or following a commercial program. See **certified practising accountant, Institute of Chartered Accountants in Australia.**

chartists in today's language, cartographers of the economy, interest rates, exchange rates and stock and commodity prices. (The word has nothing to do with the nineteenth-century economic and social reform movement Chartism.) Chartists — technical analysts — rely on plotting graphs to show trends and likely future directions; they inhabit the opposite camp from the `gut-feel' traders or the `fundamentalists' who rely on economic theory. Chartists draw their maps carefully but often are surprised by the peaks and valleys the real world can produce. See **fundamentalism.**

cheque an unconditional order in writing to a bank or other cheque-issuing institution by its customer, requesting the issuer to pay a specific sum to a specified person or business entity (although a cheque made out to `cash' or `bearer' can be exchanged for cash by whoever hands it to the issuer, bank or other institution for payment). A cheque becomes `stale' if not negotiated within fifteen months of being issued and may be rejected by a bank or other issuer. See **cheque account, Cheques and Payment Orders Act.**

cheque account an account offering depositors access to their funds by writing cheques which will be honoured by the issuer (bank, building society or credit union) provided sufficient cleared funds are in the depositor's account to cover the amount for which the cheque was written or if the account operates with a line of credit (overdraft facility or limit) that has not been fully used. Cheques were the first stage in the cashless society; plastic cards and electronic banking came next. Traders often require identification from people paying by cheque. If there are insufficient cleared funds in a cheque account to meet the amount of a cheque, the bank or other issuer can `bounce' (dishonour) the cheque, ie, refuse payment to the presenter. Cheque accounts now generally pay interest on credit balances. See **bank, bounce, clear, drawer, uncleared funds.**

Cheques and Payment Orders Act the principal piece of legislation governing the rights and obligations of parties to a cheque. Before this act, these rights and obligations were governed by the Bills of Exchange Act; however, wider use of cheques by the general community made it necessary to introduce separate legislation clarifying the law relating to cheques. Provisions of the act also facilitate electronic rather than physical presentation of cheque details and allow non-bank financial institutions to issue a cheque-like instrument, a payment order. *Abbrev.* **CPOA.** See **cheque.**

cherrypicking found in insolvency and bankruptcy proceedings, this refers to the practice of selecting contracts favourable to the bankrupt as those to be enforced and reneging on obligations to unsecured creditors. Netting and offset agreements used in swaps have been structured to prevent this.

CHESS *abbrev.* **Clearing House Electronic Subregister System.**

Chicago Board of Trade the largest commodity exchange in the world. Founded in 1848, it accounts for about half of the turnover in futures contracts in the US and the bulk of the world's grain futures trading. The CBOT offers futures contracts in a range of commodities, from soybeans to long-term US government bonds. *Abbrev.* **CBOT.**

Chicago Board Options Exchange a Chicago-based exchange concentrating on trading options contracts such as those over the S&P 100 and S&P 500 indexes. *Abbrev.* **CBOE.** See **S&P 500.**

Chicago Mercantile Exchange the second largest commodity exchange in the world. The Merc, as it is known, began life in the nineteenth century as the Chicago Butter and Egg Board, and its name changed to the present in 1919. Contracts are available in a wide variety of commodities, such as live hogs, frozen pork-bellies and frozen skinned hams. Through the International Monetary Market, a division of the Merc, the exchange trades currency futures and futures contracts based on financial instruments including the eurodollar contract which is the world's largest futures contract. *Abbrev.* **CME.** See **International Monetary Market.**

Chicago School named after the University of Chicago, which has become associated with notable free-market economists such as Milton Friedman. Many of them would support the idea that inflation can be controlled by controlling the money supply, though disciples of the Chicago School are not necessarily all monetarists. They are sceptical of the benefits of regulation and government interference in the economy. See **Friedman, Milton** in **economists, quantity theory of money.**

chief executive officer a title favoured by heads of companies. The chief executive officer might be the managing director or the executive chairman of the board; he or she is the person responsible for running the company according to board policies. *Abbrev.* **CEO.**

Chinese walls the ethical rather than physical separation of different divisions of a financial or other institution to avoid conflict of interest. For example, a `Chinese wall' is said to exist between the corporate advisory area and the broking division, to separate those giving corporate advice on takeovers from those advising clients about buying shares. The walls are thrown up to prevent the leaks of inside information which could influence the advice given to clients and could allow staff to take advantage of facts that are not yet known to the general public. Some Wall Street and City of London scandals in recent years have made something of a mockery of the notion of Chinese Walls, with well-placed executives of respectable firms trading illegally on inside information for their own benefit.

CHIPS *abbrev.* **Clearing House Interbank Payments System.**

churning trading for trading's sake, or to push up prices or generate commissions.

cif *abbrev.* **cost, insurance, freight.**

claim a right, evidence of something due, title to something such as an asset or sum of money. In law, a claim is an assertion (by a claimant) that he or she has a right to some legal remedy. The word now has a number of derived meanings similar to `title' or `security'.

class (of options) options of the same type, eg, put or call, based on the same underlying contracts or shares are said to be in the same class.

classical economics the foundations of classical economic theory were laid by economists in the late eighteenth century, led by Adam Smith. Their ideas were further developed by Malthus, Ricardo and Mill (and by neo-classical economists in the US). Classical economics focuses mainly on the long-term dynamics of growth and development. The key contribution to this line of thought was the idea of a physical surplus of output over inputs. This made distribution the central theme; who gets what and why. Most thinkers believed in the `invisible hand', in minimum government interference. Their theory of value stressed the supply side — the cost of production — rather than the role of consumer demand. Classical economics also provided important foundations for Marxian economics. The theory enjoyed a revival in the 1980s in macroeconomics and in a quite different manner among `post-Keynesians' at Cambridge and elsewhere. However, the 1990s have seen something of a retreat from the extremes of classical economics towards the view that there is *some* role for government. See **Cambridge School, Keynes, John Maynard** in **economists, neo-classical economics.**

clean float see **float.**

clear to process a cheque or other payment instrument so that money is transferred from the payer's account to the payee's account. When Ms Smith deposits a cheque or other payment in her account, it is processed through the clearing system. Ms Smith's financial institution (which in most cases has credited her with the amount of the payment) is then reimbursed by the sender's financial institution (ie, at settlement). See **clearing, clearing house, direct clearer, settlement.**

cleared funds the proceeds of cheques and other payment instruments that have become available for withdrawal after a specified waiting period (the waiting period for the proceeds of a cheque is often set at five working days). The length of the waiting period is determined by the beneficiary's bank and can also depend on the type of payment instrument involved (eg, the proceeds of electronic transfers generally become cleared funds more quickly than do cheques). The concept of cleared funds is different from that of a cleared payment. See **clear, clearing, clearing house, cleared payment.**

cleared payment a payment instrument (eg, a cheque) which has been sent by the beneficiary's financial institution to the payer's financial institution through the clearing system. See **clearing, clearing house.**

clearing in banking, the mutual exchange of debits and credits by financial institutions, either at a centralised clearing house or, more commonly, bilaterally. Premises exist in each Australian capital city where direct clearers may meet during the day and after the close of business to sort and exchange the day's cheques and other payment instruments which have passed between financial institutions during the day. Cleared payments are those cheques and other payment instruments which have been exchanged between financial institutions during the day. In futures, clearing services on contracts are provided by a clearing house which in Sydney is the Sydney Futures Exchange Clearing House (SFECH). See **clearing house,**

direct clearer, exchange-settlement account, Sydney Futures Exchange Clearing House, uncleared funds.

clearing bank see **direct clearer**

clearing house centralised premises where direct clearers meet to sort and exchange cheques and other payment instruments drawn on each other. In Australian banking, many payment instruments are bilaterally exchanged between direct clearers at mutually agreed premises, although there are still specifically designated locations in each capital city where physical instruments are exchanged. In futures trading, a clearing house is an organisation that maintains a continuous record of futures market trading. The clearing house has a separate identity from the futures exchange, although many clearing houses are exchange-owned. Clearing services for the Sydney Futures Exchange are provided by the Sydney Futures Exchange Clearing House (SFECH), a wholly-owned subsidiary of the SFE. See **Australian Payments Clearing Association, International Commodities Clearing House, direct clearer, Sydney Futures Exchange Clearing House.**

Clearing House Automated Payments System operated by the UK clearing banks, this provides centralised clearing of payments and settlements. *Abbrev.* **CHAPS.**

Clearing House Electronic Subregister System a computerised subregister of shareholdings, managed by the Australian Stock Exchange to facilitate settlement of transactions by stockbrokers, institutional investors and private investors sponsored into the system. The system enables the speedy electronic transfer of ownership of securities without having to rely on paper documentation. *Abbrev.* **CHESS. See Flexible Accelerated Securities Transfer, uncertificated shareholding.**

Clearing House Interbank Payments System New York's electronic system for making payments between banks which are members of the system, associate member banks and account holders of those banks. It is the formal name for the US equivalent of the Australian banks' clearing system. *Abbrev.* **CHIPS.**

CLM *abbrev.* **career-limiting move.**

close out in futures, foreign exchange and derivatives trading, to liquidate a position or fulfil an obligation by cancelling a contract (close-out by termination). Close-out by offset would involve, say, taking an equal and opposite position; for example, a trader who has bought a futures contract would close out, or exit the market, by selling a futures contract.

closed economy a theoretical concept describing a country which does not trade with the rest of the world.

closed register a company share register (list of shareholdings) so tightly held that virtually no exchange of shares takes place except between existing holders. There is no way for `outsiders' to gain entry to the register. See **share.**

closed shop a business or industry in which employees must be members of particular trade unions; employers can hire only union members. Closed shops are promoted by unions to protect employment opportunities for their members and to guard against dilution of working conditions.

Closer Economic Relations the agreement signed in December 1982 between Australia and New Zealand, under which the two countries were to become a fully free-trade area by 1995. Trade in goods between the two countries has been free of tariffs since the late 1980s. A mutual recognition agreement applying to product standards and occupations was proposed, to take effect from the beginning of 1997. *Abbrev.* **CER.**

CME *abbrev.* **Chicago Mercantile Exchange.**

CMO *abbrev.* **collateralised mortgage obligation.**

cockdate see **broken date**

cocktail swap a complicated transaction based on several different types of swaps and involving more than two counterparties.

codicil a document made subsequent to a will or deed, changing certain conditions or terms contained in the original.

cofinancing cooperation between lending agencies such as the World Bank or the Asian Development Bank and commercial lenders such as trading or development banks. The lending agencies cannot always provide sufficient funds to meet the needs of developing economies and funds are supplemented by loans from additional sources.

collar a combination of minimum and maximum interest rates. The maximum, or ceiling, works like a cap; the minimum sets a floor so that if the market rate falls below a stipulated level the buyer of the collar reimburses the seller for the difference between the market and the agreed rate. Collars are cheaper than caps because the seller has the chance to benefit if interest rates fall below the minimum agreed to under the collar. Also *cylinder, tunnel.* See **cap, floor.**

collar swap an interest-rate swap with a collar applying to the floating-rate payment stream.

collateral property or assets made available by a borrower as security against a loan. A comedian once boasted of an uncle who was so untrustworthy that when he paid cash the family had to put up collateral. More commonly, you might pledge your boat as additional security against a mortgage on a holiday home. `Collateral' is sometimes called `security'. See **security.**

collateralised mortgage obligation mortgage-backed securities issued in the US since 1983. The mortgage cashflows are segmented into categories with short, medium and long-term mortgage collateralised bonds, ranging from five to thirty years. *Abbrev.* **CMO.**

collectables investments of a genteel sort, such as paintings, artefacts, coins and antiques which are expected to increase in value.

collusion conspiratorial agreement between parties, usually to the disadvantage of others.

combination option a futures market strategy that involves buying and selling the same number of put and call options, though not at the same strike price. It is similar to a spread. Also called a **strangle.** See *option spread.*

Comecon *abbrev.* **Council for Mutual Economic Assistance.**

Comex *abbrev.* **Commodity Exchange of New York.**

comfort letter a letter issued by a person or an organisation of well-regarded status, containing an expression of support for another person or organisation. The party issuing the comfort letter does not assume any legal responsibilities but is stating an opinion or laying out facts in support of the subject of the letter.

comingled fund a fund comprising the assets of a number of smaller funds, similar to a master trust or trust. See **master trust.**

commercial bill a non-bank bill of exchange (loan) generated by merchant or investment banks and companies. The bill is evidence of the borrower's debt and commitment to repay at the due date. These bills are covered by the Bills of Exchange Act 1909-73, as are bank bills, but they are called `commercial' to indicate they are issued by institutions other than banks. See **bill of exchange, paper.**

commercial paper the technical term used in the US to describe domestic short-term promissory notes issued as evidence of debt. The issuer/seller/borrower raises the funds for a fairly short period (one to six months) most likely with periodic rollovers. Funds raised this way are usually used for working capital and liquidity. In Australia promissory notes, commercial bills and non-bank certificates of deposit are types of commercial paper. See **euro-commercial paper.**

commitment fee a charge made by a bank or merchant bank when loan facilities are established for a borrower.

Committee for Economic Development of Australia an independent organisation providing an open forum for discussion and exchange of ideas on the Australian economy. Established in 1960 by a group of businessmen and academics, led by Sir Douglas Copland, it has more than 500 members throughout Australia, representing a cross-section of the business and academic communities, and has links with similar organisations overseas. The aims of the committee concentrate on initiating objective research into issues concerning national economic development and fostering public debate and understanding of economic policy. *Abbrev.* **CEDA.**

Committee of Economic Inquiry see **Vernon Report.**

Commodities Futures Trading Commission a US federal agency established in 1975 to regulate commodity trading in the US. *Abbrev.* **CFTC.**

commodity any physical item produced for trade. In futures trading, commodities usually fall into a number of categories, such as wool, grain and other agricultural products, and precious metals such as gold and silver.

Commodity Exchange of New York founded in 1933, the exchange flourished principally on business in gold and silver contracts. Its fortunes flagged in the early 1990s as investors turned increasingly to financial instruments. In 1994 the exchange was merged with the New York Mercantile Exchange (Nymex), the world's leading futures market for oil, to produce a merged entity that is the world's dominant commodity exchange. *Abbrev.* **Comex.** See **Nymex.**

commodity swapa swap where counterparties exchange cashflows based, at least on one side of the swap, on the price of a given commodity.

commodity option an option to buy or sell (call or put) a commodity such as oil or gold or a commodity futures contract at a specified strike price and within a specified period.

common agricultural policy an agreement adopted by the European Economic Community to maintain agricultural prices and therefore farmers' income. *Abbrev.* **CAP.**

Common Market see **European Union.**

commonwealth bond a security issued by the commonwealth government, as borrower, in return for cash from investors who buy the bonds. Investors are lending their money to the government for a given period (the life of the bond, unless they sell the bond before it matures) in return for interest paid, usually half-yearly, by the government. Commonwealth bonds are sold through periodic tenders or auctions. Also **treasury bond.** See **bond, tender.**

communism ideally, a socioeconomic system in which the means of production, distribution and exchange are under common ownership. In practice, political and economic control remain in the hands of a ruling ideological elite, usually the Communist Party. Neither of the major communist governments — the former Soviet Union and the People's Republic of China — claimed to have achieved pure communism, which would have required the abolition of wages and money. Karl Marx, to whom the concept appeared an ideal, did not provide a blueprint of how such an economy could be organised and run.

commutation in superannuation, the conversion of a pension or annuity entitlement into a lump sum.

company any two people can form a private company for lawful reasons (a move is under way to reduce this to one person). The formation of a public company requires three directors. The form of a company can vary:

- in the most common type, a *company limited by shares,* shareholders' liabilities are limited to the amount of the unpaid shares;
- a *company limited by guarantee* is generally used for clubs in which members' liability is limited by the company's memoran-

- dum of association to an amount that has to be contributed should the company be wound up;
- a *company limited by shares and by guarantee* imposes a double liability on the shareholders, as they must contribute the value of the unpaid shares as well as whatever amount is specified in the memorandum of association should the company fold;
- an *unlimited company* is an incorporated partnership in which the members are not limited in their liabilities;
- a *no-liability company* is one in which shareholders are not bound to pay calls on their shares. This structure is restricted to mining companies. See **no liability.**
- a *proprietary limited company (private company)* is limited to no more than 50 members and operates with restricted right of transfer of shares. A proprietary limited (Pty Ltd or P/L) company can neither invite the general public to subscribe for its shares or debentures nor take deposits from the public.

company doctor a colloquialism for a management expert or consultant engaged to diagnose the problems of an ailing company and treat it by prescribing policy changes and corporate reorganisation. It also refers to an in-house medical practitioner employed to dispense aspirin, sticking plaster and sick-leave authorisations to employees.

company tax a tax levied on the income of companies, separately from the income of its shareholders. Company tax was levied at a flat rate of 46 cents in the dollar from the 1976/77 financial year; at 49 cents from 1986/87 to 1987/88, 39 cents from 1988/89 to 1992/93, 33 cents from 1993/94 to 1994/95 and 36 cents from 1995/96. From 1978/79 it has been collected in quarterly instalments, bar a brief interruption in the early 1990s when a different system was tried. Quarterly instalments resumed from 1994/95, applying, after a two-year phasing-in period, to all companies with tax of $8000 or above.

company town a one-industry town in which the main employer controls secondary activity and infrastructure such as housing, power and water supply, roads and other services. The industry may also own or subsidise small businesses in the town.

competitive advantage a concept developed by economists in the late-twentieth-century climate of newly emerging economies and vigorous international jousting for trade. The idea, promoted by some respected commentators such as the American Michael Porter (in his book *The Competitive Advantage of Nations*), suggests that in an age of high technology and information management, a country's economic success relies less on fundamental factors such as the cost of labour and materials than on cultivating efficient groups of companies or industries that can dominate particular markets.

compliance costs expenses incurred in meeting the requirements of legislation or regulations. For companies, these can be substantial, including the costs of accountants, experts' reports, due diligence investigations, keeping records and lodging official documents, and the value of the time these occupy.

complying pension/annuity so called because it has to comply with certain requirements of the Superannuation Industry (Supervision) Act (SIS). It arises from the investment of a capital sum which generates a regular income or private pension, usually paid annually and at a level fixed for the life of the person who made the investment (or a beneficiary). A complying pension or annuity attracts a concessional level of taxation. See **annuity, superannuation, Superannuation Industry (Supervision) Act.**

compound interest interest paid on accumulated interest as well as on the capital invested. For example, $100 invested for one year at 5 per cent a year would yield $5 in its first year and at the end of the second year would pay 5 per cent on $105 (being the original $100 plus the $5 earned in the first year). The second year's interest would be $5.25, which would be added to the $105 when calculating the third year's interest entitlement. Under simple interest, 5 per cent would be earned each year on the capital invested, ie, the original $100 would yield $5 for each year it was invested. See **flat rate of interest, simple interest.**

compound option an option on an option, such as buying the right to buy a call option or the right to sell a call option. These are used mostly in fixed-interest and foreign-exchange markets where a trader is uncertain about buying the kind of risk protection provided by an option. The buyer of a compound option initially pays a reduced premium but may have to pay a second premium if the option is exercised.

comptroller of the currency a US federal office established in 1863 to monitor the regulation of commercial banks.

computer-assisted trading system the trading system used in the US, Canada and Europe, similar to the Australian Stock Exchange's automated trading system. *Abbrev.* **CATS.**

Conciliation and Arbitration Commission see **Australian Conciliation and Arbitration Commission.**

condor a complex option spread, similar to a butterfly spread but where all options have different strikes. See **butterfly spread.**

confirming house a financial institution acting as an intermediary between overseas traders and local importers and exporters. A confirming house is chiefly engaged in financing the movement of goods into the country by offering short-term credit to importers and guaranteeing, or confirming, payment to the suppliers.

conglomerate a merging of a number of businesses into one large, multi-purpose organisation which (ideally) operates more efficiently.

consolidated accounts financial statements representing the combined position of a group of companies, ie, parent and subsidiary companies. Also *group accounts.*

consolidated profit the profit of a group of companies, comprising parent and subsidiaries.

consortium a group of organisations, sharing the same goals, which combine their resources and risks. Consortium banking was popular in the late 1970s, when a number of major banks would combine to form a merchant-banking or finance-company offshoot. Many of Australia's merchant banks were formed as consortia with European, Asian and US banks teaming with Australian banks.

consumer credit loans made available to individuals, generally through hire purchase (now called consumer credit), personal loans or credit cards.

consumer demand the demand or desire of individuals to buy goods and services. Consumer spending constitutes the realisation (usually only partial) of such demands. Economists suggest that consumer demand depends on such factors as income, wealth, interest rates, expectations about prices and confidence generally about the future.

consumer price index compiled by the Australian Bureau of Statistics, the consumer price index was introduced in 1960 as a replacement for the Retail Price Indices as Australia's general indicator of the rate of change in prices for consumer goods and services. The consumer price index measures movements in a list of goods and services, with about 100 000 prices regularly collected for each quarter's result. The consumer price index is not, strictly speaking, a cost-of-living index which would have to include less tangible concepts such as living standards and the adjustments people make to changing prices. The index reflects the cost of a fixed list of goods and services, with the list periodically reviewed to ensure that it reflects as accurately as possible the spending patterns of the population. *Abbrev.* **CPI.**

contango a futures market expression to describe a situation in which the spot (current) prices are lower than those for transactions in forward (future) months. See its opposite, **backwardation.**

contingent liability a potential expense, one that may or may not eventuate, depending how events turn out, but which should be provided for in properly kept accounts or budgets. Examples of a company's contingent liabilities might include damages from a pending lawsuit against the company; guarantees given to secure another company's borrowings; or having the company's name as endorser on a bill of exchange that is yet to mature.

continuous disclosure the Corporations Law requires listed companies and other entities which raise money from the public to keep the investing public informed of developments that could affect the price of the company or fundraiser's shares or securities, except where that information is confidential. See **Corporations Law.**

contracta legally enforceable agreement between individuals or entities. In real estate, an exchange of contracts accompanied by payment of the deposit is a binding commitment to buy and sell. An employment contract guarantees remuneration, conditions and length of service. In futures markets, a contract is the unit of a commodity traded on the futures exchange, for example a bank-bill futures contract is $A500 000 face value of bank bills of exchange. The contract is a bilateral agreement between buyer and seller, defined as a `standardised agreement to buy or sell commodities or securities at a date in the future, at a price agreed today'. See **futures, hedge market.**

contract date the date on which two parties enter into a transaction (usually foreign exchange or futures).

contract note confirmation sent from broker to client detailing the purchase or sale of shares carried out on the client's behalf.

contractual savings see **forced savings.**

contributing shares shares on which only part of the capital amount and any premium due has been paid. The outstanding amounts are payable at a time chosen by the company issuing the shares. Also **partly-paid shares.**

controlled adjustable rate preferred stock a US term to describe a preferred stock (preference share) whose dividend is adjusted from time to time to bring it into line with the current rate on US treasury bonds, plus a premium. *Abbrev.* **CARPS.**

controlling interest a stake of sufficient size to allow the holder to control the company, although this would also depend on the spread of existing shareholders. A controlling interest need not represent a majority of the company's capital.

convention a gathering of people with similar interests, ostensibly to discuss matters of mutual professional importance, and often associated with travel, expense accounts and resorts with good golf courses.

conversion an arbitrage strategy used in options trading to take advantage of a temporary mispricing, this involves using options to create a synthetic long or short position which is simultaneously offset by the purchase or sale of the underlying instrument. The objective is to profit from a relative mispricing between, say, a call option and a put option with the same strike price and their underlying instrument.

conversion issue a new issue of bonds timed to coincide with the maturity of an earlier issue, usually with an incentive to persuade investors to exchange the old issue for the new issue.

conversion premium a premium paid by an issuer who wishes to redeem bonds before maturity.

convertible currency a currency readily exchanged for another, or for gold. Major currencies such as the $US, sterling and the deutschmark are easily converted. Minor, less stable currencies may be regulated by strict government-imposed exchange controls and therefore difficult or impossible to buy and sell; they are unattractive investments, not in demand, and usually associated with countries with a high inflation rate and high interest rates. See **hard currency, soft currency.**

convertible note a fixed-interest security issued to a lender by a company in return for cash. It differs from a debenture in that it offers the investor the option of converting the loan at a later date into equity (shares) in the issuing (borrowing) company.

convertible redeemable preference shares shares which can be redeemed after a specific date, ie, exchanged for cash by the issuing company. They are broadly similar to convertible notes, in that they may be converted to ordinary shares, though the holders of convertible redeemable preference shares rank after noteholders should the issuing company be wound up. See **convertible note, redeemable preference shares.**

converting preference shares similar to convertible preference shares but compulsorily convertible to ordinary shares at a variable price which is determined by the directors of the issuing company and is based on prevailing market prices.

convexity a measure showing the sensitivity of the change in the price of a fixed-interest security in response to a change in interest rates. In the context of options, it measures the sensitivity of the change in the option's value for a change in the value of the underlying instrument (known as gamma). See **gamma.**

conveyancing the legal procedures entailed in transferring deeds of property from seller to buyer. The procedures may include searches of former title changes to verify the chain of ownership and the registration of the current change with the relevant government authority.

cooperative at one time an organisation of individuals who had combined for mutual benefit, such as buying, selling or bartering goods in bulk. The term has taken on a more formal definition in the commercial world, and cooperative societies are governed by legislation and regulation. See **building societies, credit unions, friendly society.**

Copland, Douglas see **economists.**

cornering the market buying so much of a commodity or share that a degree of control over its price is achieved.

corporate an adjective, as in `corporate client', that has become popularly used in business as a noun; for example `a corporate' will indicate a party which is a company rather than an individual. A dictionary definition of corporate is `belonging to a united body'. The word derives from the Latin *corpus* meaning `body'.

Corporate Affairs Commission state government agencies which operated from the 1970s as delegates of the National Companies and Securities Commission, monitoring the activities of stock exchanges, the securities industry and a range of financial institutions. They incorporated companies, administered the provisions of the Companies Code, supervised companies and trusts which raised funds from the public and ensured they observed the provisions of the legislation. The role of the corporate affairs commissions has been taken over by the state offices of the Australian Securities Commission. *Abbrev.* **CAC.** See **Australian Securities Commission, Corporations Law, National Companies and Securities Commission.**

corporate menopause general disenchantment with business life. See **burnout.**

corporate raider a takeover merchant; someone who trades in companies rather than in the products of the companies, making a profit on undervalued shares or taking control and selling a company's assets. See **asset stripping.**

corporate senate a watchdog committee of company directors, established separately from the board and elected by shareholders. The corporate senate exercises its powerful supervisory functions wholly in the interests of shareholders, as distinct from the board or management. In companies using this `binary' board structure (more common in Europe and the US than in Australia) the articles of association may give the corporate senate the authority to determine accounting policies and a power of veto over board decisions where conflicts of interest exist. See **board meeting, audit committee.**

corporate strategy a high-sounding label for thinking up ways for a company to conduct its business and make more money.

corporation an association of individuals recognised under law as having an existence and rights and obligations separate from those of the individuals. As a whole, the individuals form a legal entity — the corporation. See **incorporation.**

Corporations Law legislation which came into force in 1991, replacing the earlier cooperative scheme of legislation known as the

Companies Code in each state and territory, so that Australia operates with national legislation covering companies, securities and futures markets. The earlier Companies Code forms the bulk of the law, in chapters one to five and nine, while the former Companies (Acquisition of Shares) Code, Securities Industry Code and Futures Industry Code form chapters six, seven and eight of the Corporations Law. See **Australian Securities Commission.**

corporatisation changing the structure of a government or semi-government body so that it operates on business lines, with a mandate to trade profitably and an obligation to account to the government for its financial performance. Often the first step towards privatisation, but sometimes merely an illustration of governments' trend towards the devolution of financial responsibility. See **privatisation.**

correction a movement up or down in market prices that is seen as reversing an earlier trend. Usually a correction refers to a shift in prices to a more sustainable level after a swift but unsustainable rally or fall.

correlation the historical statistical relationship between different markets, which can be used to take positions or cross-hedge or construct new instruments.

correlation risk the risk that the price of something will change because of a change in the correlation. This can be offset by correlation hedging. See **correlation, delta.**

correspondent bank a bank acting as a point of contact for another in a country or state where the second bank does not have a branch or agency. Each party maintains accounts with the other, in nostro and vostro (ours and yours) accounts. See **nostro account, vostro account.**

corridor a combination of two caps, one bought by a borrower at a predetermined strike price and a second sold by a borrower at a higher strike which brings down the cost of the first.

corset a set of restrictions placed on UK banks in 1973 to control the growth of some forms of interest-bearing sterling and foreign-currency deposits. The corset was resented by the banks because it steered business towards other financial institutions. When the corset was removed in 1981 the UK money supply waistline expanded alarmingly.

cost accounting a method of accounting used within a firm to attribute direct and overhead costs to production and other functions so that management can determine the most efficient use of human and capital resources.

cost-benefit analysis evaluation of the pros and cons of a course of action. Is it worth spending or doing X to gain or achieve Y? It is impossible, of course, to put a dollar value on all costs and benefits.

cost-cutting trying to improve business performance by using cheaper methods of production, for example retrenching some workers. It may require shedding less productive activities. It can be instructive to assess and evaluate which products or services in your operation are generating cash.

cost, insurance, freight the full costs of imports, not merely the price of goods once landed. The term is used to describe the charge where the purchaser (importer) pays the supplier a single price for delivered goods. *Abbrev.* **cif.** See **free on board.**

cost of carry the cost of funding a physical position which has to be priced into a transaction or arbitrage, eg, a physical/futures arbitrage where a physical position in, say, bank bills, has to be funded. The cost of carry covers any out-of-pocket expenses incurred through an investment in bonds, shares, currencies or commodities.

cost-plus pricing working out a price ticket for a manufactured item which takes account of the fixed and variable expenses of production and puts a bit of profit on top.

cost-push inflation see **inflation.**

COUGARs *abbrev.* **certificates on government receipts.**

Council for Mutual Economic Assistance established in January 1949 as a non-voluntary association of communist countries trading with each other, often by exchanging commodities instead of buying and selling. Comecon was formally dissolved in June 1991 as part of the transition process towards new international financial relations between the former Soviet Union and Eastern Europe. Founding members of Comecon were the Soviet Union, Bulgaria, Czechoslovakia, Hungary, Poland and Romania; subsequent members included the then German Democratic Republic, Mongolia, Cuba, Vietnam and Albania. Comecon provided a framework for trade and cooperation but never functioned as a `common market'. *Abbrev.* **Comecon.**

Council for Security Cooperation in Asia-Pacific a largely academic organisation established in June 1993 to provide a structured process for regional confidence building and security cooperation among countries and territories in the Asia-Pacific region. The council aims to provide support for the ASEAN Regional Forum (ARF). *Abbrev.* **CSCAP.** See **ASEAN Regional Forum, Pacific Economic Cooperation Council.**

counterparty risk the credit and performance risk in any financial transaction, such as a swap or foreign-exchange transaction. It is the risk that the party on the other side of the transaction might not meet its obligations. In futures trading, counterparty risk is with the clearing house.

countersignature an additional signature on a document to guarantee its authenticity. A precaution against error or fraud, it shows that the document has been scrutinised by another.

countertrade a generic term used to describe any form of international trade that involves an element of reciprocity. The US Department of Commerce has defined a countertrade transaction as one in which `a seller provides a buyer with deliveries and contractually agrees to purchase goods from the buyer equal to an agreed percentage of the original sales contract value'. Countertrade involves a bilateral agreement between two countries, one a seller, one a buyer, to exchange a specific amount of goods with no exchange of money. See **barter.**

countervailing duty a duty imposed on imported goods when the importing country believes the price of the goods to have been subsidised by the exporting country.

country limit the maximum amount a lender will provide to borrowers in a particular country, irrespective of the status or type of the borrower or of the currencies involved. Country limits form part of a lender's armoury of risk-management procedures.

country risk the risk associated with dealing with another country, ie, a cross-border transaction, including legal, political, currency and settlement risks. See **sovereign risk.**

coupon the annual rate of interest promised to the buyer of bonds. A 10 per cent coupon entitles the holder to receive $10 a year for each $100 invested, for the life of the bond, paid in two half-yearly instalments.

coupon swap a conventional fixed-for-floating interest-rate swap.

covenant an agreement between two or more parties that binds them from certain actions, eg, a borrower is bound to provide financial information to a lender, or is to refrain from incurring further debt, during the life of a facility.

cover note a temporary document. In insurance, a cover note is issued to an applicant, usually for a month, to cover the risk until an official insurance policy document can be prepared and delivered, and the appropriate premium paid to the insurance company.

covered call a short call option covered by a long position in the underlying asset.

covered interest arbitrage a form of riskless arbitrage, this technique involves exploiting the differential between interest rates and forward points which are out of line.

covered option an option contract backed by ownership of the underlying physical asset (security or commodity). See **naked option.**

covered warrant a warrant issue backed by the issuer's holding in the underlying asset (security or commodity).

covered writer a call option writer owning the securities or commodities over which the option is written. See **naked option.**

CPA *abbrev.* **certified practising accountant.**

CPOA *abbrev.* **Cheques and Payments Orders Act.**

crack spread an oil refiner's operating margin — the difference between the prices of crude oil and those for refined products.

Crawford Report the report of a committee chaired by Sir John Crawford, set up to investigate the possibilities of long-term structural readjustment of the Australian economy. The 1973 report called for a long-term commitment to the reduction of tariff levels. In the same year a 25 per cent across-the-board tariff cut was introduced which was criticised by many as being unselective in its impact. The Industries Assistance Commission was asked to prepare yet another report; the debate continues in the 1990s.

crawling peg see **exchange rate.**

credit in the context of monetary policy, the Reserve Bank uses credit — in the sense of funds provided to the private sector by financial intermediaries — as the measure of monetary movements, ie, whether in general more funds are being advanced or there has been a contraction in the volume of funds advanced. See **broad money, money supply.**

Credit is also the power to buy without money on condition that you pay later. Those using credit benefit from the immediate possession of the goods they desire; those giving credit benefit usually by charging interest on the deferred payments. If your bank account is `in credit' you have cash in the account. In accounting, credit is the opposite of debit. See **credit squeeze, debit, double-entry bookkeeping, hire purchase.**

credit card also known as plastic money, this is an increasingly popular facility enabling people to buy goods and services without having to handle cash. Bills for the amounts spent are presented periodically, usually monthly, by the credit-card company for payment in full or on extended, interest-bearing terms with a minimum payment required monthly. See **debit card.**

Credit Code (Act) state legislation uniform across Australia under an agreement among the various ministers for consumer affairs. Its thrust is that all providers of finance to consumers, where the purpose is `wholly or predominantly for personal, domestic or household purposes', must disclose to the borrower adequate details about the terms and conditions of a loan. The objective is to apply the principle of `truth in lending' and all contracts and guarantees must be legibly and clearly expressed. The cost of credit must be disclosed on a uniform basis to prevent deception and misrepresentation, and enable customers to make comparisons between the various products offered by different credit providers. Substantial penalties may apply for failure to make adequate disclosure as required by the legislation.

credit equivalent amount the amount that results from translating a bank or investment bank's off-balance-sheet liabilities into the risk equivalent of loans, using Reserve Bank of Australia guidelines. See **capital adequacy, risk-weighted assets.**

credit foncier a type of loan, structured with regular, usually monthly, repayments which incorporate principal and interest. Most mortgages operate this way. The term derives from the French *foncier,* meaning `of the land'; the French institution Credit Foncier de France dates from 1852 when it was established to provide house and land purchasers with low-cost mortgage finance. See **amortisation, mortgage.**

credit limit the maximum debt a customer is allowed to run up under a borrowing facility such as a line of credit, overdraft or credit card. Borrowers and lenders in money and foreign-exchange markets operate under credit limits which set ceilings on activities between individual companies.

credit rating a measurement of the creditworthiness of an individual or business. The rating is based on the opinions of banks, financial institutions and financial analysis to investigate stability and credit history. The computer age has seen the development of `banks' of such information providing instant references. See **S&P Australian Ratings, Dun and Bradstreet, Moody's Investors Service, Standard & Poor's.**

credit reference bureau one of the information `banks' which compile records of credit performance of individuals and businesses and provide the information to potential lenders. See **credit rating.**

credit risk the danger that a borrower will not repay a loan. This risk always exists; the degree of risk is assessed by credit analysts and is normally reflected in the interest rate charged and other conditions imposed by the lender.

credit risk premium an additional amount included in a security's yield (or discounted price) which reflects what could be lost if the issuer were to default. A company rated AAA would not pay a risk premium when issuing securities; a company rated BB or less would.

credit spread 1. the difference between two securities' yields based solely on differences in credit quality. 2. an option spread which, when initiated, produces a net cash inflow to a trader's or investor's account, eg, a bull call spread or a bear put spread. See **debit spread.**

credit squeeze the outcome of government monetary policy to restrict the expansion of credit. Under a credit squeeze, borrowers find it tougher to raise funds, in the sense that less credit is readily available, so, according to the theory, aggregate demand will be reduced. Australia had severe credit squeezes in 1961 and 1974, when trading banks were asked to reduce lending, savings banks made less money available for housing and interest rates rose sharply. On the demand side, high interest rates are designed to discourage borrowing, though this can take time as the late 1980s demonstrated when borrowers proved unusually persistent under high and rising borrowing costs. Financial deregulation altered the impact of a credit squeeze, in the sense that the government no longer directly rations credit. Rather, the price of credit increases (to discourage borrowing), the credit quality of borrowers deteriorates and private-sector banks cut back on the availability of credit.

credit union a financial cooperative, one of a number of varieties of non-bank financial institutions supervised by the Australian Financial Institutions Commission, which accept deposits from, and provide loans to, their customers (members). Credit unions evolved on the basis of a common bond among members, through employment or community interests; they offer funds for housing and provide consumer finance loans for purchases of items such as cars or boats. Credit unions have been a rapidly growing sector of Australia's financial markets; they made inroads into electronic funds transfer years ahead of the banks and have traditionally promoted an image of flexible hours and friendly service to customers through financial packages aimed at maximising convenience in money management. See **Australian Financial Institutions Commission, building societies, Credit Union Services Corporation (Australia) Ltd, friendly society.**

Credit Union Services Corporation (Australia) Ltd the peak credit-union body, responsible for policy development, central banking and settlement and a range of retail banking services for affiliated credit unions in Australia. Through a wholly-owned subsidiary, Credit Union Financial Services (Australia) Ltd, the corporation manages the liquidity of the credit-union movement. *Abbrev.* **CUSCAL.** See **credit union.**

credit watch a warning issued by a credit-rating agency regarding a bank or company whose credit-rating it expects to downgrade — that organisation has been `placed on credit watch'.

creditor someone to whom money is owed. A secured creditor is someone holding a security over an asset of the person or company owing him or her money and usually can realise (sell) the asset to recover the debt without having to bankrupt the debtor or (in the case of a company) put it into liquidation. See **debtor.**

creditor nation a country with a balance of payments surplus. See **debtor nation.**

creditors' scheme see **scheme of arrangement.**

cross rate a rate calculated using the rates of two currencies against a third (usually the $US) to arrive at the relationship of the two currencies with each other. For example, if one $US were equal to 1.5 deutschmarks and 97 yen, then one deutschmark would equal 65 yen. In Australia, a quote of the $A against any currency except the $A/$US quote is referred to as a cross rate. In the US, a sterling/yen rate would be a cross rate.

cross-currency and interest-rate swap see **currency swap.**

cross-currency basis swap an interest-rate swap that calls for each counterparty being a floating-rate payer in its respective currency.

cross-currency cap an option paying the holder the difference between the spread on two currency base rates and a strike spread.

cross-currency option an option struck at an exchange rate between two currencies, generally with its premium in a third currency.

cross-currency settlement risk a risk made famous in the 1970s by the failure of Germany's Herstatt Bank to pay what it owed in a foreign-exchange transaction after the other side had met its obligations. Cross-currency settlement risk is exacerbated by differences in time zones which often result in one party giving value (making its payment) before receiving value (receiving what it is due under the transaction from its counterparty). See **settlement risk.**

cross-currency swap see **currency swap.**

cross-elasticity (of demand) the impact on the demand for, say, cream if the price of milk rises. It helps determine whether or not goods are (economically speaking) in the same market.

cross-hedging a general term for hedging in different markets, say, offsetting the risk of one position by taking a position in another instrument or commodity whose features do not perfectly offset the position being hedged. For example, hedging a portfolio of semi-government securities with commonwealth bond futures. However, there is always the risk of mismatch.

crossing the situation where a broker acts on both sides of the transaction, as agent for the buyer and the seller of the same line of shares or futures contracts. Also **crossed trade, marriage.**

cross-subsidisation funding the loss or low return from one line of goods or services by raising the price of another. For example a bank or other lending institution might charge a less-than-economic rate on certain loans or services and compensate by charging a more-than-economic rate on other loans or services. The practice occurs less frequently in today's deregulated financial markets. See **unbundled.**

crossed cheque a cheque across which have been drawn two parallel lines with the words `not negotiable' written between them. A crossed cheque must be paid into a bank account and cannot be cashed over the counter.

crowding out occurs when a government, to finance a budget deficit, borrows much of the available cash, forcing interest rates higher and squeezing out private-sector borrowers. Its effect would then depend on the demand for funds and the readiness of the private sector to compete for cash. Keynesians deny that the concept exists. See **deficit spending.**

CSCAP *abbrev.* **Council for Security Cooperation in Asia-Pacific.**

cum coupon signifying that a buyer of a bond is entitled to the next interest payment due. See **ex coupon.**

cum dividend a label for shares which, when sold, carry an entitlement for the purchaser to receive a dividend due on an appointed day. When the seller picks up the dividend before selling, or retains the right to the dividend, the shares are `ex-dividend'. `Cum' in Latin means `with'.

cum interest securities traded `cum interest' carry the right to the next interest payment.

cum rights shares quoted `cum rights' are those whose price includes the right to a new issue. See **ex-rights.**

cumulative shares usually preferred shares whose holders accumulate or accrue dividend entitlements in years when the dividend is not paid by the company that issued the shares.

currency the form of exchange used by a country; its money. Currencies can be `hard' (strong and easily tradable, such as the dollar, yen, sterling and deutschmark) or `soft' (those for which there is little or no demand, perhaps because of the country's poor political or economic outlook). The following incomplete list of currencies suggests the variety. Many differ only in name; others with the same names have vastly different values.

Afghanistan	afghani
Albania	lek
Algeria	dinar
Angola	kwanza
Argentina	austral
Australia	dollar
Austria	schilling
Bangladesh	taka
Belgium	franc
Bolivia	boliviano
Brazil	real
Bulgaria	lev
Burma (Myanmar)	kyat
Cambodia	riel
Canada	dollar
Chile	peso
China	yuan
Colombia	peso
Cuba	peso
Czech Republic	koruna
Denmark	krone
Dominican Republic	peso
Ecuador	sucre
Egypt	pound
El Salvador	colon
Ethiopia	birr
Fiji	dollar
Finland	markka
France	franc
Germany	deutschmark
Ghana	cedi
Greece	drachma
Guatemala	quetzal
Guinea	franc
Haiti	gourde
Honduras	lempira
Hungary	forint

Iceland	krona
India	rupee
Indonesia	rupiah
Iran	rial
Iraq	dinar
Ireland	punt
Israel	shekel
Italy	lira
Japan	yen
Jordan	dinar
Kenya	shilling
Kuwait	dinar
Laos	kip
Lebanon	pound
Liberia	dollar
Libya	dinar
Madagascar	franc
Malawi	kwacha
Malaysia	ringgit
Mexico	peso
Mongolia	tugrik
Morocco	dirham
Mozambique	metical
Nepal	rupee
Netherlands	guilder
New Zealand	dollar
Nicaragua	cordoba
Nigeria	naira
North Korea	won
Norway	krone
Pakistan	rupee
Panama	balboa
Papua New Guinea	kina
Paraguay	guarani
Peru	sol
Philippines	peso
Poland	zloty
Portugal	escudo
Romania	leu
Russia	rouble
Saudi Arabia	riyal
Singapore	dollar
Slovakia	koruna

Somalia	shilling
South Africa	rand
South Korea	won
Spain	peseta
Sudan	pound
Sweden	krona
Switzerland	franc
Syria	pound
Taiwan	dollar
Tanzania	shilling
Thailand	baht
Tunisia	dinar
Turkey	lira
United Kingdom	pound
United States	dollar
Venezuela	bolivar
Vietnam	dong
Yemen	rial, dinar
Yugoslavia	dinar
Zaire	zaire
Zambia	kwacha
Zimbabwe	dollar

See **money.**

currency basket a combination of different currencies to produce a single index or unit of value, such as the European currency unit (ECU). The composition and weighting of a basket depend on the purposes for which it was established. The $A was pegged to a basket of currencies until it was floated in December 1983. The basket was compiled of the currencies of Australia's major trading partners, weighted according to their significance in trade flows. Also *basket of currencies.* See **basket, European currency unit.**

currency cocktail a borrowing made up of a variety of currencies, to minimise exchange-rate risk.

currency coupon swap a conventional swap in the sense that the interest rate in one currency is fixed and in the other is floating but different in that it involves different currencies.

currency option an option that gives the holder, in exchange for a premium paid at the outset, the right but not the obligation to buy or sell a currency at a designated price over a stipulated period which ends at the expiration date of the option. Also *FX option.*

currency swap a swap where the counterparties exchange equal principal amounts of two currencies at the spot exchange rate. During the life of the swap the counterparties exchange fixed or floating-rate interest payments in the swapped currencies and at maturity the principal amounts are again swapped at a predetermined rate of exchange (usually also the initial spot rate). Also *cross-currency swap, cross-currency and interest-rate swap, currency coupon swap.* See **FX swap, swaps.**

current account a record of a country's payments and receipts for imports and exports, traded services such as shipping, banking and tourism, and remittances from abroad. See **balance of payments.**

current assets accounting terminology for cash or other assets that would in the ordinary course of business be used or converted into cash within twelve months of the end of a financial year (defined thus in schedule 5 of the Corporations Law). See **current liabilities.**

current cost accounting an alternative method of historical cost accounting; a system of valuing assets based on their replacement cost rather than their cost when purchased or produced. Charges to the profit and loss account, for inventories sold and the depreciation of fixed assets, are based on the value of assets to the business at the date they are used. Balance-sheet values of non-monetary assets are stated at their value to the business at balance date. Adjustments are required to depreciation, cost of sales, working capital and gearing, and are reflected in the balance sheet as a current cost reserve. See **accounting standard, historical cost accounting, inflation accounting.**

current liabilities accounting language for financial obligations which must be due or payable within the normal operating cycle for a business. Generally it is assumed that the operating cycle is no longer than twelve months — and is defined as such as in schedule 5 of the Companies Law. See **current assets.**

current ratio a measure of liquidity. It measures the proportion of current assets available to offset current liabilities. The current ratio is calculated by dividing current assets by current liabilities. Also **working capital ratio.** See **liquid ratio.**

curve lock the base metals market term for an interest-rate swap.

CUSCAL *abbrev.* **Credit Union Services Corporation (Australia) Ltd.**

custodian a bank or other financial institution holding securities on behalf of clients.

customs (duty) federal government duty levied on imports to Australia. Customs and excise were significant sources of tax revenue in the early twentieth century but have since declined in importance. They are classified broadly as indirect taxes. The federal government in Australia took control of customs and excise at federation (1901). See **excise.**

cyclical deficit see **deficit.**

cylinder also *tunnel.* See **collar.**

D

daisy chain a form of market-rigging. A group of traders actively buy, giving an impression of a healthy demand and attracting genuine investors. Once the unwary have been drawn in, the riggers sell, making a gain and leaving the investors with no genuine buyers and a collapsed market.

data facts or numbers; statistics; information. The widespread adaption of the term may be due to its apparent ability to bestow legitimacy on guesses, gossip and rumour. It has become common jargon since the popularisation of mathematics and particularly since the advent of computerspeak. Before the microchip, people simply knew facts; now they compile data, talk grandly of a `database' when they mean a list. Sources of economic data are the monthly *Reserve Bank Bulletin,* the daily *Australian Financial Review,* the regular *Treasury Round-up.* Those willing to be over-whelmed by data can subscribe to the Australian Bureau of Statistics.

dawn raid a swift and unexpected assault on the sharemarket, often with the raider buying a large parcel of a company's shares at above-market prices. The purpose is to quickly accumulate a large shareholding while having the benefit of surprise. The shares are often purchased from professional investors as the speed of the raid leaves the small shareholder little time to take advantage of the higher prices and sell their shares. A dawn raid is generally associated with aggressive bids. See **corporate raider.**

day-trading buying into and selling out of the market within one day or one trading session. Similar to jobbing in Australian futures trading. Day-trading avoids holding an overnight position. Also *daylight trading, jobbing the market.* See **jobber.**

daylight exposure the risk that arises when related transactions are not settled simultaneously but at different times during the trading day, particularly relevant when dealing in different time zones.

daylight overdraft a facility which enables you to spend more than you have in your bank account during the day, provided that the account is in credit at the end of the day.

days of grace a reasonable number of days allowed after a debt or other arrangement falls due to give the benefit of the doubt to late payers. Insurance policies usually stipulate a `days of grace' period so that late payment of premiums will not necessarily invalidate the insurance contract.

DCM *abbrev.* Don't Come Monday. Fired.

dead cat bounce a phantom recovery. Economic activity has fallen so low that it must turn up at some point — then a strong statistic is announced (eg, retail sales are up) but the analysts do not believe this number suggests the beginning of a meaningful recovery.

dealership a small group of banks or investment banks which sells securities such as US commercial paper or euro-commercial paper on behalf of the issuer (borrower). The dealership group does not underwrite the issue — which saves fees for the borrower — but undertakes to sell the paper to investors who plan to hold rather than trade it. Banks and investment banks tend to enter dealership arrangements only when they are confident of demand for the paper being issued.

dealing desk see **desk.**

death duties an unpopular tax now almost entirely abolished in Australia at federal and state levels. Death duties were introduced in the 1850s in Australia as a tax on inheritances. So many ways developed to avoid the tax, such as distributing wealth and property before death, that little revenue was raised. Death and estate duties attracted criticism because they unfairly penalised many people who inherited only small amounts of money. There is now some pressure to restore these taxes. Also **estate duties.**

debenture a type of fixed-interest security, issued by companies (as borrowers) in return for medium and long-term investment of funds. A debenture is evidence of the borrower's debt to the lender. The word derives from the Latin *debeo,* meaning `I owe'. Debentures are issued to the general public through a prospectus and are secured by a trust deed which spells out the terms and conditions of the fundraising and the rights of the debenture-holders. Typical issuers of debentures are finance companies and large industrial companies. Debenture-holders' funds are invested with the borrowing company as secured loans, with the security usually in the form of a fixed or floating charge over the assets of the borrowing company. As secured lenders, debenture-holders' claims to the company's assets rank ahead of those of ordinary shareholders, should the company be wound up; also, interest is payable on debentures whether the company makes a profit or not. Debentures are issued for fixed periods but if a debenture-holder wants to get his or her money back, the securities can be sold.

debit a bookkeeping and accounting term, indicating an entry made in the left-hand column of the ledger. Debit is the opposite of credit. In common use the phrase `debit my account' is an instruction to charge a sum of money against the account. See **double-entry bookkeeping.**

debit card a plastic card used to buy goods and services, provided there are funds in the account against which the card is used, or arrangements are in place for a line of credit (overdraft). A debit card differs from a credit card (not necessarily in appearance). A credit card enables individuals and companies to incur a debt to be paid later; a debit card enables the holder to charge against an account and so is similar to writing a cheque. See **credit card, electronic funds transfer.**

debit spread an option spread which, when initiated, produces a net cash outflow from a trader's or investor's account, eg, a bull put spread or bear call spread. See **credit spread.**

debt an obligation by one individual or company to pay a specific amount of money to another party.

debt instrument a bond or an IOU — an obligation to repay a fixed amount of money.

debt warrant a warrant that is exercisable into a debt security, such as a bond or note. See **warrant.**

debt-for-equity swap a method of extinguishing a company's debt by exchanging it for a share of the business. It may be used by a creditor who, rather than forcing the liquidation of a troubled debtor, takes a role in its management with the objective of improving its performance.

debt-service ratio the cost to a country of making interest and principal repayments on its foreign debt, as a proportion of its export earnings. Conventional wisdom is that the ratio should not exceed twenty per cent.

debt-to-equity ratio a measure of a company's gearing (borrowing) which is calculated by dividing all financial debt by shareholders' funds (equity). See **gearing.**

debtor nation a country with a balance of payments deficit. See **creditor nation.**

Dec pronounced `deck' (deece in the US), this is futures market shorthand for December, as in `I'll buy six decs at 85.00'. See **Sep.**

deed a document which has been signed, sealed and delivered, proving or testifying the agreement of the signatories to its contents. Legal requirements still remain for particular documents to be deeds executed in this formal way before they are effective, for example, conveyances of land (transfers under the Real Property Act are not executed as deeds but are deemed by the act to have the same effect).

deep discount bonds these bonds, sold at a large (deep) discount from face value, pay low cash coupons. They are beneficial for investors keen to fix their return over the life of the bond. An investor buys deep discount bonds at substantially less than face value and receives the capital gain on the investment when the bonds mature. The advantage for the borrower issuing deep discount bonds is the lower cash rate to be paid during the life of the bond. There is no tax benefit attached for investors because tax has to be paid on interest as it is accrued rather than received. Zero-coupon bonds are the ultimate example of deep discount bonds. See **coupon, zero-coupon bonds.**

de-escalate careless jargon commonly understood to mean to move downwards (of prices, rates or other statistics). Purists complain that escalators, of course, move both up and down.

defalcation misappropriation of money, usually applied to the misappropriation of funds held in trust.

default failure to do what was legally or morally required, often referring to the failure to pay a debt that has fallen due. Since anything is better for a lender than not being paid at all, banks which have advanced loans to organisations, or even countries, facing liquidity difficulties may avert default by reorganising the loans over longer terms. See **rescheduling.**

defeasance rendering an existing deed null and void, or `defeating' that deed. The term has been adopted in the finance world to describe the process of a borrowing company paying an amount (usually less than the existing obligation) to a third party; in return, the third party undertakes to repay obligations under the original borrowing as they fall due. For example, a bank could assume liability for the interest and principal owed by a borrowing company to debenture holders, in lieu of the company which earlier issued the debentures. Auditors may allow a company's debt to be `defeased' or extinguished for reporting purposes provided that the pre-conditions specified in AASB 1014 *Set-off and extinguishment of debt* are met. These pre-conditions require that monetary assets, which are essentially risk-free as to amount, timing and collection of principal and interest, be held irrevocably to satisfy the payments schedule of the original borrowing. The original borrower should face no more than a remote possibility of having to make future payments on that debt, even though the original debt obligation remains. Broadly, the aim of the company defeasing its debt is to achieve more efficient financial arrangements and a less debt-encumbered balance sheet. The process is also called liability assumption.

defensive strategy see **matched book.**

deferred annuitya type of annuity that pays an income starting from a future age or date. If the person who received a lump-sum payment is to gain tax relief the deferred annuity must start paying a pension not later than the person's 65th birthday. Deferred annuities can only accept eligible termination payments such as lump sums from superannuation funds. This type of annuity was rarely used before the changes made by the Australian government in 1983 to the tax legislation affecting superannuation, which encouraged the shift from lump-sum payouts to the creation of income in retirement. See **annuity, eligible termination payments, fixed-term annuity, flexible annuity.**

deferred coupon bond (note) a bond (note) paying no interest for a set period then paying interest at a higher rate than would otherwise be the case for the rest of its term.

deferred delivery the status of shares which can be traded, although the scrip has not yet been issued.

deferred dividend shares shares issued with the stipulation that shareholders will only be entitled to receive dividends after a specified period, either because the issuing company is incurring losses or because it wants to use the funds for other purposes.

deferred-interest bond a bond paying interest only from a set future date. A zero-coupon bond is the ultimate deferred-interest bond, paying all interest at maturity when the principal is also repaid.

deferred-payment swap a swap where some or all payments are delayed for a specified time, usually for tax or accounting reasons.

deferred-premium option an option whose premium is paid when it expires or netted against any pay-off. In all other respects the option is standard.

deferred strike-price option an option where the buyer can set the strike price at some date after the option is traded. See **exotic options.**

deficit a shortfall; an excess of expenditure over revenue. For a country, a deficit in its current account means that payments for imports, freight and so on exceed receipts from exports and services. For governments, a deficit is the amount by which their outlay (on public works or welfare payments) exceeds their revenue from tax and other sources. A deficit is financed by government borrowing from the general public or by printing money. Government deficits can be: *a cyclical deficit* which is the portion of a deficit due to the current state of the economic cycle (deficits rise as unemployment increases because benefit payments are higher while tax receipts fall); *a structural deficit* which refers to the portion of a deficit that would remain even if the economy were at full employment.

deficit financing funding expenditure with borrowings rather than using current revenue. Governments indulge in this in the hope of stimulating an increase in economic activity (which would tend to cut back the deficit) or to avoid the politically difficult alternative of raising taxes and charges. Most economists would not agree that it is desirable for the government to balance its budget. For example, it is only by running a deficit that the government can increase money supply and the amount of government bonds (securities) in the system. Also *pump-priming.* See **deficit spending.**

deficit spending this occurs when a government spends more than it gathers in revenue. The shortfall has to be financed by government borrowing from the public, which can push interest rates higher, or by `printing' more money, which may increase inflation and, ultimately, also require higher interest rates in an effort to reduce the inflation. See **crowding out, deficit financing, Keynes, John Maynard in economists.**

defined-benefit fund a type of superannuation fund where the retirement and possibly other benefits are calculated according to length of service or years of membership in the fund, and average salary over the last few years before retirement. In contrast to an accumulation fund, members of a defined benefit fund do not suffer if the fund's performance deteriorates — if returns decline the employer has to make up the difference so that payments to members are maintained at the predetermined level. Also *defined benefit plan.* See **accumulation fund.**

deflation the opposite of inflation, ie, a fall in prices. It is sometimes applied to a situation where economic activity is falling. Deflation may be induced by a reduction in economic activity as a result of deliberate government policy, for example, reducing the amount of money in circulation either by raising taxes or cutting back on government spending. See **disinflation, inflation.**

delayed drawdown swap see **forward swap.**

delayed start swap see **forward swap.**

delist to permanently remove a company from stock exchange listing, because it no longer complies with stock exchange listing requirements — for example, the company could have been taken over.

deliverable a financial instrument (eg, bank bill of exchange) or a commodity (eg, wool), traded on a futures exchange, that has been certified acceptable for delivery under the exchange's contract specifications. To be accepted as deliverable bank bills (or substitute securities such as bank certificates of deposit) must mature within a specific range of dates.

delivery month a future month, listed as one in which delivery can be given or taken for a contract traded on a futures exchange. Delivery months, also known as contract months, must be stipulated for all contracts traded on the exchange. See **futures markets.**

delivery price see **settlement price.**

delivery risk see **settlement risk.**

delta a measure of the proportional change between two items, this is used to track the change in an option price for a small change in the price of the underlying instrument. The delta (Δ) can vary between 0 and 1. If an option's delta is 0.5, a $1 move in the price of the underlying asset will produce a 50-cent move in the option. See **delta hedging.**

delta hedging a strategy used by option sellers to protect their exposure, ie, to be `delta-neutral'. Delta hedging involves taking steps to offset price/rate risk by matching the market response of the underlying asset over a narrow range of price/rate movements. (Option buyers do not need to worry about delta hedging because their potential loss is limited to the outlay of an initial premium.) To structure a delta hedge, an option seller takes into account changes in the spot price, the time to expiry and the difference between the strike and spot prices. The more an option is in-the-money the greater is the amount of delta hedging. A deep in-the-money option has a delta of close to 1, or even 1, because it is likely to be exercised; a deep out-of-the money option would be close to or at zero because the option has very little intrinsic value. See **delta variable, gamma hedge.**

delta-neutral positions described as delta-neutral would have offsetting positive and negative deltas to remove or neutralise the response to small market movements.

delta variable this measures the likelihood of an option being exercised and so determines how much an option writer should hedge to be delta-neutral, ie, covered. See **delta, delta hedging.**

demand-pull inflation see **inflation**

demerger the opposite of a merger (the practice of combining several companies under one corporate roof). A demerger hives off parts of a company into separate operations because, it is believed, they will perform better that way. Also *float-off.*

demonetise to end a commodity's role as a medium of exchange; for example, gold was demonetised in 1978, a move that ended its role as a medium of international settlement. See **gold standard.**

demutualisation the process of changing a mutual or cooperative association into a public company by converting the interests of members into shareholdings, which can then be traded through a stock exchange. Examples of mutuals in Australia are building societies, credit unions and some large insurance institutions. Their structure limits their activities to servicing their members and inhibits their ability to pursue profits and diversification as freely as companies.

deposit an amount of money placed with a financial institution either at call (redeemable or withdrawable on demand) or for a fixed period. If fixed, the deposit would earn a higher rate of interest and be called a `fixed' or `term' deposit.

deposit-taking institutions banks, building societies, credit unions and other organisations which accept customers' funds, either at call or for fixed periods, and pay interest on the amounts. Deposit-taking institutions are identified with `savings' and differ in purpose from investment institutions which actively manage their customers' funds in the pursuit of profits, or from corporations which `borrow' money from the public by issuing debentures or bonds. *Abbrev.* **DTI.**

depreciate to fall in value; the opposite of appreciate. Currencies may depreciate against other currencies. In business, assets depreciate as they age and become less valuable, which brings a cost to the company or individual who bought the assets because they will have to be replaced by new, possibly more expensive, items. Depreciation is regarded as a genuine business expense and can normally be offset, for taxation purposes, against income. See **depreciation.**

depreciation the accounting practice where the cost of fixed assets is systematically spread over the life of the assets. The amount of depreciation (termed an expense in accounting language) has the effect of reducing the profit or raising the loss for the periods during which the asset is used. As depreciation is a non-cash expense, it allows the money to be retained in the business, thus maintaining the capacity of the business to replace its assets. See **amortisation.**

depression a time of low economic activity, distinguished from a recession by being prolonged and sustained, characterised by continuing falls in output, high and rising unemployment and companies burdened with unsold stocks because demand is low. Australia had a severe depression in the 1890s and again, with the rest of the industrialised world, in the 1930s — the period known as the Great Depression, which brought widespread unemployment as demand evaporated and businesses failed. The collapse of Wall Street and the New York stockmarket in 1929 determined the timing of the Great Depression but was not the sole — or even the main — cause of it. Economists still argue about the cause. It is commonly accepted that one factor was the growing imbalance in world trade, brought about by increased levels of primary production in more recently settled economies such as Australia and Canada, in the face of inadequate growth in demand. At the same time, the earlier industrialised nations faced problems selling their increased output of manufactured goods. Monetarists see the large decline in the US money supply as an important cause; Keynesians focus on the reduction in spending by consumers and investors. It is generally agreed that the main cause in the Australian case was the fall in export prices and sales; other causes were the fall in overseas loans (which led to a reduction in government capital spending) and a slackening of residential construction. There is less argument about the duration of the Great Depression than about its source; between 1929 and 1932 industrial production in the capitalist world fell by 35 per cent, the volume of world trade fell by more than 40 per cent and unemployment rose to 30 million in 1932 in the four major capitalist economies. Recovery was slow and was still incomplete when the Second World War broke out in 1939. Australia was especially vulnerable because of its dependence on wheat and wool exports and on a high level of capital inflow.

derivative products contracts or instruments whose value stems from that of some underlying asset, such as commodities, equities or currencies, or from an index such as the stock-exchange index, or from an indicator such as an interest rate. Derivative products include swaps, forwards, futures, options (puts and calls), swaptions, caps, floors and collars. The list is constantly evolving. See **exotic options.**

derivatives house a bank, investment bank or brokerage firm specialising in structuring and trading swaps, options and other derivative products. See **derivative products.**

derivatives book-runner a bank or investment bank managing and trading a portfolio of swaps, options and other derivative products. See **derivative products.**

derived measures see **implicit price deflator.**

desk in the sense of `dealing desk', an all-embracing term for a company's trading team, who sit `on the desk' — in reality, several desks representing the different areas traded, such as cash, bills or bonds. Those who are `taken off the desk' and promoted to management level often feel nostalgic for the adrenalin-surge that came with dealing.

detachable warrant a warrant once issued with a bond or other security but which has been separated and traded independently. Common in the euromarkets.

Deutsche Terminborse Germany's Frankfurt-based electronic futures and options exchange. *Abbrev.* **DTB.**

devaluation the reduction in the value of one currency against another, either because the first currency weakened or because the second currency strengthened. If the Australian dollar were reduced in terms of the US dollar from 72 US cents to 70 US cents it would have been devalued against the US dollar. This could have been caused by a general weakening of the Australian dollar or by a burst of strength in the US currency. See **revaluation.**

development capital funds used to expand a business that has already been established and holds sufficient promise to be able to raise finance to enable it to grow. See **venture capital.**

diagonal spread see **option spread.**

diff swap see **rate differential swap.**

DIGGERS see **zero coupon bond.**

digital option also *binary option.* See **all-or-nothing option.**

dilution of equity what occurs when an issue of new shares shrinks the proportion of a company owned by the original shareholders.

diminishing returns the situation where the increase in production obtained by adding units of labour declines. A point exists beyond which putting more into a venture will not produce a corresponding increase in output. The expression `the law of diminishing returns' is used to explain that greater production does not necessarily bring higher profits; after the peak point of efficiency, average return on capital stops rising or even falls.

DINGOS see **zero coupon bonds.**

DINKs *abbrev.* **dual income, no kids**

direct clearer a financial institution, usually a bank, that directly clears cheques or other payment instruments with other institutions. Some direct clearers, for a fee, also clear payments on behalf of other banks and non-bank financial institutions. See **clear, clearing, clearing house.**

direct investment taking a stake in a company or joint venture which brings a say in how the operation is run, although it does not necessarily give a controlling interest. See **portfolio investment.**

direct quote an exchange rate quoted in terms of the local currency, ie, the number of units of local currency which equals one unit of a foreign currency. For example, a quote reading $US1 = $A1.355 would be a direct quote in Australia, but an indirect quote in the US. The $A is normally quoted indirectly, in terms of the $US price for one Australian dollar. See **indirect quote.**

direct placement the issuing of shares directly to an investor, usually an institution, rather than making a public underwritten offering.

director someone appointed to take responsibility for the policy formation and control of a company because of particular ability and expertise in an industry. Directors advise management of the company on behalf of the shareholders (the owners of the company). A public company must have at least three directors; a proprietary limited company at least two. Under a company's articles of association, directors undertake the supervision of management collectively as a board. They can delegate management functions to a managing director, but some activities require the board's participation, for example, signing the annual accounts or authorising dividend payments. Directors' responsibilities have increased, following a heightened awareness of concepts such as duty of care and more specific definition of fiduciary duty. Company directors' responsibilities are governed by section 232 of the Corporations Law.

dirty float see **float.**

disablement benefit money payable by a superannuation fund to a member, prevented by illness or injury from continuing to work, either temporarily or permanently.

disaster recovery a familiar concept — damage control — given new form by the rapid technological advances in the financial sector. Powerful computers and sophisticated communications mean that markets are affected instantaneously by adverse information or by natural occurrences (such as an earth tremor which might knock out electronic links). Specialists in disaster recovery show firms how to prepare for the worst and how to develop backup systems.

discount a reduction in price either from the previous price or from face value. Securities are traded at a discount on the assumption that the buyer will receive face value when the securities mature. For example, a 180-day bank bill of exchange for $100 000 face value bought at a 10 per cent discount would cost $95 068.49 and the holder would receive $100 000 when the bill matures. The discount, then, is the rate of return calculated as simple interest (in this case $4931.51) on the face value of the investment ($100 000), expressed as a percentage per annum. To discount a security means to sell that security — a bill of exchange or treasury note, for example — at less than its face value. In the above example, the seller of the $100 000 180-day bank bill would have discounted that bill, ie, sold it at a 10 per cent discount, for $95 068.49.

Traders of securities such as bills of exchange must be aware of the difference between a discount and a yield calculation. The discount is the difference between the face value ($100 000) and the price for which the bill is sold ($95 068.49). The yield is the return on the amount invested — for example, a 180-day bank bill bought at a yield of 10 per cent per annum, for face value of $100 000 would cost $95 300.26. When the bill matures, the holder would receive $4699.74, being the difference between the outlay and face value of the bill. It is a smaller amount than that earned by the investor who bought the bill at a discount, because in the case of a yield, the interest was earned on the proceeds ($95 300.26) and not on the face value of the bill ($100 000). (Those interested in the discount and yield formulae should consult a textbook, eg, *Fast Money.*) In foreign exchange, discount is the opposite of premium. Currency quoted at a discount is worth less in the forward market than in the spot market. See **premium, yield.**

discount house a member of the UK merchant banking elite. The London discount market consists of members of the London Discount Market Association plus a few small firms of bill brokers. The primary function of the discount houses is borrowing and investing short-term money, particularly buying treasury bills (at a discount) from the government. The discount houses cover in full the weekly treasury bill tenders which form part of the UK government's short-term borrowings. The London discount houses are similar to the Australian authorised short-term money market dealers in that they have lender-of-last-resort borrowing facilities with the central bank and are active dealers in short-dated government securities, although recently they have diversified by holding a greater proportion of their assets in commercial bills and certificates of deposit. The Bank of England uses the discount houses as liquidity channels to ensure the market does not become too tight (short of money) or too liquid (too much money circulating).

discount rate the rate at which a bill of exchange or other security, such as a treasury note, is discounted (sold). The discount rate often refers to the rate at which central banks will buy paper from financial institutions, ie, ease liquidity by exchanging cash for rediscounted securities. See **discount window, rediscount.**

discount securities non-interest-bearing money-market instruments, issued at a discount from face value, with the holder receiving face value when the security matures. Discount securities carry no coupon; examples are bills of exchange, promissory notes and treasury notes. See **discount.**

discount swap a swap using the coupon of a discount bond or bill as the fixed-rate or floating-rate payment. See **non-par swap.**

discount windowan anachronistic expression for the central bank's rediscount facility. The term dates from the days when a clerk went to a specific window or counter at the central bank to sell (rediscount) his company's securities. See **rediscount.**

discounted cashflow a method of measuring the return on capital or funds invested which takes into account the time value of money. Money can be shown to have a time value because, for example, $100 today invested at 10 per cent will yield $110 in one year's time. Conversely, $110 to be received in one year would be worth $100 now.

discounted investment in government-guaranteed earnings return see **zero coupon bonds.**

discounted investment in negotiable government obligations see **zero coupon bonds.**

discounting in the context of money, reducing in price from an earlier level or from face value. In the context of markets, taking good or bad news into account in anticipation of its announcement.

For example, if traders are expecting news that will show inflation is rising, which has an adverse effect on interest rates, they will mark rates up ahead of the announcement. In the context of wages, holding pay increases to a level less than the inflation rate, sometimes in exchange for non-money benefits for employees.

discretionary account an arrangement between a broker and a client which allows the broker to decide fully or partly when and what to buy or sell on the client's behalf, and at what price.

discretionary income spare cash; what you have to spend after the other choices have been made for you by the tax man, your bank manager, credit-card commitments and so on.

disinflation a fall in inflation, either through deliberate government intervention or as a result of a development such as, say, an economic depression. See **deflation.**

disintermediation cutting out the middleman so that borrowers and lenders deal directly with each other. In such direct financing, the borrower deals with the lender and vice versa; with intermediation a financial institution, such as a merchant or investment bank, is involved so that the ultimate borrower and lender may not know each other's identity. Disintermediation describes what happens when money is moved from banks to merchant banks and invested directly with, say, the government through purchases of bonds. The Australian financial system is based largely on intermediation. See **intermediation, reintermediation.**

disposable income the portion of a person's income, including social service payments, that is left for spending or saving after the Tax Department has taken its share.

dividend what is paid out of a company's profits to its shareholders, usually yearly (final dividend) and sometimes half-yearly (interim dividend). The annual dividend equals final dividend plus interim.

dividend cover the number of times the amount of dividend paid by a company is covered by its earnings. It is calculated by dividing the net profit by the amount paid in dividends, or by dividing the earnings per share by the dividend in cents per share.

dividend imputation a tax-accounting device, effective from 1 July 1987, to remove the `double' taxation of company dividends in Australia. Previously, dividends paid out of after-tax profits were taxable in the hands of shareholders; the company paid tax on its profits, and paid dividends to the shareholders who in turn paid tax on the dividends received. With imputation, dividends distributed by a company that has paid full Australian company tax carry a tax credit which may be offset against the shareholders' tax liability on the dividend or, if the shareholder's marginal tax rate is less than the company's tax rate, the excess credit can be offset against tax payable on other income. See **franking account, franked dividends, unfranked dividends.**

dividend reinvestment plan a scheme enabling shareholders in a company to acquire additional shares instead of taking their dividends in cash. In most cases the new shares are free of brokerage and commissions, and sometimes they are issued at a discount. Further, dividend reinvestment plans can be structured to bring tax benefits to the shareholders. For companies, the plans represent a relatively inexpensive source of equity finance. Once a shareholding is registered with a plan, reinvestment takes place automatically each time the company declares a dividend and the shareholder receives a new share certificate. *Abbrev.* **DRP.**

dividend withholding tax see **withholding tax.**

dividend yield the theoretical return on an investment, assuming shares are bought on the market at the prevailing price and not taking into account charges such as brokerage. It is calculated by dividing the dividend per share by the current share price, expressed as a percentage.

dog an issue of securities which is virtually unsellable.

dog-and-pony show a seminar or exhibition staged to introduce a new company or product, given by the salespeople of the investment bank or broking firm marketing the product, usually around the country and/or overseas. The financial markets version of the old travelling song-and-dance act.

dollars wholesale money-market jargon meaning one million. `I'll buy five dollars of June 15 bills' means `I'll buy $5 million of June 15 bills'.

don't sell notice an announcement, required by the stock exchange listing rules, made to the general public by directors of a company advising shareholders not to sell their shares, pending a further announcement. This procedure is common when takeover discussions are under way and a bid could push up the share price.

dore commodity market term for bars of gold or silver bullion containing about 90 per cent of the precious metal and requiring further refining before being suitable for delivery.

double dipping the practice of benefiting more than once from savings schemes such as superannuation. The payments to such schemes are tax-deductible and the beneficiary may receive a concessionally taxed lump sum at the end of the savings period. He or she might spend the proceeds, or invest them for further gains in such a way that taxable income is minimised and eligibility for government pensions is maintained. To block this, tax and superannuation legislation has effectively closed Australia's double-dipping loopholes. See **superannuation.**

double-entry bookkeeping a system of recording all financial transactions, in which each transaction has two aspects, a debit and a credit, so that a complete record entails entering each transaction twice. Credit entries generally record the sources of funds and debit entries the use made of the funds. This should not be confused with profits and losses (see **profit and loss account).**

The recording procedure of double-entry bookkeeping ensures that the balance-sheet equation Assets (A) = Liabilities (L) + Owners' Equity (OE) is not violated. The rules are:

Increase assets = Dr.	Decrease assets = Cr.
Decrease liabilities = Dr.	Increase liabilities = Cr.
Decrease owners' equity = Dr.	Increase OE = Cr.

Revenue and expenses are a subset of owners' equity:

Decrease = Dr.	Increase revenue = Cr.
Increase expense = Dr.	Decrease = Cr.

Example: you buy a car for $1000 cash:

Assets (car) increase $1000	Dr. car account $1000
Assets (cash) decrease $1000	Cr. cash account $1000

Since one asset has increased and another decreased by a corresponding amount, the balance-sheet equation still holds.

Example: you buy a car for $1000 credit:

Assets (car) increase $1000	Dr. car account $1000
Liabilities (debt payable) Increase $1000	Cr. debt $1000

Balance is preserved because the asset increase of $1000 on the left-hand side of the balance-sheet equation is matched by a $1000 increase in liabilities on the right-hand side.

double-taxation agreements agreements with other countries which enable overseas companies with Australian subsidiaries to gain a tax credit in their own countries for tax paid in Australia. See **dual tax.**

Dow Jones indexa measure of the average price of shares on the New York stockmarket. The Dow Jones index is named after Charles Dow and Eddie Jones who first teamed up in 1882 to report stockmarket news to New York's financial community. The decision by the two men to launch a reporting firm distributing stockmarket news and analyses and gossip from a small Wall Street office sowed the seed of the *Wall Street Journal,* of which Charles Dow was the first editor. The Dow Jones takes the average of the closing prices of 30 representative stocks from `mature' industries such as chemicals and steel (`smokestack America' as distinct from the more modern high-tech industries). See **smokestack America.**

Down Under bonds euromarkets' term for $A and $NZ bonds.

downside risk the risk that prices or values might fall. See **upside potential.**

downsizing euphemism for sacking staff. The implication in the recessionary years of the early 1990s, when the term became popular, was that the company would temporarily become a smaller version of itself, to be restored to full size when conditions improved. In reality, the shedding of staff was often a strategy for increasing the productivity of those who kept their jobs. Many of the eliminated positions would never reappear. See **outplacement.**

dragon bonds a eurobond targeted at the Asian market, with Asian syndication and listing and designed to trade in the Asian time zone.

dragon market the Asian end of the euromarket — the Asian market for currencies and securities held outside their country of origin. See **eurocurrency.**

draw to issue or write out a cheque or bill of exchange in someone else's favour.

drawdown the use of funds provided under a borrowing facility. The borrowing facility would first be organised between the lender and client (borrower), but the funds would not be used until the drawdown takes place. Once the client has used all or part of the funds, the loan is `drawn down'.

drawee the person or company to whom a bill of exchange or cheque is addressed. On a cheque, the drawee is the bank on which the cheque is drawn. In the case of a bill of exchange it is the person who agrees to provide the specified sum of money, and who in signing the bill becomes the acceptor. See **bill of exchange.**

drawer the person signing a cheque or bill of exchange. In normal banking, the drawer is the person signing a cheque as the issuer, ordering his or her bank to pay out. With a bill of exchange, the drawer issues the bill and orders another party (the drawee) to pay the sum of money specified on the bill. See **bill of exchange.**

drc *abbrev.* **dual residency company.**

drop-lock security a type of security, such as a debenture or bond, that gives some protection to the investor against interest rate movements. The security is issued with a floating or adjustable rate pegged to a benchmark rate (bank-bill or interbank rate); if the benchmark rate drops to a specified level, the security automatically switches to a fixed rate until it matures.

DRP *abbrev.* **dividend reinvestment plan.**

DTB *abbrev.* **Deutsche Terminborse**

DTI *abbrev.* **deposit-taking institution.**

dual income, no kids *abbrev.* **DINK**

dual index floater a security whose interest rate is periodically reset in line with more than one index so that a change in the relationship between the indexes could result in a drop in the value of the security below face value.

dual listing the listing of a share or security on more than one stock exchange; for example, a company could be listed on the Australian Stock Exchange and also on the Auckland exchange.

dual residency company a company that qualifies as a resident in two countries, so that its activities comply with regulations in each jurisdiction and it is able to maximise tax benefits in both. In a simple example, Company X in New Zealand incorporates a subsidiary in New Zealand, called Company Y. Y is resident in New Zealand but it operates in Australia, with Australian management, so it also qualifies as a resident in Australia. Y borrows money to buy an Australian company, Company Z. It therefore acquires an asset (Company Z) and incurs an item of expense (the interest on borrowed funds). Companies X and Y are grouped together for tax purposes in New Zealand, and Y and Z are grouped together in Australia. The interest expense paid by Y can be offset against X in New Zealand and against Z in Australia. However, Australian tax legislation has closed this loophole. Abbrev. **DRC.**

dual tax where there is no double taxation agreement between countries, a company with a subsidiary abroad might have to pay tax both in its own country and the country in which the subsidiary operates. See **double-taxation agreement.**

dual trading trading for individual/house and customer accounts at the same time. This can raise the issue of conflict of interest.

dual-coupon swap a fixed-for-floating interest-rate swap which includes a call option giving one party the right to have periodic settlements made in another currency if exchange rates move against the base currency used in the swap.

dual-currency bond a fixed-interest security paying a coupon in a base currency (generally the currency of the investor) while the principal is in another (non-base) currency (usually the currency of the issuer). A dual-currency bond can be modified in a number of ways. See **indexed currency option notes, reverse dual-currency bond.**

dual-currency option an option settled in either of two currencies at the choice of the option-holder.

dual-currency swap a swap used to hedge the issue of a dual-currency bond, it is typically used by a financial intermediary to take on the elements of a dual-currency bond that are not wanted by the issuer.

due date the date at which payment has been contracted or agreed to be made. It can be the date on which a bill of exchange matures or on which repayment of a loan is scheduled to be made.

due diligence an analysis carried out before buying a controlling interest in a company to determine that the conditions of the business conform with what has been said by the sellers. Due diligence can also apply when recommending an investment or advancing a loan to a client. This is not technically a legal phrase, but is based on the notion of avoiding negligence when giving advice. See **duty of care.**

dumped stock is described as `dumped' when it has been offloaded (sold) in large amounts at a bargain price that indicates the seller is indifferent to the loss made and to the depressing effect the transaction has on the stock's price. The seller just wants to get rid of the stock. *Dumping* in international finance means selling below cost to reduce a surplus or to irritate a competitor.

Dun and Bradstreet a substantial international company specialising in credit analysis. The company has been widely, but erroneously, credited with the origin of the term `dunning' which means importuning persistently for the repayment of money. Dunners, people hired to do this, were at work in the seventeenth century. See **credit ratings, credit reference bureau.**

dunning see **Dun and Bradstreet.**

duration the market-value, weighted average of the times to each cashflow (interest and principal payments) of a security. The duration of a single cashflow or zero-coupon instrument is its time to maturity. Alternatively, duration can be interpreted as the percentage change in the price of a security produced by a very small change in rates. See **Macaulay duration, modified duration.**

duration gap the difference between the maturity of a portfolio of assets and that of its offsetting liabilities.

duration matching see **portfolio immunisation.**

dutch auction used to sell tulips in the Netherlands, this is an auction which begins with a high price which reduces as the auctioneer calls out a sequence of decreasing prices (whereas in a conventional auction the price builds from low to high as bids are made). Alternatively, dutch auction has also come to refer to a process where the auctioneer collects sealed bids, arranges them by price and allocates bids at a single price that places the entire issue.

duty of care a legal concept which means companies, institutions and individual advisers must not be negligent when dealing with those affected by their advice. The party giving advice can be wrong, but would not be liable for damages provided it could be proved that sufficient care had been taken. The duty of care concept received some attention with the highlighting of borrowers taking out foreign currency loans only to find their liabilities substantially increased by the fall in the $A value against currencies such as the swiss franc and the yen. Banks and other lenders had to prove that they had observed their duty of care when dealing with borrowers who relied on their advice. A number of landmark legal cases have discussed the notion of duty of care with respect to directors. The concept is backed by sections of the Trade Practices Act and the Corporations Law. See **director, due diligence.**

dynamic hedging portfolio insurance or risk management which increases or reduces the underlying position to maximise gains and minimise losses. It calls for constant re-assessing and re-adjusting of the hedge and is only possible in deep and liquid markets where transaction costs will not consume any benefits derived from hedging. See **delta hedge, portfolio insurance.**

E

earnings at risk see **value at risk.**
earnings before interest and tax total earnings before provisions are deducted. This measures a company's performance and is often used in preference to net profit as it excludes the effects of borrowings and tax benefits and adjustments. *Abbrev.* **EBIT.**
earnings per share one of a number of gauges of a company's performance. It is calculated by dividing the company's earnings by the number of shares on issue to show the profit earned in terms of each share. For example, if a company with half a million shares on issue has earnings of $1 million, the earnings per share is $2. *Abbrev.* **EPS.** See **price-earnings ratio.**
earnings yield the earnings yield is achieved by dividing earnings per share by the share price and multiplying by 100 over 1. It shows the relationship of earnings per share to the current share price and is the inverse of price-earnings ratio. See **price-earnings ratio.**
easy money market idiom for cheap money which is in ample supply. Opposite of tight money. Traders also talk of an `easy day' meaning there was no shortage of cash and rates stayed low. Too much easy money can be inflationary.
EBIT *abbrev.* **earnings before interest and tax.**
EC *abbrev.* **European Economic Community.**
econometrics a specialist branch of economics which applies statistical and mathematical techniques to economic problems. It is

sometimes said that if you lose your phone number, an econometrician will estimate it for you (plus or minus a margin of error). See **number-cruncher.**

economic man a creation of economic theory, this model demonstrates economic behaviour in a `perfect' world dedicated to utility maximisation (getting the best out of the available resources). Critics assert that economic man shares with his creators a total disconnection from the real world.

economic rationalism defining this notion is fraught with traps and it is probably fair to say that three economists could produce fifteen variations. Take the following as a guide only: a pragmatic approach to people's behaviour in matters such as demand for commodities when confronted with scarcity. Economic rationalism is concerned with identifying costs and benefits which are the likely outcomes of economic events, such as changes in taxation, government spending, regulation and so forth. Its principal concern is efficient resource allocation and effective economic management and it advocates the most efficient, least distortive means of achieving social ends. Implied in this approach is the recognition that claims by some people to `rights' such as `free' health or housing necessarily creates an equal and opposite obligation on the part of others to supply or fund those rights. It is argued that government intervention through regulation, taxes or subsidies can seriously distort resource utilisation, so making many people worse off as well as incurring avoidable waste. Economic rationalism thus leans towards favouring market processes — competitive markets — and a reduction of government intervention as the best means of resolving conflicts of interest in the use of scarce resources.

economic rent quite distinct from the usual meaning of `rent', this means a payment over what is required to attract an individual (or capital) into a particular occupation. It is a return above the opportunity cost of an asset or service. A simple example: a pop star (or investment banker) earns $200 000; in his or her original occupation as a bank teller, he or she earned $25 000. If the only choice besides being a pop star or investment banker were to remain as a bank teller, then any salary above $25 000 would persuade this person to stay with the big numbers — and his or her economic rent would be $175 000. This concept of rent is the basis of the resources rent tax. See **rent, resources rent tax.**

Economic Planning Advisory Commissionoriginally established in 1983 as the Economic Planning Advisory Council, following the National Economic Summit Conference held by the freshly elected Hawke government. In 1994 EPAC was relaunched as a commission by prime minister Paul Keating. Over the years EPAC's regular reports have helped inform and shape the debate over a wide range of issues including foreign and public-sector debt, savings and investment, population aging, productivity, enterprise and microeconomic reform. The commission continues to publish reports which focus on specific themes which are relevant to Australia's long-term future, such as globalisation, investment and growth, and work patterns. It also undertakes specific project work commissioned by the prime minister. *Abbrev.* **EPAC.**

economics the study of production possibilities, and the allocation of a society's resources. Thomas Carlyle referred to it as `the dismal science'. A social science, economics is often described by those who have studied it as common sense, but for the uninitiated it is loaded with jargon and shrouded in mystique. Just as you think you have come to grips with an economic concept, an economist will change the answer to the question. See **macroeconomics, microeconomics.**

economists practitioners of economics. Economists study the allocation of resources (employment, income, trade) in the economy. Various definitions of economists have been advanced: `grey suits and grey minds', or `someone who can draw a mathematically precise line from an unwarranted assumption to an incomprehensible conclusion'. Cynics have proposed `soothsayer' or `witchdoctor'.

For centuries economists have created and enveloped themselves in a mystique marked by a proliferation of models, theories and jargon which explain some of the facts of life. In this process they have tended to align themselves with schools of thought, many of which disagree, often bitterly, about causes and effects. Below are listed some of the major economists and thinkers whose studies and theories have been most influential:

> **Bentham, Jeremy** (1748-1832)UK philosopher and legal reformer, educated at Oxford. Bentham held that the utility (usefulness) of any law could be measured by the extent to which it promoted pleasure and happiness. This was the essence of utilitarianism, as expressed in his *Principles of Morals and Legislation* (1789). The object of all legislation, according to Bentham, should be the `greatest happiness of the greatest number'. Bentham willed that after his death his body be stuffed and placed in University College, London. He is still there — a rotund figure in

a glass case. Bentham attends, in body if not in spirit, the college's annual dinners, where he presides over much animated discussion.

Copland, Douglas Berry (1894-1971) Copland is remembered as the major architect of the Premiers' Plan or Copland Plan of 1931 which provided the basis for policies aimed at dealing with the Depression. Copland was born in New Zealand; he held a chair in economics at the University of Tasmania and later, in 1924, was appointed to the first chair in commerce at the University of Melbourne. He held this position and that of Dean of the Faculty of Commerce until 1944. During the Second World War he was Commonwealth Commissioner of Prices and an adviser to prime minister Curtin. His wartime experience softened his belief in *laissez-faire* and in the early postwar period he was one of the most active supporters of Keynesian ideas. Copland was knighted in 1950 and officially designated founder of the Committee for Economic Development of Australia (CEDA).

Friedman, Milton (1912-) a US economist, born in Brooklyn, New York, and winner of the Nobel Prize for Economics in 1976. He is best known for his focus on money supply, for reviving the quantity theory of money which leads to an emphasis on monetary policy, as distinct from the Keynesian concentration on fiscal policy. He is also well known for his free-enterprise views. Despite Friedman's emphasis on empirical verification, his critics have shown that his evidence does not necessarily prove his main propositions. See **monetarist, quantity theory of money.**

Galbraith, John Kenneth (1908-) leading US political economist. His major works include *The Great Crash 1929, The Affluent Society, Economics, Peace and Laughter, The New Industrial State,* and in 1981 his autobiography *A Life in our Times.* Galbraith emphasises the real world rather than theories; he promotes the idea of studying realities first and testing the theories against reality. He is known among economists as an institutionalist — someone who starts his or her studies with real-world economics. He is famous for his notion of `private affluence, public squalor', and for coining the terms `conventional wisdom' and `technostructure'.

Giblin, Lyndhurst Falkiner (1872-1951) probably Australia's most original economist, Giblin achieved a place in the history of economic thought for his formulation of the idea of an export multiplier which provided a method for relating fluctuations in our export income to changes in national income. This idea was further developed by Keynes into a more general multiplier.

Giblin was much more than an economist. Born in Tasmania, son of the premier of that state, he studied at Cambridge and then prospected on the Klondike, worked as a wharfie and timberworker, taught ju-jitsu in London, managed a Solomon Islands plantation and worked his way home as a cook to become a fruitgrower. He subsequently became a Labor MHA and won the MC and DSO in France. He then served as Tasmania's government statistician and later was the Ritchie Research Professor at the University of Melbourne, 1929-39. Giblin was on the committee which formulated the Premiers' Plan to deal with the Great Depression, and he took considerably pains to explain the complexities of economics through his newspaper series, *Letters to John Smith.* His work *Growth of a Central Bank* remains a landmark of Australian economic historiography. Giblin declined offers of a knighthood. See **multiplier.**

Keynes, John Maynard (1883-1946) famous as a UK economist, but more than that, Keynes was a man of eclectic interests, very different from today's specialists: pragmatic, flexible, not dogmatic. He was educated at Cambridge, where he studied mathematics and philosophy. He believed that production and employment and income levels are determined by the levels of total spending on goods and services. Keynes' ideas spread around the world and began to be seriously discussed in Australia in the 1930s (perhaps in response to the Great Depression). In his *Treatise of Money,* published in 1930, Keynes provided a critique of prevailing monetary theory and policy; he gave a fuller explanation in the *General Theory of Employment, Interest and Money* (1936).

Keynes provided a theoretical rationale for increased government intervention and he emphasised fiscal rather than monetary policies. He held that a fall in net income, lack of demand and rising unemployment should be met by increased government spending to stimulate the economy — `spending your way out of a recession', as it was expressed by his enemies. Keynesian ideas fell out of favour in the radically changed world of the 1970s, when recession joined forces with inflation. There was no simple Keynesian prescription for the 1970s and conditions favoured the monetarist revival. The discussion continues. See **Cambridge School, classical economics, crowding out, fiscal policy.**

Malthus, Thomas (1766-1834) UK economist whose legacy to economic thought was contained in his *Essay on the Principle of Population,* written in 1798, which developed the pessimistic idea that mankind was doomed to near-starvation because the population would increase and wipe out any increase in the availability of food. Malthus pushed for a lower birthrate, specifically advocating moral restraint. Speculation has favoured the explanation that a bad romance lay behind Malthus' theories; the study of political economy was widely suggested in his era as a cure for unhappy liaisons. Birth control, though, has modified Malthus' problem, and technological development seems to have distanced us from his prediction of inevitable starvation. Theorists continue, however, to apply Malthusian forecasts to Third World countries. See **classical economics.**

Marshall, Alfred (1842-1924) Marshall combined the traditions of the English classical school of Smith and Ricardo with new ideas on demand and markets, so that he has been described as the English founder of neo-classical economics and his followers have become known as neo-classicists. He held a number of major economic posts but was mainly associated with the University of Cambridge, where he held the chair of political economy 1885-1908. His main work, *Principles of Economics,* was published in 1890 and went through eight editions in his lifetime.

Marshall maintained that one had to begin with an analysis of the behaviour of consumers and producers to understand the functioning of a market system. He held to the classical view of the importance of costs in determining prices but added a new dimension by emphasising the role of demand factors. He coined the term `elasticity' to illustrate responses in demand to changes in prices. It has been said that Marshall's wife reminded him each morning over breakfast to keep one eye on the real world. Unlike many modern economists, he believed in helping his readers by keeping the expression of his technical analysis as simple as possible. Unfortunately, this meant he was often trying to translate the maths into English, which led to a number of confusions which would not have arisen had he stuck to the maths. See **Cambridge School, classical economics.**

Marx, Karl Heinrich (1818-83) German philosopher, economist, socialist and revolutionary. Marx studied at the University of Berlin and became a member of the Young Hegelians, an anti-religious radical group. Marx turned to journalism after his radicalism had proved to be an obstacle to a university career and in 1842 became editor of *Rheinische Zeitung*. The publication was suppressed. In 1844 he began a lifelong collaboration with Friedrich Engels. Marx was at different times expelled from Germany and France. He moved to England in 1849 and stayed there for the rest of his life. He was buried at London's Highgate Cemetry; his favourite chair in the British Library reading room used to carry a plaque. Marx and Engels collaborated on the *Communist Manifesto,* published in 1848. Marx became a leading figure in the International Working Men's Association, later known as The First International. In 1867 the first volume of *Das Kapital* was published. The remainder was published after Marx's death, having been edited by Engels. Marx's ill-health prevented his meeting his deadline; his life-project was never really his triumph — it was Engels who published his jumbled, unfinished notes as *Das Kapital* vols 2 and 3.

Mill, John Stuart (1806-73) British philosopher, political economist, exponent of utilitarianism, child prodigy. Mill was educated by his father and was a precocious student, reading Latin and Greek and studying algebra at the age of eight. He later had a nervous breakdown. He spent some time in France in 1820-21 with the Bentham family. Mill's major contribution was to synthesise the work of various members of the classical school, rather than to provide original concepts; he is described as the father of classical liberalism. See **classical economics.**

Quesnay, François (1694-1774) economist and physician at the court of Louis XV, where his duties included attending Madame de Pompadour. Quesnay's contribution to economic thought and development is expressed in his *Tableau Economique,* published in 1758 and acknowledged as the first attempt at a macroeconomic input-output analysis (a matrix showing where the inputs to each industry come from and where the output of each industry goes). Quesnay was leader of the physiocrats, a school of thought that held sway in France in the 1660s and which claimed agriculture as the only truly productive sector of the economy. Manufacturers, according to the physiocrats, were `sterile'; the fate of the economy rested on the agricultural sector which generated the physical surplus of output over inputs on which everything else depended. Physiocrats clashed with mercantilists in their views on agriculture versus manufacturing, although both focused on the importance of an economic surplus.

Ricardo, David (1772-1823) an economist whose record in finance reads like every money-market trader and stockbroker's dream: already working in the money market at the age of fourteen, Ricardo was smart enough despite a lack of formal education to have made his fortune by the age of 42 and to have retired to his country estate at Gatcombe Park (later the home of Princess Anne) to write about economics. James Mill, father of John Stuart Mill, encouraged Ricardo to publish. Ricardo's most important work, *Principles of Political Economy and Taxation,* was published in 1817 and is highly regarded by classical economists.

Ricardo's basic concern was `to determine the laws which regulate the distribution (among the different classes of land-owners, capitalists and labour) of the produce of industry'. He argued that when real wages fall, firms tend to replace machinery with labour and, when wages rise, capital-intensive goods become cheaper relative to labour-intensive goods. Ricardo constructed a theoretical model which he used to reason from particular abstract propositions to general conclusions about the real economy. He was the first to use abstract analysis of the economy to make decisions about the real world. So blame him, if you choose, for economists' predilection for abstract analysis. His work inspired generations of economists from Marx to Friedman but was cut short by his tragic death from an infected tooth. See **classical economics, free trade.**

Robinson, Joan (1903-83) British economist, one of the most influential of the post-Keynesian economic theorists. Professor Robinson taught at the University of Cambridge from 1931 to 1971. She was influenced by the works of Marx and Keynes and was a persistent critic of *laissez-faire* economic theory. Major works include *The Economics of Perfect Competition* (1933) and *The Accumulation of Capital* (1956). Robinson was at the forefront of heated debates over the meaning of `capital' in the 1950s and 1960s and was a leading light among the Cambridge School which developed macroeconomic theories of growth and distribution. **See Cambridge School.**

Samuelson, Paul (1915-) winner of the Nobel Prize for Economics in 1970, professor emeritus of economics at the Massachusetts Institute of Technology in Boston. He has contributed significantly to the development of mathematical economics, to the theory of equilibrium and consumer behaviour. His ubiquitous textbook *Economics,* of which there is an Australian edition, is the world's best-seller and Samuelson became a millionaire from its royalties.

Schumpeter, Joseph (1883-1950) minister of finance for Austria after the First World War. Schumpeter held the chair of public finance at Bonn from 1925 to 1932, then moved to Harvard where he remained for the rest of his life. He stressed the importance of technical innovation for economic growth and cycles, arguing that without innovation an economy would reach a static equilibrium. Innovation in his view was the source of renewal for capitalism — but he predicted that increased competition among firms to innovate would produce `gales of creative destruction' leading to the demise of capitalism. See **equilibrium.**

Smith, Adam (1723-90) Scottish philosopher and political economist. Between 1752 and 1763 he lectured in moral philosophy at Glasgow University and is best known for his *Inquiry into the Nature and Causes of the Wealth of Nations,* published in 1776. Known more commonly as *The Wealth of Nations,* the work has become entrenched as a text for students of economics. Adam Smith is regarded as the intellectual father of the `invisible hand' theory — ie, leave it to market forces in the hope that everyone would get a fair go. Smith recognised the need for some government intervention, especially in the context of `natural monopolies' such as water supply and road tolls, but he was against too much government interference with foreign trade. See **classical economics, free trade, mercantilism, neo-classical economics.**

Walras, Marie Esprit Leon (1834-1910) Walras held the chair of economics in the Faculty of Law at Lausanne, 1870-92. Walras is considered a founder of the branch of mathematical economics called `the general equilibrium theory'; he favoured the theory of marginal utility and set out to demonstrate how the prices at which goods are bought and sold are influenced by the relative marginal utility (need) of those trading the goods. Despite his arcane mathematical interests, Walras was deeply interested in sociology and was a socialist by political leaning. See **general equilibrium theory, marginal utility.**

economy of scale the bigger you are, the cheaper it comes, in the sense that the cost of producing or buying an extra unit falls. Although that is not always the case, economies of scale are usually achieved by making the most of size. Someone buying in bulk may often get a better price per item than someone buying single items. However, biggest is not always best; in theory, at some point a business activity will reach an optimum point of output and efficiency and after that the cost of producing additional units increases.

Economies often arise, though, out of spreading overheads over a larger number of units. See **diminishing returns.**

ECU *abbrev.* **European currency unit.**

Edge Act US federal law, enacted in December 1919 as Section 25 (a) of the Federal Reserve Act, to allow US commercial banks to carry out international business across state borders — a departure from the rule that domestic US banks can only do business in the state in which they are chartered. Banks carry out their international business through chartered subsidiaries, called Edge Corporations, whose powers of lending and deposit-taking are limited to transactions that the Fed deems incidental to international or foreign business. See **Edge Corporation.**

Edge Corporation a US banking corporation organised under Section 25 (a) of the Federal Reserve Act to carry out international banking activities. It is generally required to verify that every deposit taken or credit transaction conducted is related to an international transaction. See **Edge Act.**

EEA *abbrev.* **European Economic Area.**

efficient markets theory the assumption, which underlies modern finance theory, that all available information about a commodity (a share or other investment) is reflected in its price. Therefore, the current price becomes the best possible forecast of value. As soon as any new information becomes available, the price moves automatically to assimilate it.

EFIC *abbrev.* **Export Finance and Insurance Corporation.**

EFP *abbrev.* **exchange for physical.**

EFT *abbrev.* **electronic funds transfer.**

EFTA *abbrev.* **European Free Trade Association.**

EFTPOS *abbrev.* **electronic funds transfer at point of sale.**

EIB *abbrev.* **European Investment Bank.**

elaborately transformed manufactures finished or near-finished goods with high added value; for example, automotive components. This manufacturing sector is important in export-oriented countries which, for instance, could profit by exporting a raw material such as iron ore but achieve much greater profits by converting the ore into steel and then into washing machines. *Abbrev.* **ETM.** See **simply transformed manufactures.**

elasticity a measure of the degree of response (the proportionate change) in one item to a given proportionate change in another. For example, *price elasticity of demand* (or supply) measures the extent of change in demand (or supply) in response to a change in price; *income elasticity of demand* shows how much demand changes when income changes; *cross elasticity* shows how the demand for (or supply of) one product responds to a change in the price of another; *substitution elasticity* shows how easily or otherwise one product (or input to a production process) can be substituted for another.

electronic funds transfer computerised transfer of money from one account to another, usually by using an encoded plastic card. Automatic teller machines (ATMs) are an example of the application of EFT in banking. *Abbrev.* **EFT.** See **electronic funds transfer at point of sale.**

electronic funds transfer at point of sale paying for purchases with a plastic card which instantaneously debits the amount of a shopping bill to the shopper's bank or other nominated account through a point-of-sale (checkout) terminal at the retail store. *Abbrev.* **EFTPOS.** See **debit card, electronic funds transfer.**

11am call moneyfunds which can be recalled, repaid or renegotiated as to interest rate during a morning's money-market trading, up to 11am, without the need for previous notice. These are different from 24-hour call money, on which notice must be given the previous day of any intention to recall, repay or renegotiate on rate. See **24-hour call money.**

eligible rollover fund a superannuation fund which meets requirements regarding the level of fees to be charged and so can accept transfers of benefits for `protected members', ie, those with small balances. The funds were originally established to cope with `lost' or uncontactable members, and are predominantly used for lost or small contributors. An essential feature of eligible rollover funds is that they provide member protection even if a member's contribution is more than the $1000 threshold that distinguishes a `protected' member. *Abbrev.* **ERF.**

eligible termination payment payment received on retirement, retrenchment, resignation or disablement. Many of these can be rolled over (converted) tax-free into a superannuation fund, for example superannuation payouts, golden handshakes and other forms of severance pay, payments in place of unused sick leave and benefits paid from approved deposit funds and deferred annuities. Long-service leave does not qualify as an eligible termination payment. *Abbrev.* **ETP.** See **rollover, approved deposit fund.**

Elliott Wave Theory a form of technical analysis (charting), named after Ralph Elliott who devised it in the early 1930s and first published the theory in 1939 in a series of articles in *Financial World.* The theory was originally applied to the major market averages and in its most basic form says that the market follows a repetitive rhythm of a five-wave advance followed by a three-wave decline. Elliott believed this theory was part of a much larger natural law governing all of human activities whereby life and nature repeat themselves indefinitely in cycles. See **Fibonacci numbers.**

embargo a restriction, sometimes enforceable by law, on goods or information, often applied for a finite period.

embedded option an option that forms an inseparable element of another instrument, usually in the form of an option enabling a party to exit ahead of schedule from an arrangement, eg, a provision in a corporate bond issue whereby the issuer can repay the lender ahead of the maturity date of the bond.

embezzlement in quaint legalese, the crime of taking property as a servant, the property having been received by the servant on behalf of the master (employer). Embezzlement has a legal distinction from theft and larceny; it involves wilfully taking something belonging to someone who put you in a position of trust which gave you access to, say, the family silver or the company's reserves. Embezzlement entails a relationship between the wrongdoer and the wronged party. In practice, it is simply ripping off the boss.

emerging markets countries such as those in Latin America which are outside the mainstream western and more successful Asian economies, which are rapidly industrialising but remain volatile and, from an investment point of view, high risk. The dividing line between newly industrialised economies (NIEs) and emerging markets is fairly subjective. See **newly industrialised economies.**

empirical based on experience or observation. History has been called `empirical evidence'. In the conclusions of economists, empirical justifications are sometimes said to be wanting.

employee share ownership plan one of a variety of incentive schemes, usually for the benefit of senior executives, through which a company rewards prized employees by giving them part-ownership. This may come in the form of shares paid for by the company, partly-paid or contributing shares made available to the employee for a minimal outlay, or options to acquire shares at a later time. Sometimes the transfer of shares will be dependent on the employee's promise to stay with the company for a specified time, or on the achievement of a performance target. Where shares are financed by loans from the company, the shares may be held in a trust, with dividends being used to pay off the loans. *Abbrev.* **ESOP.** See **contributing shares, golden handcuffs, shares.**

employer contribution the amount contributed by an employer on behalf of an employee to a superannuation fund. Under the Superannuation Guarantee legislation employers have to make contributions on behalf of most employees. See **Superannuation Guarantee levy.**

employer-sponsored fund a superannuation fund established by an employer (company) for the benefit of its employees. Also **company-sponsored fund.**

EMS *abbrev.* **European Monetary System.**

end date the term used in the forward-rate agreement (FRA) market for what is known in the physical market as *maturity date.*

endorse in banking and finance, to write a signature on the back of a cheque or bill of exchange verifying ownership and confirming the legal capacity to transfer ownership to someone else. Also *indorse.*

endowment under endowment assurance policies, the sum assured plus any bonuses is paid out on the death of the policy-holder or at the end of a stipulated period, whichever occurs first. Endowment policies carry higher premiums than either term insurance or whole-of-life policies because payment is guaranteed. If the insured person dies before the endowment policy matures then his or her family, or whoever is named in a will as beneficiary, stands to inherit from the policy. The policies are so-called because `endowment' means the provision of a permanent source of income, or a gift. See **term insurance, whole-of-life policy.**

enterprise agreement a wages-and-conditions agreement struck between an individual company and its workers (though each has to be ratified by the Industrial Relations Commission). The IRC cleared the way in 1991 for wage-bargaining at the so-called enterprise level, breaking the long-held dominance of the trade unions in negotiating industry-wide working conditions. An enterprise agreement usually improves pay rates and working hours in return for employee commitments to increase their productivity. See **award rate, Industrial Relations Commission, productivity.**

entitlement issue similar to a rights issue except that an entitlement issue is non-renounceable, ie, the issue cannot be traded on to someone else. The shareholder being offered shares through an entitlement issue has the option of taking up the offer or allowing it to lapse. Small mining companies usually make entitlement, rather than rights, issues. See **bonus issue, new issue, rights issue.**

entrepôt a warehouse, or more commonly a trading centre or port where goods are imported, then re-shipped elsewhere.

EPAC *abbrev.* **Economic Planning Advisory Council.**

EPS *abbrev.* **earnings per share.**

equilibrium a favourite expression among economists for what the rest of us call `balance'. Equilibrium is found more on the economist's blackboard than in the real world. In a market, equilibrium is achieved if supply exactly matches demand. On a more academic level, critics of the neo-classical use of the term argue that real-world economics are never in equilibrium. They say that the idea of an economy as a pendulum swinging from side to side (a notion borrowed from physics) is nonsense because there is no fulcrum (fixed pivot) to guarantee a return to an original position. Those who work in real-world situations should agree with this view; it is probably true that we are rarely in equilibrium because the external forces are always changing. Nevertheless the system always tends towards equilibrium and therefore the notion has an influence. See **general equilibrium theory.**

equitable estoppel see **estoppel.**

equity the part of something — asset, house or company — which you own. What the professionals call shares. If you lend a company money, you have made a loan and rank as a creditor who, under normal circumstances, would expect repayment of the loan plus interest at a future date. If you buy ordinary shares in a company you become an equity-holder in that company, which means you share in its profits (and losses) and have a less clear-cut idea of your future returns than does a lender. As an ordinary shareholder, you stand in line behind debenture-holders for settlement, should the company be wound up. You cannot rely on a fixed return, and you run the risk of loss, but in return for this you have a share in the company's surplus during good times. You also have equity in that part of the value of your house above the amount borrowed from the lender which has the mortgage over your house. Economists, as well as other people, use `equity' in its original sense of fairness or impartiality.

equity accounting a technique to account for a company's interest in an associated company, ie, a company over which the investing company can exert significant influence, but does not have control. (Usually the investing company would hold less than 50 per cent but more than 20 per cent of the shares of the associated company although significant influence is considered to be a matter of substance over form.) The assets of a company with an investment in another are set out so that they include the investor's ownership interest in the associated company. Under this method, a company with an investment in an associated company will include in its annual report a share of the profit (loss), adjusted for intercompany transactions, and reserves of the associated company. In the investing company's balance sheet this investment will be recorded at cost, plus the investor's share of any post-acquisition increases in the associated company's net assets. Equity accounting is a specific accounting technique which contrasts with the traditional accounting method where holdings of 50 per cent or less in another company are shown at cost, and dividends received as the only recognition of the profits of the investment. The equity method is advocated by AAS14.

equity kicker shares or call options offered to lenders, underwriters or management in return for their services. Similar to **equity sweetener.** See **equity sweetener.**

equity sweetener an additional enticement, such as free options granted to subscribers to a new issue of shares.

equity trust a unit trust which gathers unitholders' funds and invests them in a range of shares through the stockmarket. See **unit trust.**

equity warrant a warrant that is exercisable into an equity (share). See **warrant.**

ERM *abbrev.* **exchange rate mechanism.**

ESA *abbrev.* **exchange settlement account.**

escalating swap see **accreting principal swap.**

escalation clause a clause in a contract that allows the seller to be offered a higher price should the buyer or another party make a higher bid in the market within a certain period. Contracts can also be indexed for inflation or cost increases.

escape clause a clause written into a contract, outlining a specified set of circumstances under which the rules of the contract would no longer apply or would be modified.

escrow the holding of a document recording an obligation or transaction by a third party (the escrow agent) with the provision that it is only to take effect as a deed when certain conditions have been met. One condition is often delivery of a similar document executed by another party to the contract it records.

ESOP *abbrev.* **employee share ownership plan.**

estate duties see **death duties.**

estoppel a legal doctrine which has evolved over the past couple of centuries, which essentially means that an individual cannot deny the truth of a statement made by him or her, or the existence of facts on which other people have relied because of his or her words or behaviour. Estoppel broadly means that someone is stopped or prevented from saying, doing or contesting something. The word is derived from the old French *estoupail* meaning `cork'; the modern French *étouper* means `to stop up'. A form of estoppel is `equitable estoppel'; this would apply, for example, in the case of a neighbour building on your land, presuming it to be his. If you let him go ahead instead of telling him it is your land, equity would not allow you later to require him to remove the building from your land.

ethical investment investment in companies or industries that promote positive approaches to environmental or social issues, or the avoidance of investment in industries producing goods deemed harmful to health or the environment, such as tobacco and some chemicals. Some managed funds specialise in ethical or `green' investments.

ETM *abbrev.* **elaborately transformed manufactures.**

ETP *abbrev.* **eligible termination payment.**

euro$A Australian dollars held outside Australia.

euro-commercial paper short-term (one-to-six months) paper, such as bearer promissory notes or certificates of deposit, issued offshore. *Abbrev.* **euro-CP.**

euro-CP *abbrev.* **euro-commercial paper.**

euro-MTN a medium-term note issued in eurodollars. See **medium-term note.**

eurobonds a branch of the euromarkets, eurobonds took off in the 1960s. As with euromarkets, euro- refers to the characteristic of the bond being sold in Europe and outside the country of the issuer. The investment bank Morgan Guaranty defined the eurobond as `a bond underwritten by an international syndicate and sold in countries other than the country of the currency in which the issue is denominated'. Eurobonds are used by top credit-rated borrowers, such as banks and big international companies, to raise medium to long-term fixed-interest funds. See **euromarkets.**

eurocar a euromarket, rather than $US domestic, issue of CARs. See **certificate for automobile receivables.**

Euroclear a computerised settlement and deposit system for the safe custody, delivery and payment of eurobonds. Euroclear is the oldest settlement system and was originally sponsored by Morgan Guaranty. It is now operated under contract. See **Austraclear, Centrale de Livraison de Valeurs Mobilières.**

eurocredits these broadly refer to medium-term lending, usually by banks, which is made up of eurocurrencies. Eurocredits are generally large-scale loans and so are handled by a syndicate (group) of lenders. **See eurocurrency, eurolines, euromarkets.**

eurocurrency a currency on deposit or loan outside its own country. The eurodollar is the most common eurocurrency; other examples are eurosterling, euroyen, eurofranc and so on. The eurocurrency market communicates electronically; dealings take place between banks (interbank transactions) and with institutions, companies and governments. The eurocurrency market was the first `offshore' market; a more recent development has been the Asian Dollar Market. See **Asian Currency Unit, euromarkets, offshore.**

eurodollar $US held in banks outside the US, mostly in Europe. See **euromarkets.**

eurokiwi bonds denominated in $NZ, issued in the euromarkets, ie, outside New Zealand, targeted to non-New Zealand investors.

eurolines lines of credit denominated in eurocurrencies.

euromarkets the markets for eurocredits, eurocurrencies and eurobonds — currencies and securities held in Europe and outside their country of origin (euro is equivalent to external in this context). The euromarkets took off in the 1950s partly, it is said, as a reaction to the cold war between the US and the Soviet Union. This left the Soviet Union anxious about holding dollars in the US and so it placed them with European banks, which lent them to customers. At the same time, US banks were operating under restrictions which led to their holding $US balances in Europe, particularly London. The UK capital was the first euromarket centre and is still the largest. **See eurobonds, eurocredits, eurocurrencies, eurodollars.**

euronote the short-term version of the eurobond, issued with floating rates and usually with maturities of less than six months.

European currency unit the unit of account within Europe's Economic Union. The European currency unit is made up of the eight currencies in the European Monetary System plus sterling. It forms part of the foreign-exchange reserves of the European central banks and is also used as a currency in its own right; loans and investments are made in European currency units and companies invoice in the units. *Abbrev.* **ECU.**

European Economic Area a large free-trading market created by the linking in early 1994 of the European Union (formerly the European Economic Community) and the European Free Trade Association. (Switzerland, a member of EFTA, decided by referendum to remain apart from the EEA.) The new market embodied 17 countries with a population of about 370 million, accounting for about 40 per cent of world trade. *Abbrev.* **EEA.** See **European Free Trade Association, European Union, General Agreement on Tariffs and Trade, North American Free Trade Association.**

European Economic Community see **European Union.**

European Free Trade Association one of a number of agreements by groups of European countries to promote liberal trade practices. EFTA comprises Austria, Iceland, Norway, Finland, Sweden and Switzerland. In 1994 this group, with the exception of Switzerland, joined with the European Union to form the European

Economic Area. *Abbrev.* **EFTA.** See **European Union, European Economic Area.**

European Investment Bank a non-profit oriented organisation established to provide funds for major development projects in the European Union. *Abbrev.* **EIB.**

European Monetary System an agreement between the countries of the European Union to manage their currencies so that their exchange rates move in tandem. It was hoped that this greater stability in exchange rates would facilitate the control of inflation in EU countries and encourage economic growth. There are two aspects to the system: one, the Exchange Rate Mechanism (ERM), whereby currencies must be held within a band relative to agreed rates, called `central rates'; if any one currency moves significantly, attempts are made by its central bank to bring it into line. A second feature is a balance of payments support mechanism organised through the European Monetary Cooperation Fund. There have been fairly regular general realignments of the currencies in EMS. The EMS agreement was adopted in December 1978 but the first central rates were established in March 1979. EMS superseded the European Joint Float (popularly called the `snake') which had been established in 1972. Participating currencies in EMS are not precisely those of the snake. The EMS agreement was seriously challenged in September 1992 when Italy, the UK and Spain were unable to support their currencies above their floor values and they had to be allowed to float. The system suffered another crisis in August 1993 which was only resolved by widening the bands within which most members' currencies were allowed to fluctuate to 15 per cent either side of their midrates. See **Maastricht Treaty, snake.**

European optiona put or call option that cannot be exercised before its expiry date. See **American option, over-the-counter options.**

European Union the matured version of the European Economic Community (EC), which was founded under the Treaty of Rome in 1957 as a customs union (popularly referred to as the Common Market) by France, West Germany, Italy, Belgium, the Netherlands and Luxembourg. The community expanded in 1973 to include the UK, the Republic of Ireland and Denmark, and grew again in 1981 with the addition of Greece. Austria, Sweden, Finland and Norway were to join in the mid-1990s and a number of eastern European countries were expected to apply for membership. The European

Union was the product of the 1993 Maastricht Treaty, which added two elements to the European Community — a common foreign policy and cross-border cooperation in justice and police matters. In 1994 the European Union joined with the European Free Trade Association to form the European Economic Area. *Abbrev.* **EU.** See **European Economic Area, European Free Trade Association, Maastricht Treaty.**

euroyen Japanese currency held in term deposits in banks outside Japan, mostly in Europe. The yen are used in international transactions but settlement is made in Tokyo. Securities issued in euroyen pay interest in yen and the income is deposited in foreign bank accounts (bank accounts held outside Japan).

euroyen bond a bond denominated in Japanese currency, usually issued or held outside Japan. However, Japan's Ministry of Finance has progressively relaxed the rules applying to the sale and distribution of these bonds in Japan, increasing their popularity. Euroyen bonds have been seen internationally since December 1984 when the US Treasury and Japan's Ministry of Finance agreed to open Japan's financial markets, thus increasing the importance of the yen in international finance. Before the emergence of euroyen bonds, multinational companies issued yen bonds in Japan. Japanese institutions active in portfolio management have increasingly turned to euroyen-denominated issues, having suffered in 1994 from investments in bonds denominated in currencies which fell sharply against the yen.

evergreen credit a revolving loan with no maturity date. **See rollover.**

ex coupon signifying that a bond being sold does not carry an entitlement to the current interest payment. **See cum coupon.**

ex officio a position described as `ex officio' is one that goes hand in hand with a particular office, not with the individual holding that office. Literally, it means `by virtue of or according to office'. For example, the secretary of the Australian Treasury is an `ex-officio' member of the board of the Reserve Bank of Australia, which means that whoever holds the office of secretary of the Treasury also sits on the Reserve Bank board but ceases to do so when no longer secretary of the Treasury.

exchange control regulation at government level of money-flows in and out of a country. Exchange controls are usually maintained in the belief that they help to protect a country's currency and its foreign-exchange reserves. The controls may restrict investments by residents overseas and non-residents' investments and participation in the local market. Big international currency movements tend not to obey such controls. Sometimes individuals are limited in the amount of currency they may take abroad for holidays. The UK abandoned exchange controls in 1979. In Australia, exchange controls which had persisted in one form or another since 1939 were virtually abolished in December 1983 when the $A was floated.

exchange for physical a transaction in which a physical commodity or financial instrument, eg, a government bond or interest-rate swap is traded and an offsetting futures hedge transaction is simultaneously undertaken. EFPs are not executed on the floor of the Sydney Futures Exchange but are traded either directly between the two parties concerned or through a broker. The appeal of EFPs is that the parties to the trade are free to negotiate the futures price and the volume of contracts used. As a result, fund managers and other institutional investors often use EFPs to switch or modify exposures between the cash and futures markets. *Abbrev.* **EFP.**

exchange rate what one currency is worth in terms of another, for example the $A might be worth 73 US cents or 70 yen. Currencies traded freely on foreign-exchange markets have a spot rate (applying to trades settled `spot', ie, two working days hence) and a forward rate. Countries can determine their exchange rates in a variety of ways: a *floating exchange rate system* where the currency finds its own level in the market; a *crawling or flexible peg system* which is a combination of an officially fixed rate and frequent small adjustments which in theory work against a build-up of speculation about a revaluation or devaluation; a *fixed exchange-rate system* where the value of the currency is set by the government and/or the central bank.

Exchange Rate Mechanism see **European Monetary System.**

exchange of contracts the penultimate stage when buying real estate. The exchange of contracts (a formal agreement between buyer and seller) is followed by the `settlement period' which can give the buyer time to scurry about for more finance if that is needed. The settlement period usually lasts about six to eight weeks, depending on searches, surveys and other formalities. After exchange of contracts, buyer and seller should be able to sleep easily at night, because the deal is signed and sealed. However, hitches can arise, so it is prudent to save the champagne for settlement day.

exchange-settlement accounts accounts held with the Reserve Bank and used by the banks and Special Service Providers to settle transactions with each other. These accounts handle immediate-value transactions; other, generally low-value, transactions go through the clearing house and affect banks' exchange-settlement accounts the next day. *Abbrev.* **ESA.** See **clearing house, federal funds market, real-time gross settlement, Special Service Providers, uncleared funds.**

exchange-traded option an option traded on a recognised exchange, with contract specifications set by the exchange and traders margined. See **option, over-the-counter option.**

ex-dividend similar to ex-interest (`ex' means `without' in money language), ex-dividend identifies a quoted share or security as one on which the current dividend is earmarked for the seller, not the buyer. See **cum dividend.**

excise a domestic tax, levied on selected commodities by the federal government, which has exclusive power to impose excise duties. It is estimated that 98 per cent of excise falls on alcohol, tobacco and petroleum products. Excise is a specific tax, levied as a fixed sum of money per unit of the commodity taxed, as against an *ad valorem* tax which is expressed as a percentage of the value of the commodity taxed. See **ad valorem.**

executive search see **headhunter.**

executor one who is appointed in a will to administer the distribution of a deceased person's estate (wealth and property) according to the wishes of the testator or testatrix (he or she who made the will).

exempt market a market relieved of most of the provisions of Chapter 7 or Chapter 8 of the Corporations Law — which regulate securities and futures trading — because transactions are carried out between professionals.

exercise price see **strike price.**

exercise (of an option) converting an option into its underlying futures contract or into the shares covered by the option, by paying the predetermined amount.

Ex-Im Bank see **Export-Import Bank of the United States.**

ex-interest without interest. Bonds are quoted ex-interest fifteen days before coupon date so that interest can be paid to the registered holder. Electronic payments and settlements are likely to shorten this term.

exotic currencies those which are thinly traded and for which there is no sizable international market.

exotic options options with unusual features, be that an unusual underlying asset or instrument or method of calculating the strike price or payout. Examples include **barrier options, dual currency options, deferred strike-price options, lookback options.** Also *non-standard option.*

expenditure accounting language for a payment made or to be made for an asset or service. See **capital expenditure.**

expense accounting jargon has converted this noun into a verb which means to treat a sum of money as an expense for accounting or tax reasons.

expense account a tax beneficial privilege given usually to business executives to recognise that almost everything they do is for the good (profit) of the company. It is expected that executives will consult clients and colleagues in gathering information and transacting deals and that any outlay should be met by the company as an investment in future profit. Expense accounts, often operated through credit cards, are used to pay for entertainment and travel. There is a close link between a person's status in the business community and the size of his or her expense account. Since the introduction of fringe benefits tax, many expenses are no longer allowable as tax deductions for the employer. See **convention, fringe benefits tax, lunch.**

expiry date the date on which an option expires (matures). An option buyer wishing to exercise the option must do so either on or before expiry date.

ex-pit trading see exchange for physical.

export credits loans made by organisations such as Australia's Export Finance and Insurance Corporation and the US Export-Import Bank to encourage exports. See **Export Finance and Insurance Corporation.**

Export-Import Bank of Japan Japan's export financing institution, established in 1950 and the equivalent of Australia's Export Finance and Insurance Corporation. See **Export Finance and Insurance Corporation.**

Export-Import Bank of the United States an independent federal banking corporation established in 1934 to help finance the US's exports and imports. The Export-Import Bank provides funds to borrowers outside the US, and offers export guarantees and insurance. It is the US equivalent of Australia's Export Finance and Insurance Corporation and the Export-Import Bank of Japan. *Abbrev.* **Ex-Im Bank.** See **Export Finance and Insurance Corporation.**

export incentive concessions to exporters to encourage them to sell more, for example, export credits and other subsidies.

Export Finance and Insurance Corporation a statutory corporation established in 1957 to support Australia's overseas trade by providing credit and insurance to a wide range of Australian exporters. The corporation offers supplier and buyer credit finance for exports of capital goods and services (but not commodities and consumer goods), for up to 85 per cent of a contract value with the balance paid by the exporter's customer as a deposit. Finance is provided at internationally competitive rates which are determined on a case-by-case basis. The corporation also offers an *export working capital guarantee* facility to assist exporters unable to provide sufficient acceptable assets to satisfy a lender. Another facility is the *export credit insurance* policy covering risks such as non-acceptance of goods, failure to pay or insolvency on the part of an overseas buyer, failure to perform or insolvency on the part of an overseas issuing bank, and adverse events such as a blockage in the transfer of currency, war or an unexpected diversion of exports. Export Finance and Insurance Corporation also offers *bonding* facilities — advance payment, performance and retention bonds — for capital goods and related services. An *unfair calling insurance* facility is available against the risk that these bonds might be unfairly called by a buyer. *Abbrev.* **EFIC.**

exposure risk. Traders talk of `exchange rate exposure' and `interest rate exposure' which means they are at risk from potential variations in these rates. Nervousness about such vulnerability spawned markets offering methods of protection, such as hedging through futures or forward markets, borrowing in floating-rate facilities and using risk-management products such as swaps and options.

ex-rights a stock exchange term meaning that the price quoted for a share does not include the right to take up new stock offered or about to be offered. The opposite is cum rights, which is stock sold with the rights to a new issue. See **cum rights.**

external account this can be a bank account held by a resident with an overseas institution or it can refer to the overseas activities of a country, ie, its trade with other nations and overseas borrowings. See **balance of payments.**

external audit an examination and verification of a company or organisation's financial accounts and records, carried out by an outside party, usually an independent professional auditor. See **internal audit.**

external debt what is owed by a country's government and private sector to foreigners.

extraordinaries see **extraordinary items.**

extraordinary general meeting a meeting called for a specific purpose. See **annual general meeting, boardroom, director.**

extraordinary items income or expenses which are outside the normal course of a company's business and which are shown separately from the annual profit or loss calculation. Also *extraordinaries.* See **operating profit/loss.**

extrinsic value see **time value.**

F

face value the full amount of a security, loan or investment before interest is added or deducted. Coupon interest is calculated on the face value of a loan or security. For example, a commonwealth bond of $100 000 has a face value of $100 000 but would usually be bought at a discount (if market rates were higher than the bond's coupon rate) and the holder would receive face value when the bond matures. Face value is the same as nominal or par value. See **discount, nominal value, par value, yield to redemption.**

factor originally a steward or bailiff overseeing an estate. Factor now has two meanings: the agent who takes over collecting another's debts (see **factoring);** and one of the inputs to production, for example land or labour (see **factor cost).**

factor cost the cost of producing one item — including labour and capital — as distinct from its market price, which would be affected by indirect taxes and subsidies.

factoring taking over the collection and supervision of a company's debts or receivables (what is owed to it). The factoring company buys, at a discount, all the trade debts due to a business as they arise and provides an accounting and debt-collection service. The factoring company makes early payment of a substantial percentage of the trade debts, thereby reducing the business's need to extend credit. The practice, which began in the US and spread elsewhere, is very useful for small but rapidly growing firms.

fairway option devised by Citibank Ltd, a fairway option is similar to a collar but links two different variables, eg, the gold price and a currency. A borrower/client sells a cap and sells a floor, taking a view that one variable will always stay within the band between the cap and the floor (the fairway). It is a risky trade, being a play on volatility.

fall out of bed as in `the $A fell out of bed', meaning the currency declined suddenly and substantially.

FANMAC see **mortgage-backed security.**

Fannie Mae a security issued by the Federal National Mortgage Association of the US (FNMA). An independent US agency, FNMA was established in 1938 and reviewed in 1954; its main business is to buy mortgages from banks, mortgage companies, savings and loan associations and insurance companies, and to help these lenders in their home financing. See **Ginnie Mae, mortgage-backed securities.**

FAST *abbrev.* **Flexible Accelerated Securities Transfer system.**

fat-tailed curve relevant to statistical tests in econometrics, a fat-tailed curve is a frequency distribution (visually, a histogram) that has relatively more observations in its tails (`outliers') than is the case for the normal, or bell-shaped distribution. Also *leptokurtic.* See **kurtosis.**

FBT *abbrev.* **fringe benefits tax.**

featherbedding making conditions softer and more comfortable, implying a comfort that is not wholly deserved. Sometimes trade unions are accused of seeking to featherbed: they use their industrial muscle to create, for their members, jobs which are not wholly productive. Tariffs featherbed local manufacturers by making imports less competitive. A featherbedding executive is one who surrounds himself or herself with staff to reduce his or her need to work while creating the impression of running a large and vigorous organisation.

Fed *abbrev.* **Federal Reserve System.**

Fed wire the communications system linking all twelve Federal Reserve Banks in the US, their 24 branches, the Federal Reserve Board in Washington and US Treasury offices in Washington and Chicago. It has been called the central nervous system of money transfer in the US. Through the Fed wire the banks can transfer reserve balances for immediate credit, between banks and customers. Also *FedWire or Fedwire.* See **Clearing House Interbank Payments System.**

Federal Deposit Insurance Corporation a public corporation in the US created by the Glass Steagall Act to insure the deposits of banks, protecting depositors should a bank fail. See **Glass Steagall Act.**

federal funds market short-term interbank lending in the US. Federal funds are the reserve assets of the US commercial banks which they hold with their Federal Reserve banks. Banks with surpluses lend to others who are short, usually only overnight. The situation where Australian banks lend their exchange-settlement account surpluses to each other is referred to as the `interbank market'. See **exchange-settlement accounts, interbank market.**

federal funds rate the interest rate prevailing in the US federal funds market, ie, the rates paid and charged on interbank lending of their reserve assets. The Federal Reserve can influence the federal funds rate through open-market operations which increase or decrease member banks' reserves and therefore their ability to borrow or lend. The federal funds rate is thus closely watched because it can reflect the authorities' intentions regarding monetary policy and interest rates.

Federal Home Loan Mortgage Corporation born in 1970 in the US, owned by the twelve Federal Home Loan Banks, this organisation buys mortgages and resells them in the form of participation certificates (PCs), secured by pools of conventional mortgages. *Abbrev.* **Freddie Mac.** See **securitisation.**

Federal National Mortgage Association of the US see **Fannie Mae.** *Abbrev.* **FNMA.**

Federal Open Market Committee a committee of the United States Federal Reserve System which controls the purchases and sales of government securities and monitors the US foreign-exchange market. It consists of seven members of the board of governors and heads of five of the twelve Federal Reserve banks, including the head of the Federal Reserve Bank of New York. The committee meets every three weeks and makes decisions which are carried out by the Federal Reserve Bank of New York. *Abbrev.* **FOMC.**

Federal Reserve System the US central bank, established in 1913 by an Act of Congress, comprising the Federal Reserve Board, Federal Open Market Committee and the twelve Federal Reserve banks. The Federal Reserve Act 1913 divided the US into twelve regions (Federal Reserve districts), each with a Federal Reserve bank. The New York Fed is the most important. Federal Reserve banks hold the cash reserves of the member banks, rediscount bills and provide clearing facilities. The board is made up of seven full-time governors, each appointed for fourteen years, including the chairman, and a large permanent, professional (non-political) staff. *Abbrev.* **Fed.**

Fibonacci numbers a number sequence discovered by the thirteenth-century Italian mathematician, Leonardo Fibonacci de Pisa. The number sequence presented is 1, 1, 2, 3, 5, 8, 13, 21, 34 and so on to infinity. The numbers have several interesting properties, the most important being that the ratio of any number to its next higher number approaches 0.618 after the first four numbers. This and other ratios are often used in all markets to indicate likely retracement levels. The Fibonacci sequence of numbers is also referred to by Ralph Elliott as the mathematical basis for the Wave principle. Also *Fibonacci series.* See **Elliott Wave Theory.**

FID *abbrev.* **financial institutions duty.**

fidelity fund a form of insurance against the loss of money held in trust or on behalf of investors. Professional associations of lawyers, for example, may set up voluntary funds, provided by levies on members, to protect clients' interests. Every stock exchange must have one; the Sydney Futures Exchange has operated with a fidelity fund since the early 1980s. The assets of the fidelity fund are the property of the exchange, held in trust, and responsibility for the fidelity fund rests with the exchange committee. Member organisations contribute to the fund and initial contributions are required as a condition of membership of the exchange, with the exchange determining the amount to be lodged.

fiduciary duties the responsibilities of those in positions of trust, often applied to the obligation of company directors to act in the interests of their shareholders and to supervise adequately the actions of management.

FIFO *abbrev.* **first in, first out.**

Fifty Leaders index a share-price index measuring changes in the prices of 50 leading companies on the Australian Stock Exchange. See **All-Ordinaries index.**

figure, the foreign-exchange dealers' shorthand meaning jumping to the `00' at the end of a quote. For example, if the $US were quoted at 83.95/84.00 yen, a dealer would say the $US stood at 83.95/the figure. See **big figure.**

fill or kill order a futures market order, to be carried out immediately or, if not, to be cancelled.

final average salary the level of salaries earned in the final years before retiring or leaving work, often used to calculate the retirement benefit for an employee who has$been contributing to a defined benefit fund. See **defined benefit fund, highest average salary, reasonable benefit limit.** *Abbrev.* **FAS.**

final dividend see **dividend.**

finance lease a lease which effectively transfers from the lessor (owner) to the lessee the bulk of the risks and benefits that go with ownership of the leased property. See **operating lease.**

finance company a non-bank financial institution. Finance companies in Australia date from 1925. Their numbers increased in the 1950s as they provided a source of consumer and commercial finance at a time when bank credit was tight and bank loans hard to get. Controls on banks led to high growth for finance companies in the 1960s and 1970s and fed speculation that, as banks were freed from these controls, finance companies would disappear. However, finance companies have survived, despite a freer banking sector, as commercial and consumer finance specialists. The larger finance companies raise funds from the public through debentures and note prospectuses, taking funds for terms between three months and five years. See **non-bank financial institution.**

Financial Corporations Act 1974 legislation providing for the registration and direct regulation in Australia of a wide range of non-bank financial institutions (NBFIs). It supplements the information available to the authorities (Reserve Bank, Treasury, government) on these institutions for the purposes of monetary policy Part IV of the act, which has not been proclaimed, would give the federal government, through the Reserve Bank, wide-ranging controls over the assets, interest rates and lending policies of NBFIs. The institutions are much relieved that successive governments have declined to put Part IV into operation, leaving as chief achievement of the act the acquisition of additional information and statistics on NBFIs. See **finance company, non-bank financial institution.**

financial engineering the development of innovative market instruments or linked transactions to exploit specific trading opportunities or manage particular financial risks. Financial engineering can range from a simple buy-and-sell portfolio strategy devised by a financial adviser for a client to a complicated computer-based derivative product used by sophisticated traders in billion-dollar markets. See **derivative products, rocket scientist, zaitek.**

financial futures instruments with which to hedge or protect against movements in interest rates, share prices and currencies. They have thrived since the mid-1970s as investors, traders and speculators seized on a new method to protect themselves against, or make money out of, increasingly volatile interest rates and exchange rates. Financial futures began in the US in the early 1970s; currency futures started trading in 1972 in Chicago and interest rate futures followed in 1976. The Sydney Futures Exchange was the first outside the US to move into financial futures, with the launch of the bank bill contract in October 1979. Since then financial futures trading in Australia has expanded to include share-price index futures and government bond futures. Other regional financial centres have embraced financial futures. See **futures markets.**

financial futures options see **options.**

financial incentive an offer of money, to induce an improvement in performance.

financial institutions duty a state tax introduced in January 1983 in New South Wales and Victoria and was subsequently adopted in South Australia, Western Australia and Tasmania. Financial institutions duty is a tax on the receipts of all financial institutions. The rate varies from state to state. Short-term money-market transactions fall into a special category because of the heavy turnover. *Abbrev.* **FID.**

financial instrument a bill of exchange, bond, treasury note or promissory note. See **instrument.**

financial jargon what this book is all about.

financial supermarket one-stop money shop, offering the full range of financial services, from deposits and loans to insurance and travel. At the opposite end of the scale is the niche, or boutique bank. See **boutique.**

Financial Times Stock Exchange index *abbrev.* **FTSE.** See **Footsie.**

financial year an accounting period for government budgeting and taxation purposes. In Australia the financial year runs from 1 July to 30 June. Many companies use the same period for their financial year, although some companies end their financial year in September or December to conform with an overseas parent. A financial year can also refer to 360 days (twelve months each of 30 days), a scale used as the basis for interest calculations in a number of countries. Financial year time-frames differ from country to country; for example, in the US it is common to end the financial year at the end of December, and in Japan the financial year ends on 31 March. Also *fiscal year.*

fine ratetraders in the money market talk of `fine rates' when they mean low, or the most favourable rates available. Top-name companies can borrow at fine rates.

fine-tuning in managing the economy, small adjustments made by the government in response to economic indicators which suggest some action to correct trends or anomalies. The practice was favoured in the 1950s and 1960s but took a back seat to monetarism in the 1970s and 1980s. In the 1990s it has generally been conceded that fine-tuning is pretty well impossible to achieve, given the lags in the economy — although that does not necessarily stop governments from trying.

FIRB *abbrev.* **Foreign Investment Review Board.**

fire-sale value the price assets might fetch if sold quickly or in a distressed situation — a price usually well below their book value. See **book value, going-concern value.**

firm a business, partnership, company or proprietary company. In share trading, saying that prices are firm means they are rising; confusingly, when interest rates rise on fixed-interest investments this means that prices fall (or weaken).

firm price (quote) a price (quote) at which a trader is prepared to trade at a given time. A trader might qualify a quote by saying: `My price is firm for 10 minutes'. Contrast with **indicative price (quote).**

first in, first out an accounting technique for valuing a company's stock in which it is assumed that goods are used in the same sequence in which they were bought. The goods on hand represent those last purchased and are valued at the latest purchase price. This has drawbacks; if prices are rising, the technique overstates profit; if prices are falling, profits are understated. *Abbrev.* **FIFO.** See **LIFO.**

fiscal drag the reason you do not seem to have more money to spend, even though your salary has been increased. Fiscal drag refers to the weight of higher taxes on higher incomes so that after-tax incomes do not reflect the extent of a wage rise. Private-sector growth and activity is dampened because after-tax incomes are not rising.

fiscal policy the arm of government policy which influences the economy through the budget by changes in tax and welfare payments and government spending. Monetarists claim that fiscal `fine-tuning' of the economy is ultimately destabilising; they say that fiscal policy is less effective than monetary policy or not effective at all. Supporters of fine-tuning disagree, of course, saying that the relative stability of the late 1950s and 1960s can be attributed to fine-tuning. Because of political constraints and budget cycles, fiscal policy is generally less flexible than monetary policy. See **budget cycle, crowding out, fine-tuning, monetarist, monetary policy.**

fiscal year see **financial year.**

fixed charge see **charge.**

fixed deposit the same as a *term* or *time* deposit. Money may be placed with a bank, merchant bank, building society or credit union for a fixed term at a fixed rate of interest which remains unchanged during the period of the deposit. Depositors may have to accept an interest penalty if they break the deposit, ie, ask to take the money out before the agreed period has expired. See **term deposit.**

fixed-fixed currency swap a currency swap where each side is a fixed-rate payer in its currency, and fixed-interest payments in one currency are swapped for fixed-interest payments in another.

fixed-floating rate swap the basic `vanilla' interest-rate swap involving an exchange of fixed-rate payments for floating-rate payments in the same currency.

fixed interest interest paid on investments such as bonds and debentures, paid at a predetermined and unchanging rate for a specified period (the life of the bond or debenture). See **bond, debenture.**

fixed parity the system in foreign exchange under which all exchange rates were set officially — by governments or central banks — and usually changed only at intervals. Following the creation of the Bretton Woods system, all currencies were fixed in relation to the $US, which was in turn tied to gold. This rigid system was abandoned in favour of a system of floating exchange rates under which, theoretically at least, the price of a currency is determined by market forces of supply and demand. See **Bretton Woods, parity.**

fixed-rate loan a loan that has been made at a specific rate which will prevail for the term of the financing.

fixed-rate payer a party in an interest-rate swap making a series of identical payments, eg, on the coupon of a fixed-interest instrument such as a bond, and receiving the floating rate. Also **floating-rate receiver.**

fixed-rate receiver the party receiving a fixed rate and paying floating under a swap. See **fixed-rate payer.**

fixed-term annuity in contrast to a lifetime annuity, which provides income for life, this provides a regular income stream for a specified period, eg, fifteen or twenty years. Also **term certain annuity.**

fixed-term repo a repo with a fixed maturity period, usually between one day and three months. See **repurchase agreement.**

flat forward see **par forward.**

flat rate of interest interest charged on the full amount of a loan throughout its entire term and commonly known as a `pre-determined' credit charge. The flat rate takes no account of the fact that periodic repayments, which include both interest and principal, gradually reduce the amount owed. Consequently the effective interest rate is considerably higher than the nominal flat rate initially quoted. All lenders have to state the effective rate to borrowers; contracts based on flat rates of interest, already uncommon by the mid-1990s, were prohibited under the uniform Credit Code legislation. Anyone confronted with a flat rate of interest should remember: a rough rule is that 9 per cent flat equates to about 17 per cent effective per annum, ie, double the flat rate less one per cent, although this varies with the term of the loan. See **compound interest, Credit Code (Act), simple interest.**

flat tax a single-rate tax on personal income which applies at the same rate irrespective of the level of income earned. If the flat tax rate were, say, 25 per cent, then all wage and salary earners would have one quarter of their income deducted for tax, instead of the present situation where tax is levied on a progressive scale with lower income earners paying a lower proportion in tax than those on higher salaries. Flat tax has been a too-hard issue for Australian government, although it became a serious issue briefly when the then Queensland premier Sir Joh Bjelke-Peterson made an unsuccessful tilt at the prime ministership in 1987 with flat tax as part of the platform.

flesh pedlar see **headhunter.**

Flexible Accelerated Securities Transfer the first stage of the Australian Stock Exchange's computerised settlement system. The system enabled swift registration of share transactions, allowed the introduction of a regime of fixed settlement five days after the trading date, and brought the concept of uncertificated shareholdings. It was replaced by CHESS in 1995. *Abbrev.* **FAST.** See **CHESS, SEATS, uncertificated shareholding.**

flexible annuity a term-certain annuity which provides regular income and flexibility in income payments so that the annuitant (the person receiving payments, who earlier invested the funds in the annuity) has a choice of income level. The annuitant has access to the capital and can withdraw funds from the annuity. The initial capital and interest payments made are guaranteed, but the flexible annuity does not provide a guarantee on future interest payments. See **allocated pension, annuity, term-certain annuity.**

flexible peg see **exchange rate.**

flight to quality what happens when investors become nervous of private sector creditworthiness and decide to sacrifice potentially high returns to achieve security, for example by taking their money out of private sector investments such as promissory notes or corporate debentures, and buying government bonds.

float a term applicable in different contexts. For example, currencies can float, which means their exchange rates or values against other currencies fluctuate in line with supply and demand in the market, as against being set by government. A company can float shares (a share flotation), which means it offers its shares for sale. Loans can be written at a rate which floats at a margin above or below a benchmark rate so that the loan's rate moves in line with the benchmark rate. Major nations moved to a system of *floating currencies* in 1971 when it became clear that the prevailing system of fixed parities was not working effectively. The UK floated the pound sterling in 1972, ie, allowed it to trade freely in foreign-exchange markets. Australia floated the $A in December 1983. The shift to floating currencies was made so that currencies could find their own levels in the markets, influenced chiefly by supply-and-demand and speculative forces. Most floats still entail some degree of government (central bank) intervention, although floats differ in the extent to which they are managed. A true *free float* is also called a *clean float.* More heavily managed floats are referred to as *dirty floats,* a tag that indicates that a country's central bank intervenes fairly regularly to influence the currency's level by buying or selling. A float in banking terms refers to the amount of funds still in the process of being cleared. A float generally occurs when the accounting entries for the two sides of a payment (that for the payer and payee) are not posted simultaneously. It can also result from transportation delays, especially for paper-based payments instruments. Advances in communications technology, as well as in banking industry practice, have reduced the opportunity for assiduous management of the float in Australia. See central bank intervention, fixed parity, flotation.

floating charge see **charge.**

floating currency see **float.**

floating-floating swap see **basis swap.**

floating-rate finance money provided at a rate set at a margin above (rarely below) a benchmark rate so that the rate charged for the funds moves in line with the benchmark rate instead of staying fixed throughout the term for which the money has been provided.

floating-rate note a form of security, popular in the euromarkets and adopted elsewhere, issued for three years or longer and carrying a variable interest rate which is adjusted regularly (at one-to-six-monthly intervals — whatever is preferred by the issuer) by a margin against a benchmark rate such as LIBOR. Increased volatility in interest rates helped the popularity of FRNs as borrowers and lenders became reluctant to commit funds for a fixed period at a fixed rate. *Abbrev.* **FRN.** See **LIBOR.**

floating-rate payer a party in an interest-rate swap making a series of variable interest-rate payments. These are generally set with reference to an index or benchmark rate specified in the swap contract. Also **fixed-rate receiver.**

floating-rate receiver the party receiving a floating-rate and paying fixed under a swap agreement. See **fixed-rate payer, floating-rate payer.**

float-off see **demerger.**

floor 1. A floor in the context of interest rates guarantees a minimum rate of return but leaves the investor free to participate in rising interest rates above the agreed floor level. 2. (Trading) floor, where traders meet to transact business, as on the futures exchange floor. See **floor trader.**

floor price the level below which the price of a commodity or security will not fall because no seller will accept less, for example the reserve price at an auction. Often a government authority, such as the Australian Wool Corporation, is involved, setting a level which stops prices falling too far, ie, below the floor price for wool which prevailed from the mid-1970s until 1991. See **ceiling price.**

floor trader the person on the floor of an exchange executing orders as the representative of a member firm.

floortion an option on a floor, giving the holder the right to buy a floor at a certain strike price for a specified premium on or before the date the floortion expires.

flotation (of shares) when a company floats its shares it is offering shares to the public to raise cash. See **float.**

flow of funds the movement of money; who is borrowing or lending, from or to whom, how much and how often. For flow-of-funds purposes the economy is divided into four sectors; government, households (including unincorporated businesses), companies and foreigners. A study of the flow of funds can show the level of enthusiasm for saving or spending, what levels of interest rates dampen demand for credit and what levels attract most deposits. Flow-of-funds studies highlight patterns, rather than determine reasons.

FNMA *abbrev.* **Federal National Mortgage Association** of the US. See **Fannie Mae.**

FOB/fob *abbrev.* **free on board.**

FOMC *abbrev.* **Federal Open Market Committee** (US).

Footsie colloquial pronunciation of FTSE, the London Financial Times Stock Exchange Index which lists the 100 largest public company shares traded on London's stock exchange. Footsie is a weighted arithmetic index, created in 1984 to help support the UK's equity-based futures contract. It is the UK equivalent of the US's Dow Jones. See **Dow Jones, Nikkei.**

for indication/information only quotes which are not firm and intended to signify unwillingness or inability to deal.

force majeure clause a provision in a contract that releases the parties from their obligations in the event of circumstances — war, flood or other natural disaster beyond anyone's control — that block completion of the deal or contract.

forced savings technically, saving that takes place because of a shortage of goods on which to spend, rather than a preference for saving. In common usage, demands on your income such as superannuation payments or overpayments of PAYE would be classed as forced saving — although more accurately these are `contractual savings'. The effect is similar in that you are prevented from spending the money — at least until it is reimbursed.

foreign exchange cash or other claims (such as bank deposits and bonds) on another country, held in the currency of that country; what you get when you exchange your Australian cash or travellers' cheques abroad; what the Reserve Bank holds in its `official reserves'; what is usually earned from a nation's exports.

Foreign Investment Review Board a body responsible for advising the Australian federal government (particularly the treasurer) on foreign investment matters. It examines and makes recommendations on individual investment proposals that fall under the Foreign Acquisitions and Takeovers Act 1975 and other areas of foreign investment policy. The Foreign Investment Review Board consists of a chairman (part-time) and two part-time members, and an executive member who is the first assistant secretary of the Investment and Debt Division of Treasury. Executive services are provided to the board by the Foreign Investment Review Branch of this division. *Abbrev.* **FIRB.**

foreign tax credit system a change, first applicable in the 1987/88 financial year, to the tax treatment of foreign income earned by Australian residents. Previously such income was exempt from

Australian tax where it had been taxed in the country of source, irrespective of the level of foreign tax. This created an advantage for Australian residents earning income in another country. Generally, from 1 July 1987 an Australian resident taxpayer is subject to tax on worldwide income derived by the taxpayer. A credit will be allowable in respect of any foreign tax paid. There are exemptions: certain salary and wage income derived overseas is exempt from tax in Australia, certain dividends derived from companies offshore and certain foreign branch income are exempt in the hands of Australian resident companies.

forex market shorthand for foreign exchange. Also **FX.**

forfaiting a form of fixed-rate trade finance. Forfaiting involves the purchase by a financial institution — the forfaiter — of an exporter's debts. These debts are usually in the form of bank bills of exchange or promissory notes and have been accepted by the exporter as deferred payment for goods sold to foreign buyers. The exporter sells the bills or notes at a discount, for cash, and passes all commercial and political risks and responsibilities for collection to the forfaiter. The exporter protects himself by including the words `without recourse' in endorsing the bill. Forfaiting is commonly used in Europe, Latin America, North Africa and the Far East. The word derives from the French *à forfait* (surrendering rights).

forfeited shares shares in a no-liability company which are forfeited (lost) to the previous owner because of non-payment of a call on the shares. See **no liability**

forward a future commitment whose terms are established now; a contract under which one side will buy and the other sell a specific asset at a set price on a given future date.

forward break see **break forward.**

forward currency swap a currency swap starting on a forward (future) date. Terms are agreed in advance. Such a swap can be used to hedge or establish a level of interest rates or exchange rates.

forward exchange the purchase or sale of foreign exchange for delivery at a future date at a predetermined price. This is used as a method of protection against variations in the exchange rate. See **forward margin, forward market, forward rate.**

forward margin the difference between today's rate or price for a commodity, such as a foreign currency, and that commodity's projected future rate or price. The forward margin on a currency is expressed as a number of points above or below the spot rate and is called a discount or premium. The spot rate plus or minus the forward margin is called the forward rate. See **discount, forward rate, premium, spot rate.**

forward market a market where traders and speculators can take out contracts for purchases or sales of commodities at a future date, in specified volumes and at specified prices. Futures trading is an example of a forward market. See **forward rate, spot market, swaps.**

forward rate the price for a commodity, such as a foreign currency, for delivery some time more than two business days hence. Forward rates in currencies comprise the spot rate plus or minus a forward margin. See **forward margin.**

forward-rate agreement an agreement between two parties seeking to protect themselves against a future interest-rate movement in a particular currency, for a specified period and at an agreed contract rate. Settlement is effected between the two parties for the difference between the contract rate and the interest settlement rate. *Abbrev.* **FRA.**

forward swap a swap agreement arranged to start from a future date.

forward with optional exit a form of break-forward. *Abbrev.* **FOX.** See **break-forward.**

FOX *abbrev.* **forward with optional exit.**

FRA *abbrev.* **forward-rate agreement.**

franchise a system of distributing goods and services in which one organisation (the *franchisor*) grants the right to another (the *franchisee*) to produce, sell or use its developed product, service or brand. A franchisee is a retailer licensed — franchised — to sell or use the franchisor's products. McDonald's Family Restaurant and KFC (Kentucky Fried Chicken) chains are examples of franchisors who let various outlets sell their products.

franked dividends dividends paid out of company profits on which the full corporate tax has been paid. Shareholders obtain a tax credit to offset against their personal income tax liability on the dividend. See **dividend imputation, franking account, unfranked dividends.**

franking account a record-keeping account required purely for tax purposes. The balance in the account represents the notional amount of after-tax profits that can be distributed to shareholders so that they obtain a tax credit to offset against the tax liability on the dividend. See **dividend imputation, franked dividends, unfranked dividends.**

fraption an option on a forward-rate agreement.

Freddie Mac *abbrev.* **Federal Home Loan Mortgage Corporation.**

free enterprise doing your own thing, and being allowed to do so; an entrepreneurial economic environment. A free enterprise company or individual operates without government interference or control in a system characterised by private ownership.

free lunch something, theoretically, that you don't have to pay for. \`There is no such thing as a free lunch' is a fine piece of rhetoric that is food for hours of argument. Usually, even with a so-called \`free lunch' you have to pay in some form for what you are given.

free market a market left alone to set its own prices, unhindered by government or central bank interference.

free on board this applies to the valuation of goods as they are exported and represents what the exporter earns. It is the figure used by the Australian Bureau of Statistics when calculating the value of Australia's exports. Transport and insurance costs are excluded and entered to the importer's account; hence they are transported (on board ship) \`free' from the exporter's point of view. *Abbrev.* **FOB** or **fob.**

free port a port where no duty or taxes are paid on imports or exports.

free trade a doctrine popularised by the Manchester School in the UK (1820-50). The school believed in political and economic freedom with the minimum of government control and claimed that the economic welfare of all countries would be maximised if international trade were unhindered by government controls. The Manchester School drew on the earlier views of Adam Smith and David Ricardo for support for its arguments. Essentially, free trade is the absence of tariffs and government restrictions which could interrupt trade flows. Although in the short run nations may gain from the introduction of tariffs, economists now tend to believe that this element of self-interest is misguided because, for example, tariffs are harmful in that they can encourage inefficient operations. The General Agreement on Tariffs and Trade was introduced to lay down some rules. Bad times tend to turn a nation's mind back to the notion of protecting its own backyard (the 1930s saw a jump in tariffs and the recession of the early 1980s revived interest in forms of protection). See **Smith, Adam** and **Ricardo, David,** in **economists, General Agreement on Tariffs and Trade.**

freeze to fix wages and prices by legislation or agreement, so that they do not move from the levels prevailing when the freeze is introduced. A wages and prices freeze is a way of trying to control inflation.

Friedman, Milton see **economists.**

friendly society originally a group of workers who made small periodic contributions to a common fund which could be used when needed for funerals, sickness and so on. Friendly societies first appeared in Australia in 1840 and predate modern social services such as pension schemes and retirement benefits. They were formed on the basis of group interests, such as craft or religion. Contemporary friendly societies offer benefits such as funeral costs, sickness and hospital insurance, hospital cover and sometimes retirement benefits through savings and investments.

friendly society bonds similar to insurance bonds, these are issued by friendly societies, usually with a ceiling on the amount that can be invested by one individual. See **life insurance bonds.**

fringe benefits tax taxes paid by employers on the value of fringe benefits provided to employees. The taxable value is determined by specific rules detailed in the legislation. Benefits such as concessional housing loans, cars and education expenses are taxable. The net is being continually widened, eg, to include car-parking space. *Abbrev.* **FBT.**

FRNs *abbrev.* **floating-rate notes.**

front end the beginning of a transaction or process. For example, front-end development of a mining venture means the first stage of exploration, the setting up of infrastructure and so on.

front-end fee the fee paid by a borrower to a lender at the beginning of a loan facility, or the cost to an investor of buying into a unit trust such as an equity or property trust. Front-end fees vary substantially, so it is advisable to check what amount applies in each case. Also *front-end loading.*

front-running in futures and options trading, taking a position based on information not publicly available regarding an imminent transaction in the same futures or option contract, possibly ahead of a customer order. Illegal.

frozen account an account which cannot be operated pending legal examination or action. A deceased person's bank account is frozen until new ownership of the asset is established according to the terms of a will or until the probate process is complete. A bankrupt person's account is frozen until a receiver or manager is given authority over the bankrupt's affairs.

frozen assets assets that cannot be used until legal action is out of the way. A company in receivership or a person declared bankrupt would have assets such as bank accounts frozen pending the receiver or trustee taking over administration of the company or the bankrupt estate.

FT index see **Footsie.**

full a trader is described as `full with a client' when the maximum amount of credit exposure, as determined by management, has been used up with that client, through lending, foreign exchange or any other form of business or trading.

full repo price gross price, ie, the total of the capital price of a repo plus accrued interest. See **repurchase agreement.**

fully funded this describes a superannuation fund whose assets are sufficient to meet all the fund's liabilities, ie, to pay out on members' entitlements. Under the Superannuation Industry (Supervision) legislation all funds must be fully-funded unless operating under a government scheme; most public-sector funds are partially funded. See **Superannuation Industry (Supervision) Act.**

fully paid shares shares on which no uncalled capital is due.

fundamental analysis see **fundamentalism.**

fundamentalism a creed which places faith in economic theory when analysing, say, the position of a company or country, the state of the economy and the balance of payments, rather than relying on trends to determine investment decisions. Fundamentalists use economic theory rather than statistics. People who make educated guesses are not infallible; neither are fundamentalists. See **chartists.**

funds 1. cash. 2. pools of money contributed by individuals to make investments with the benefit of size or to gain tax advantages.

fungible when one unit of a commodity is equal to any other like unit (such as grains of wheat or corn), then these are fungible, ie, one could be substituted for the other with no change in value. Dollar coins of the same amount (unless rare collector's specimen) are fungible, but bills of exchange and coins of different values are not. Fungibility of securities is an important consideration for computerised clearing and settling systems such as Austraclear, CEDEL and Euroclear. `Fungible' derives from the same Latin word as `function' — fungibles are units of a commodity whose functions are interchangeable.

funny money money won from dubious sources, `laundered' funds or the cash economy. It can also refer to currency produced by running the nation's money-printing press in the belief that it will pay the bills and solve all economic ills.

futures contract an agreement to buy or sell a standard quantity of a commodity — such as gold, $US or bank bills of exchange — on a specific future date at an agreed price determined at the time the contract is traded on the futures exchange. It is a binding contract, enforceable at law. Futures contracts are traded by open outcry on the floors of most futures exchanges, although the computer age has seen the spread of screen trading. See **clearing house, contract, futures markets, Sydney Futures Exchange Clearing House, Sydney Computerised Overnight Market.**

futures markets futures markets have existed for centuries but evolved in their present form in the US in the nineteenth century. Chicago, in the midst of the grain and farming belt, emerged as the home of futures trading. The Chicago Board of Trade, established in 1850, focused on grain; the Chicago Mercantile Exchange began a few years later, dealing in butter and eggs. The exchanges provided traders with the means to take out protection against the vagaries of commodity prices. The exchanges also provided speculators with an outlet.

FX option see **currency option.**

FX swap a purchase of one currency against another at an initial date and an agreement to reverse that transaction at a future date and at a specified rate. The difference between the exchange rate applying initially and the rate at which the swap is reversed reflects the interest differentials between the two currencies concerned (the forward points). Initially used to extend or match cashflows with the physical delivery of imports or exports, FX swaps have come to be used also as a funding mechanism against short-term borrowings or by the professional market to speculate on interest-rate movements.

G

GAAP *abbrev.* **Generally Accepted Accounting Principles**

Galbraith, John Kenneth see **economists.**

gamma a measure of the rate of change in delta in response to changes in the price of the underlying asset or instrument, represented by the Greek letter (γ). See **delta.**

gamma hedge a hedge taken by initiating option positions to reduce the risk of change to an options portfolio's delta in response to changes in the underlying over a narrow range of price movements.

gamma neutral having offsetting positive and negative gammas to reduce the variations in a portfolio's delta in response to market movements.

gapping taking advantage of a time difference. An example is borrowing short to lend long because that gives a better interest rate return for the lender (in a normal market where short-term rates are lower than those in the longer term).

garnishee to attach someone's money or property to someone else by order of a court (garnishment). If a court makes a garnishment against your employer (which it may do if so requested by one of your creditors), then your boss must send part of your pay to the people to whom you owe money. Other sources of money, including bank accounts, can be garnisheed. The garnishment procedure enables a creditor to get his or her hands on the money directly. `Garnishee' as a noun refers to the person served with a garnishment.

GATT *abbrev.* **General Agreement on Tariffs and Trade.**

gazump a word that came into vogue with a buoyant real estate market, lending a new term to an ancient practice of doing someone down on a deal. In gazumping, the seller raises the price — usually of a house and in response to a better offer — just before the deal is clinched. It is unethical but not illegal. Suggestions about the origins of the term include the Yiddish *gezumph,* meaning `to swindle' and a London barrow-boys' expression meaning to `short-change'.

GDP *abbrev.* **gross domestic product.**

geared equities investment see **margin trading.**

gearing the relationship between a company's shareholders' funds and some form of outside borrowing. Gearing is generally expressed as a ratio. A company is described as `highly geared' if borrowed funds are high in relation to shareholders' funds. Analysts talk of a company's gearing when referring to its solvency and its ability to take on new commitments. See **leasing, negative gearing.**

General Agreement on Tariffs and Trade an organisation established in 1949 under the terms of an international agreement. Its secretariat is in Geneva, Switzerland. Through international meetings and moral suasion, it aims to minimise barriers to trade and to reduce tariffs and preferential trade agreements. GATT was replaced in 1994, following the close of the Uruguay Round of negotiations, by the World Trade Organisation. *Abbrev.* **GATT.** See **Geneva Trade Conference, Uruguay Round, World Trade Organisation.**

general equilibrium theory a description of the relationships among all the entities in an economy — consumers, producers and the markets in which they exchange products. These relationships determine all prices and incomes in the economy. The *partial equilibrium theory* describes the analysis of a single market, or group of related markets, assuming that prices of all other products remain fixed. The partial equilibrium theory tends to be used more than the general equilibrium theory as it has wider application.

Generally Accepted Accounting Principles accounting rules recognised worldwide — although there are variations between countries in their application. *Abbrev.* **GAAP.**

Geneva Trade Conference a conference held in 1947 which resulted in the General Agreement on Tariffs and Trade, the purpose of which was to promote free and uninterrupted world trade. See **General Agreement on Tariffs and Trade.**

gensaki a yen repurchase agreement based on Japanese securities. The rates on *gensaki* agreements are set in line with the yen certificates of deposit market rate. *Gensaki* refers only to repurchase agreements available in Japan, not in overseas markets. See **repurchase agreement.**

Giblin, Lyndhurst Falkiner see **economists.**

gilt-edged of the highest quality. The term was applied in the nineteenth century to government securities and is still used to denote their safety as an investment.

gilts initially used as shorthand for UK government securities, especially the longer maturities, this term has come to be used to describe government securities of other countries. The Australian gilt curve is a way of referring to the Australian commonwealth government bond curve.

Ginnie Mae a US security issued by the Government National Mortgage Association, an agency of the US Department of Housing and Urban Development. Ginnie Maes were the first interest-rate futures contract introduced on the Chicago Board of Trade in 1976, and are actively traded on all major US securities markets. See **Fannie Mae.**

give-up the discount a seller has to give to sell a security such as a bond. For example, a buyer wants 8.25 per cent yield for a 90-day bank bill. A seller's price is 8.2 per cent but the buyer won't budge, so the seller moves to the buyer's price and has to give up a further 0.05 per cent to get the deal done.

glamour stocks the trendies of the market. They are stocks which are perceived to have growth potential, so that speculators climb on the bandwagon, though often without careful analysis of the true value.

Glass Steagall Act US legislation passed in 1933 to tighten banking practices in the wake of the Great Depression and a significant number of bank failures. It barred commercial banks and trust companies in the US from investment banking and established the Federal Deposit Insurance Corporation to protect depositors' funds.

US banks are still bound by the restrictions of the legislation, though to a decreasing extent. See **Federal Deposit Insurance Corporation.**

global note facility a development of the note issuance facility (NIF) which combines the ability to issue euronotes with the ability to gain access to the US commercial paper market, usually with the support of a letter of credit of a highly-rated bank. See **note issuance facility.**

globalised business jargon for `worldwide'. A business which has become globalised operates internationally.

Globex an international, round-the-clock, electronic futures and options trading system started in 1992 by Reuters, the Chicago Mercantile Exchange (CME) and the Chicago Board of Trade (CBOT). France's MATIF and Germany's Deutsche Terminborse later joined the system but its influence was weakened in mid-1994 when the London International Financial Futures and Options Exchange (LIFFE-LTOM) decided not to sign up and the CBOT withdrew to develop its own after-hours system, Project A. By mid-1995 Globex had not lived up to expectations, with 80 per cent of the volume generated on MATIF products only.

GNMA *abbrev.* **Government National Mortgage Association.** See **Ginnie Mae.**

gnome loans loans taken out in Swiss francs. These were popular with many Australian and New Zealand borrowers in the early 1980s because the Swiss interest rates were well below domestic rates in both countries (around 5 per cent compared with double figures). Borrowers who failed to pay attention to the exchange rate risk, though, suffered badly when the Australian and New Zealand currencies fell sharply against the strong Swiss franc.

Gnomes of Zurich a term coined by Britain's Labour ministers in the mid-1960s when referring to Swiss bankers and financiers who, in their view, were indulging in large-scale foreign-exchange speculation which Britain considered was creating adverse pressure on sterling. The colloquialism also refers to the legendary secrecy of Swiss bankers.

GNP *abbrev.* **gross national product.**

going concern a business which is operational and viable.

going-concern value a measure of a company's worth, based on the assumption that the business will continue to operate. See **fire-sale value.**

going public changing the status of a private company by offering shares to the general public, often to raise money for expansion. Private companies contemplating going public generally take professional advice from a stockbroker or merchant bank, which will advise and help organise the issue of shares. If it wishes to become publicly listed (that is, have its shares traded through the stock exchange), a company must comply with the stock exchange listing rules, which impose obligations about the disclosure of information to the investing public.

gold fix the daily setting of the gold price in London, at 10.30am and 3pm, by five representatives of the London gold market. The `fix', which dates from 1919, takes place in a special room at N.M. Rothschild & Sons, whose representative is chairman, and is attended by, in addition to Rothschild, Mocatta & Goldsmid, Sharps Pixley (now Deutsche Bank), Samuel Montagu and Republic National Bank of New York.

gold futures contract see **futures markets, Sydney Futures Exchange.**

gold loan popular in the 1980s, gold loans enabled gold-mining companies to raise working capital by borrowing gold, selling it spot for cash while selling forward part of their future production to repay the loan and interest.

gold reserves what official bodies such as Australia's Reserve Bank hold as part of their total gold and foreign-exchange reserves to help meet the demands of foreign trade and financial transactions.

gold standard an international monetary system in which, theoretically, the values of different currencies were kept constant in terms of gold. Each currency was convertible into gold; therefore the exchange rates between currencies were fixed and international debts were settled in gold. (In practice, though, reserve currencies did exist, such as sterling.) The gold standard has been officially abolished but gold is still very important and debate on the pros and cons of the standard continues. Exchange rates were based on the gold standard before the First World War. The system was revived in the 1920s and lasted, in different forms, until 1933. The disrupting effect of the Great Depression was the immediate cause of the collapse of the gold standard; in the longer run its demise was due to its costly mechanism of adjustment and to the decline in Britain's relative economic strength and the accompanying changes in the trade and capital movements on which it had been based. The United States took its dollar off convertibility to gold in 1933 and reintroduced a restricted form of convertibility a year later. The gold standard survived in a limited fashion after the Second World War; the decisions of the Bretton Woods conference in 1944 tied most currencies to the $US which in turn was tied to gold. By 1971 the $US was no longer convertible to gold and any attempts to fix the major currencies' exchange rates were abandoned in 1973 in favour of floating exchange rates. See **Bretton Woods, float, reserve currency, specie.**

gold-convertible bonds typically issued by gold mining companies and bought by investors who want a longer-term investment in gold without buying, storing and insuring the metal. The issuing company gives the right to convert the bonds into gold and in return raises funds at a fairly low coupon or interest rate; at the same time it establishes a potential forward sale of gold. The investor offsets a fairly low rate of return against the benefits of having a foot in the gold market without the problems of storage or insurance.

gold-linked note a note whose interest payment is linked to the gold price.

golden circle a form of collusive dealing in a market such as foreign exchange, by which traders successfully channel profits into their own pockets at the expense of a client or their employer. The dealers make a profit by buying and selling currencies at different prices, in a way that ensures they, or the sham company they have formed, take a profit from the difference in prices.

golden handcuffs handsome remuneration made on the provision that the employee will stay with the company. Banks, investment banks, merchant banks and broking firms commonly use a formula which gives the employee an initial amount and makes subsequent payments subject to performance.

golden handshake a substantial gift made by a company to an employee (often of long standing) to compensate for premature retirement from the company (not necessarily voluntary) or to recognise services rendered throughout a long and productive career.

golden hello a generous upfront payment made by a company to an incoming employee. Similar to a signing-on fee.

golden parachute termination or retirement benefits provided for top executives as a reward for the responsibilities they have carried. The golden parachute — cash payments, shares or options on shares — may be used to soften the landing if an executive and his company part company for any reason; for example, if a takeover results in management changes and job losses.

good delivery bar a gold bar which meets the requirements of the London Bullion Markets Association. Its gold content is between 350 and 430 troy ounces and it must carry the stamp of an approved refiner.

good till cancelled an instruction to a share or futures broker that an order is to remain valid until the client cancels it. *Abbrev.* **GTC.**

goods and services anything — tangible and intangible — which makes a contribution to economic wellbeing. It is impossible to read even the simplest textbook on economics without coming across the phrase `goods and services' (it crops up in this book, too). It is a favourite portmanteau term used by economists to cover all items of production (what you buy) and all services ranging from banking to the local garbage collection.

goods and services tax an indirect tax, levied as a percentage added to the prices charged for most goods and services. A goods and services tax was introduced in New Zealand on 1 October 1986 as a broadly-based consumption tax. The Australian Liberal Party included a goods and services tax in its platform in the 1993 federal election, which it narrowly lost to the Australian Labor Party. The tax is similar in effect to the European value-added tax (VAT). *Abbrev.* **GST.** See **value-added tax.**

goodwill the value attaching to the reputation of a company, individual or product; the intangible asset constituted by the tendency of the customers or clients of a business or professional practice to deal with that business or practice despite a change of personnel operating it. See **intangible assets.**

government paper see **paper.**

Government National Mortgage Association *abbrev.* **GNMA.** See **Ginnie Mae.**

grandfather clause an agreement that situations already in existence when new legislation comes into effect are exempted from the new rules. `Previous generations' are left alone.

granny bond see **indexed bond.**

grantor a seller (in the context of option trading). See **option.**

Great Depression see **depression.**

greenback a colloquialism for the US dollar, derived from the colour of the ink used to print the currency. `Greenbacks' were issued as Treasury Notes or `legal tender' in 1862-63 as an emergency measure during the American Civil War. Plans to withdraw them after the war were abandoned because of public opposition. `Greenbacks' also referred to a political party, active in 1874, which opposed withdrawal of the notes and wanted, among other aims, some of the US debt to be paid in paper currency instead of gold. See **gold standard.**

greenmail a form of corporate extortion. In Australia, the term is most often used where a small investor with a strategically important shareholding forces the company or its controlling shareholder to pay an inflated price to buy out the small holding. It is also used generally for a situation where Company A threatens Company B with a hostile takeover or some other form of financial attack unless or until Company B or an associated party buys them out. The term greenmail arose in the US, where the weapon of warfare was the greenback ($US).

Gresham's law the principle that `bad money drives out good'. Gresham's law held that if two coins are in circulation and their face value differs from their bullion value, the coin of the higher bullion value will be stored or melted down so that eventually it will be out of circulation. Sir Thomas Gresham was a sixteenth-century English philanthropist and financier whose money founded Gresham College and built the first Royal Exchange in London.

gross whole or total, before any deductions or offsets have been made; opposite of `net'. See **net.**

gross domestic product a measurement of the flow of goods and services produced in an economy in a given period, usually one quarter or a year. In calculating GDP, an attempt is made to put values on these goods and services and by doing so to provide a national aggregate. Figures are released in the national accounts. For example, the value of the flour used by a bakery would be included in the value of the bread which is the final product. GDP describes domestic production because it does not include income earned through activities undertaken outside the country (but does include export income). By adding up the value of all domestically produced goods and services, you arrive at GDP at market prices.

GDP has been assessed using three different ways of measuring the same thing, measuring either expenditure or income or examining individual industries to arrive at an estimate of production. This latter is called GDP (P). Given the discrepancies between the three measures, because of practical problems of measurement and timing, it has been agreed that GDP (A), being the average of all three methods, is the best guide to the amount produced in the economy in a given period.

Readers who are still in the dark or who are anxious for more detail are now referred to a textbook or the Australian Bureau of Statistic's publication *Measuring Australia's Economy,* Catalogue Number 1360.0. (Explaining GDP has never been a simple task. In the 1950s a machine was invented to help demonstrate the idea to undergraduates. According to legend, the machine consisted of intricate arrays of pipes filled with coloured water — but it was scrapped when the taxation pipes kept springing leaks.) *Abbrev.* **GDP.** See **factor cost, gross national product.**

gross interest the interest on an investment before tax is deducted.

gross national product GDP plus any income earned by residents from their investments overseas, minus any income earned domestically but due to non-residents. *Abbrev.* **GNP.** See **gross domestic product.**

gross profit the surplus in a business entity's accounts before deductions for tax, interest, dividends and extraordinary items.

gross yield the percentage return on an investment before tax is deducted.

group accounts see **consolidated accounts.**

Group of Five the informal name given to meetings of the finance ministers of the US, Germany, the UK, Japan and France, who confer about international monetary and exchange rate matters and policy coordination and cooperation. *Abbrev.* **G-5.** See **Group of Seven, Group of Ten.**

Group of Seven a grouping of industrialised countries comprising the Group of Five plus Canada and Italy. *Abbrev.* G-7. See **Group of Five.**

Group of Ten the ten major capitalist country members of the International Monetary Fund, plus Switzerland. The Group of Ten is a less formal arrangement than the IMF, although it is a branch of that body. It tends to meet *ad hoc* when the need arises. The Group of Ten plays an effective role in the allocation of big IMF loans, and has a role in the Bank for International Settlements. Members countries are the US, UK, Germany, France, Belgium, the Netherlands, Italy, Sweden, Canada and Japan. *Abbrev.* **G-10.** See **International Monetary Fund.**

Group of 24 a group of finance ministers from 24 developing country members of the International Monetary Fund. *Abbrev.* **G-24.**

Group of Thirty a private, independent, Washington-based international organisation whose charter is to raise awareness and understanding of major international economic and financial issues. Its members include representatives of central banks, international banks and securities houses, and academia. The Group of Thirty is possibly best known for its comprehensive report and recommendations on the use of derivatives, released in 1993. *Abbrev.* **G-30.**

Group of 77 originally established to promote the views of 77 developing countries on international trade and development. The organisation had doubled in size by the mid-1990s.

Group of 100 an association of accounting and finance executives representing major Australian public companies and government-owned enterprises and putting forward their views on accounting principles.

growth fund see capital growth fund.

growth recessionan environment in which economic activity increases but at a rate too low to reverse rising unemployment. See **recession.**

growth stock a share in a company which is expected to increases in capital value rather than provide an immediate high dividend return.

GRUF a global RUF. A GRUF usually involves other borrowing options, such as US commercial paper, bankers' acceptances, advances or letters of credit for which the GRUF acts as a backdrop. See **revolving underwriting facility.**

GST *abbrev.* **goods and services tax.**

GTC *abbrev.* **good till cancelled.**

guarantee a statement (contract) to perform an obligation or discharge a liability of another person should that person fail to do so. It must be written to be legally enforceable. It is a fundamental security in business and monetary transactions by which a company of clear substance, such as a bank or parent company, agrees to pay the debt of a less creditworthy company to facilitate a borrowing or other transaction by the latter. A guarantee is sometimes confused with a warranty (where applying to goods sold). The essential difference is that a guarantee involves a third party; a warranty does not. (The two words derive from different spellings, in two French dialects, of the same word.) See **warranty.**

guarantor one who makes a guarantee or agrees to be answerable or responsible for another's debt. Legally, the guarantor makes a contract with the lender. If you are young or earning a low salary, a lending institution might agree to advance you money only if someone substantially more creditworthy `goes guarantor' — that is, he or she agrees to fork out if you fail to repay the loan or fulfil the obligation. See **indemnity, guarantee.**

H

H.R. Nicholls Society an Australian organisation of conservative politicians, businessmen, academics and commentators formed in 1986 to lobby for the deregulation of the labour market. It is named after Henry Richard Nicholls, editor of the leading Tasmanian newspaper *The Mercury* from 1883 to 1912, who in 1911 (aged 82) was charged with contempt of court for criticising a High Court judge and Arbitration Court president. Nicholls was subsequently acquitted of the charge by a unanimous decision of the High Court. He died an honoured citizen. More than 70 years later, as concern was mounting over the potential consequences of the Labor Government's review of the industrial relations system (the Hancock Report), four people founded the H.R. Nicholls Society to honour the man who had spoken out publicly about the arbitration system. The founding four were John Stone, former secretary of the Treasury, Peter Costello, then a Melbourne barrister and later a federal Liberal politician, Barrie Purvis, director of the Australian Wool Selling Brokers' Employers' Federation and Ray Evans, executive officer of Western Mining Corporation Ltd. The society's inaugural seminar was held in Melbourne on 1 March 1986. A few months later, when then prime minister Bob Hawke called the society a group of `political troglodytes and economic lunatics', its national prominence was assured. See **Hancock Report, industrial relations, Industrial Relations Commission.**

haircut a dealer who takes a haircut takes a small give-up on a deal (often because he or she believes to delay might entail a scalping, ie, worse outcome).

half a bar Australian money-market jargon for $500 000 — half a million dollars.

Hammersmith & Fulham a London borough which gained a high profile in the late 1980s when it became very active in sterling swaps to an extent that suggested speculation rather than hedging. The speculation was unsuccessful and ultimately deemed *ultra vires* — outside the borough's legal scope of activities — by the UK High Court.

Hancock Report the report of a committee of inquiry, produced in 1985, into possible reform to the Australian system of conciliation and arbitration. Named after its chairman professor Keith Hancock, the report concluded that the system was in need of reform but still provided a useful method for managing wage fixation. It had a significant influence on the subsequent Industrial Relations Act of 1988. See **H.R. Nicholls Society.**

handkerchief transaction similar to a round robin, a process where at every stage the same sum of money appears as an asset in different hands. Popular at balance dates to window-dress the balance sheet. Misleading to those reading the balance sheet which has been inflated by the handkerchief transaction. See **round robin.**

Hang Seng index the Hong Kong Stock Exchange's share price index, equivalent to the US's Dow Jones, Australia's All-Ordinaries and Japan's Nikkei.

harakiri swap named after the ritual form of suicide in Japan, this is a swap without a profit margin, dealt merely to buy business. The expression is more commonly used outside Japan.

hard currency journalese for a stable currency, well supported by reserves, which is in demand in world markets and therefore easily convertible into other currencies.

hard landing a sharp slowing in the pace of growth from robust (and seen as unsustainably so) to low levels which brings hardship in the form of significantly rising unemployment, widespread business failures and a decline in economic activity. A hard landing may be the precursor to negative rates of growth, or a recession. See **soft landing.**

harmless warrant lso *wedding warrant.* See **warrant.**

HAS *abbrev.* **highest average salary.**

headhunter an individual or agency which specialises in finding talented executives for organisations in return for a fee or commission. A more refined description is `executive search consultant'.

headline rate of inflation see **inflation.**

heaven and hell bond a type of dual-currency bond, originated in Japan in the mid-1980s, where the amount of principal redeemed at maturity depends on the change that has taken place in the spot exchange rate since the bond was issued. Also *tengoku* or *jigoku* bond.

hedge contracts see **hedge market.**

hedge fund a vehicle, American in origin, enabling wealthy individuals to speculate on high-risk markets. The investors' funds are pooled and actively managed, with the managers earning fees plus a share of the capital gains. Hedge funds have become popular with highly leveraged punters and have grown to the point where they substantially increase the liquidity of financial markets — but they have been criticised as being able to trigger market aberrations.

hedge market an alternative market for covering foreign-exchange risk which grew in the 1970s before Australia had a free market in foreign exchange. The hedge market — based on offsetting, non-deliverable contracts (hedge contracts) — was widely used by those whose transactions were ineligible for cover in the banks' official forward market. The changes introduced in December 1983 which, among other things, allowed the banks to cover capital transactions (instead of being restricted to trade transactions) and then, in June 1984, the authorisation of 40 non-bank financial institutions as foreign-exchange traders, resulted in most foreign-exchange business being channelled through the physical foreign-exchange market. The hedge market has prevailed because of a number of long-term contracts written between banks and clients but will gradually become an anachronism. All interbank foreign-exchange dealing now takes place in the physical foreign-exchange market.

hedge settlement rate the rate used as the basis for settling hedge contracts maturing that day. The rate is calculated as the average of the trading banks' spot $US/$A prices, quoted at 9.45am each business day. See **hedge market.**

hedge spot rate the hedge market price for contracts deliverable in two working days. See **spot.**

hedging taking steps to protect against, or at least reduce, a risk; a form of insurance. The term is common in futures and foreign-exchange markets or whenever a risk-management technique is used to protect against future price variations. If someone bulk-buys scotch whisky ahead of the budget in anticipation of a rise in excise duty, he or she is hedging (provided the whisky is drunk — if it is bought to be onsold, then the buyer is speculating).

Herstatt Risk see **cross-currency settlement risk.**

HIBOR *abbrev.* **Hong Kong Inter Bank Offered Rate.**

hidden reserves assets or wealth of a company that cannot easily be detected from reading its balance sheet, such as undervalued assets or overstated expense provisions that might never be needed. Traditionally the term has been used with reference to banks that were allowed by regulatory authorities to understate the book value of certain assets by an undisclosed amount and hence to understate the amount of their reserves.

highest average salary the highest average annual salary of an employee over any three consecutive years, it was used until 30 June 1994 to calculate an employee's maximum superannuation entitlement. Then the `reasonable benefit limit' became a lump sum of $400 000 or a total of $800 000 where at least half of the amount is taken as a pension. *Abbrev.* **HAS.**

high-yield bonds see **junk bonds.**

Hilmer Report released in 1993, the report — formally *The National Competition Policy Report,* commissioned by the prime minister and undertaken by a committee chaired by professor Fred Hilmer — argues for greater competition among government-owned entities, the removal of interstate barriers to trade in energies such as electricity and gas, the elimination of duopoly, eg, in telecommunications, and of the monopoly of Australia Post over the delivery of mail, the elimination of cross-subsidies in the provision and delivery of water, corporatisation of port authorities and the abolition of monopoly practices among the legal, medical and other professions.

hindsight option a type of *lookback option,* this gives the holder the right, while the option is valid, to retrospectively buy a currency at its lowest level (with a call option) or sell at its peak (with a put).

hire purchase buying goods by instalment payments. The `hirer' has the use of the goods while paying for them but does not become the owner until all instalments have been paid. This has been termed `the never-never' because payments seem to be never-ending. See **credit, instalment payments.**

historic volatility see **volatility.**

historical cost accounting the traditional method of accounting, where assets are valued at their original cost, less accumulated depreciation. This is the accounting method most widely used in Australia. However, it is usually modified in its application by the revaluation of fixed assets such as land and buildings. See **current cost accounting, inflation accounting.**

historical rate roll a practice that allows maturing foreign-exchange contracts to be rolled over (continued) for a further term at the original rate instead of at prevailing exchange rates. Competitive pressures ensured the continuation of historical rate rolls despite banks' reluctance to allow them. The danger in rolling at a historical rate is that a paper loss can accumulate; it is prudent to crystallise (recognise) any loss at rollover times. A deterrent to using historical rate rolls should be the reality that the party with a mark-to-market gain, usually a bank, is really making a loan to the counterparty with the mark-to-market loss, usually a corporate client. The widespread practice of marking positions daily to market (a recommendation of the G-30) argues against techniques such as historical rate rolls which enable a trader or a corporate to defer recognising trading losses (and any cash payment due on them). See **underwater roll.**

hit on the screen a dealer who has been `hit on the screen' is obliged to deal at the rate displayed as his or her buy/sell quote whether or not that is the prevailing market rate.

HLIC *abbrev.* **Housing Loans Insurance Corporation.**

holder in due course the person who buys a bill of exchange in good faith and without notice of any defect in the title of the person from whom the bill was bought. Every holder is presumed to be a holder in due course until the contrary is proved.

holding company a company owning a controlling quantity of shares in one or more other companies. Such a company is concerned with the financial control, management and marketing of its subsidiaries; it does not hold the shares merely as an investment. The holding company can have a controlling interest in another through the power to appoint directors or managers to it. Companies in which an investor owns more than 50 per cent of the issued share capital are subsidiaries. Companies of which between 20 per cent and 50 per cent is owned are known as associate companies.

HOMES *abbrev.* **home-owner mortgage eurosecurities.**

home-owner mortgage eurosecurities issued in the UK and backed by mortgages. *Abbrev.* **HOMES.**

Hong Kong Inter Bank Offered Rate the rate offered on interbank deposits in Hong Kong; the equivalent of the UK's **LIBOR.** *Abbrev.* **HIBOR.**

horizontal spread see **option spread.**

host bond a security, such as a bond, which is issued simultaneously with, and related or linked to, an issue of warrants. It is the underlying bond to a warrant (or option). See **warrant.**

hot money money on the move; the bucks that stop only briefly (often just overnight) and move on in search of the best return. Hot money changes hands frequently in domestic markets and in large-scale international speculation on interest rates and exchange rates.

house account an account operated by a brokerage firm, bank or investment bank acting on its own behalf, as principal, or an account traded on behalf of an in-house person, as distinct from an account managed by the firm on behalf of a client.

household sector in the Australian economy, all individuals and unincorporated organisations such as partnerships and sole traders, including farming ventures. The term is used to indicate small-time investors as distinct from the big-time wholesale money market.

housing finance following financial deregulation and increased competition among banks and other lenders to provide finance for home buyers, the variety of forms of housing finance expands constantly. Basic forms are either variable-rate, where the interest rate charged fluctuates in line with market levels, fixed-rate, with the interest rate set for a specified term, and a mix of the two with the rate charged often fixed (or capped) for the first year of the loan then variable. See **capped home loan, interest-only funds, reducible mortgage, solicitors' funds.**

Housing Loans Insurance Corporation established in 1965 to fill a perceived gap in the mortgage insurance market by covering lenders of housing finance when they made loans beyond the normal limits. The HLIC covers lenders against losses on loans related to owner-occupied housing, land or home building. It handles the bulk of Australia's mortgage insurance, although a number of private mortgage insurance companies have appeared. *Abbrev.* **HLIC.**

hurdle rate the expected rate of return on a potential investment that an investment manager demands before committing his money. Hurdle rates of return are a reflection of the investor's risk-tolerance. In an uncertain market, they tend to rise. They can also be applied to a firm's decision to buy new equipment or take on more employees.

hurt money your own money — the portion of funds provided by a borrower in a transaction that is a combination of his or her own money and a loan from another party. For example, a bank or merchant bank lends an individual or a company a sum of money to buy shares, but insists that a proportion of the funds required is provided by the borrowing client. If the value of the shares falls, the lender will demand additional funds or security from the client — more `hurt' money.

hybrid debt a debt instrument that combines the features of debt and equity. Also *hybrid security.*

hyperinflation uncontrolled inflation in which the prices of goods may rise by hundreds of percentage points in a short time. Hyperinflation in Germany in the 1920s was legendary: in 1923 it took more than six million marks to equal the value of one 1913 mark. The Bavarian State Bank issued a 500 million-mark note and a few weeks later overstamped it with a value of twenty *billion* marks. The phenomenon is usually associated with extreme political and social disturbance.

hypothecation see **letter of hypothecation.**

I

IBF *abbrev.* **international banking facility.**

IBSA *abbrev.* **International Banks and Securities Association of Australia.**

IC *abbrev.* **Industry Commission.**

ICCH *abbrev.* **International Commodities Clearing House.**

ICONs *abbrev.* **indexed currency option notes.**

Ifox *abbrev.* **Irish Futures and Options Exchange.**

IMF *abbrev.* **International Monetary Fund.**

IMM *abbrev.* **International Monetary Market.**

imperfect market a market where individual buyers and sellers are able to influence prices. This might occur if sellers are few or if the information available to buyers about prices or products is deficient. Most markets are imperfect because they lack the characteristic assumed in the theoretical concept of perfect competition. See **perfect competition.**

implicit price deflator an estimate of an average price level relative to the price level in a chosen base period. In general, the implicit price deflator for an economic series is calculated by dividing a nominal value for that series by its real value measured in terms of some base period. Taking private consumption as an example and 1996 as the year under review, an implicit price deflator is calculated in three steps: 1. consider the dollar value of private consumption in 1996 — this is the quantity of every item consumed in 1996, each multiplied by its price in 1996 with the resulting dollar values added for all items. This result can be called `nominal' consumption in 1996 (it is in fact the total value of consumption recorded in the National Accounts). 2. multiply the quantity of every item consumed in 1996 by the price at which that item sold in some base year, say, 1989. This revalues the 1996 consumption items in terms of 1989 prices. Call this result `real' consumption in 1996 (Q). 3. Imagine that there is an average price, P, of all commodities consumed in 1996. Then nominal consumption can be thought of as the average price P multiplied by the real amount consumed, Q, (ie, dollar value of consumption = P × Q). Dividing P × Q by real consumption Q must yield the average price, P. This is called the 1996 implicit price deflator for consumption where 1989 is the base year (usually the result is multiplied by 100 and written as P = 120 where 1989=100, ie, showing that this estimate of the average price of consumed commodities has risen 20 per cent since 1989). The arcana of these calculations as carried out in practice can be found in *Australian National Accounts: Concepts, Sources and Methods,* issued by the Australian Bureau of Statistics, Cat. No. 5216.0.

implied volatility see **volatility.**

import tariffs see **tariff.**

imports what is purchased from other countries for use in one's own country. Visible imports are items such as clothing, cars and wine; invisible imports are such things as freight payments, dividend payments and royalties.

imputation see **dividend imputation.**

in the money a term used to describe an option that can be exercised at a profit; the option contract's current market price is higher than the strike price of a call option or lower than the strike price of a put option. A call option on a commodity or share would be in the money at a strike price of 50 if the underlying commodity or share were selling for 51 or more; a put option at a strike price of 50 would be in the money if the share or commodity were selling at 49 or less. See **at the money, intrinsic value, out of the money.**

in-arrears swap a conventional interest-rate swap structure with one difference — the floating rate is set retrospectively. It is calculated at the end of a specified reset period, using a reference rate. Also *arrears swap, reset swap.*

incentive carrot-and-stick psychology; a reward. Employers offer incentives to cultivate loyalty and productivity among workers; governments offer them, in the form of subsidies or taxation concessions, to encourage industrial development or the manufacture of exportable products; property developers use them, in the form of rent `holidays' or free fit-outs, to lure long-term tenants.

income tax tax levied directly on personal income. See **taxation.**

incorporation the process of forming a company. Incorporation is carried out by lodging the necessary documents — memorandum and articles of association, notice of registered office, list of directors — with the Australian Securities Commission and paying the required fees and stamp duty. The date shown on the certificate of incorporation is the date from which the company exists with corporate status. See **corporation.**

increment a fancy term for a proportionate increase, usually applied to salary rates; a popular buzzword with personnel managers, who are really talking about pay rates. Increments tend to be regular and automatic, whereas a pay rise often comes as a welcome surprise.

indemnity an undertaking (in the form of a contract) to make good someone else's loss. Similar to a guarantee, but the person with the benefit of the indemnity does not first have to demand payment from the person responsible for the loss before claiming on the person giving the indemnity. See **guarantor.**

index a numerical measure of the way a variable has changed over some base period. A popular way to use an index is to say that in a given year the index is 100, so that differentials in other years can be expressed as percentage rises or falls from the base 100. Anything, from dogfood production to the incidence of nosebleeds in primary school children, can be given an index if an expert is interested enough. Most currencies use an index based on 1971 — the time of the Smithsonian Agreement — as a yardstick against which to measure movements in their trade-weighted baskets. The $A trade-weighted index published in the monthly Reserve Bank *Bulletin* tracks the currency from a May 1970 base of 100. See **basket, consumer price index, retail price index.**

index arbitrage an investment or trading strategy which attempts to maximise returns by shifting between long and short market positions and buying and selling share-price index futures contracts. See **program trading.**

index participations synthetic instruments structured to offer small investors a low-cost entry to a trading portfolio they were introduced in 1989 by the Philadelphia Stock Exchange and the American Stock Exchange, but a federal court judged them to be futures contracts and so not tradeable on securities exchanges. The instruments were delisted. See **Low Exercise Price Option.**

index warrants put and call options on an index or index futures contract with more than one year to maturity, issued by companies or sovereign borrowers.

indexation the adjustment of items such as wages, prices or taxation and other living costs or investments in line with movements in the rate of inflation. See **inflation.**

indexed bond a bond whose coupon (income stream) or face value is linked to the inflation rate. See **inflation.**

indexed currency option notes a euronote issue that includes a currency option. First seen in 1985, the notes are serviced in one currency while the payment of the principal is indexed to another and converted at the exchange rate prevailing when the notes mature. *Abbrev.* **ICONs.**

indexing a low-risk investment management strategy in which, theoretically, the investor trades according to the performance of a market as a whole, rather than particular stocks or assets. The share price index is an Australian example which averages out the rises and falls of most listed stocks, providing a benchmark figure used by futures traders for hedging or speculation. See **efficient markets theory, share price index futures.**

index-linked bonds/notes securities whose principal and/or interest payments are linked to the performance of a particular index, such as a sharemarket index.

indicative price (quote) bid or offer price provided by way of information rather than as the level at which a trader is willing to trade. Indicative prices (quotes) enable a customer to plan a transaction but the transaction does not proceed until firm prices are provided. See **firm price (quote).**

indirect quote in the context of exchange rates in Australia, the US dollar price of one Australian dollar. A direct quote is the

Australian dollar price of one US dollar. One is the reciprocal of the other. For example, the traditional (indirect) quote for the $A is that it it worth, say, 73.8 US cents. This would be a direct quote in the US. A direct quote in Australia would express this relationship as one US dollar being worth $A1.355, calculated by dividing one by 0.73.8. See **direct quote.**

indirect taxation generally, taxes other than income tax, such as sales tax. The validity of the distinction between direct and indirect tax is strongly debated. Direct tax implies taxes paid by people on whom they are levied, but since it has become apparent that all taxes can be shifted to hit people other than those initially targeted, it follows that taxes (except probably income tax) are really indirect. Economists studying the shifting of taxes might ask whether company tax is borne by companies or by their customers in the form of higher prices. The difference between direct and indirect tax is important in national accounting to distinguish between GDP at factor cost and GDP at market prices. In the Australian national accounts, indirect taxes are defined as `taxes assessed on producers, ie, enterprises and general government, in respect of the production, sale, purchase or use of goods and services, which are charged to the expenses of production'. See **factor cost, goods and services tax, gross domestic product, taxation.**

Individual Share Futures share futures contracts traded on the Sydney Futures Exchange, based on individual stocks listed on the Australian Stock Exchange. Buying a share futures contract gives a financial exposure to (usually) the financial equivalent of 1000 shares in the underlying company. Initial margins are less than 5 per cent of the underlying contract so buyers of individual share futures gain a leveraged exposure to the shares. *Abbrev.* **ISF.**

indorse see **endorse.**

industrial award pay rates and employment conditions for employees in a specific industry, legally enforceable and set by the Industrial Relations Commission and state courts. See **Industrial Relations Commission.**

Industrial Relations Commission a federal body which oversees working conditions and wages. The Industrial Relations Reform Act 1993 overhauled the award-wage system in Australia in an attempt to relate rates of pay to the productivity of employees. It entrenched the concept of enterprise bargaining, in which workers negotiate their conditions directly with individual companies or single industries. The system remains underpinned by an award system intended to protect minimum pay scales. *Abbrev.* **IRC.**

Industries Assistance Commission see **Industry Commission**

Industry Commission established in 1990 as a major independent review and advisory body on industry policy for Australian governments. The predecessors of the commission were the Tariff Board then the Industries Assistance Commission. The commission, which is funded by the commonwealth government, conducts independent public inquiries into a broad range of issues in the economy, covering mining, agriculture, manufacturing and services. The commission also investigates issues such as the availability of capital, workers' compensation and the costs and benefits of greenhouse gas emissions. The commission's inquiry program is set by the commonwealth government and, under its act, the commission has to report annually to parliament on the performance of Australian industry. While the annual report is its chief research publication, the commission also produces information, discussion and staff research papers. *Abbrev.* **IC.**

industry superannuation fund a superannuation fund covering several employers, usually within one industry or sector.

inelasticity (of demand) the characteristic of a product for which demand changes less than proportionately in response to a given change in its price; such changes are usually in opposite directions. For example, the price of beer may rise dramatically but drinkers will not lower their demand proportionately.

inflation a sustained increase in the general level of prices so that a given amount of money buys less and less. People on fixed incomes, such as some annuities or income from fixed interest on long-term investments, suffer most when inflation is rising, unless their pensions or incomes are fully indexed to the inflation rate. Various causes and solutions are proposed for inflation (see **monetary policy**). Economists have identified two types of inflation:

- *demand-pull* where aggregate demand exceeds aggregate supply and competition for scarce products pushes up their price. (Monetarists argue that the excess of aggregate demand is due to an inappropriately rapid expansion in the money supply);
- *cost-push,* where increases in wages or other costs push prices up. Prices are related to labour costs.

Inflation is also broken into the *headline* and *underlying* rate, the underlying being the headline consumer price index less the effects of items such as tax, interest rates and seasonal factors — essentially those which are highly volatile or are generated by government policy.

See **unit cost, unit labour cost.**

inflation accounting assessing a company's performance after adjusting for the effects of inflation. Historial cost accounting does not accurately reflect the changing value of money and assets. For example, if you bought an item for $10 and then sold it for $15, historical cost accounting would calculate your profit to be $5. If, however, it costs you $20 to replace that item, then you have really made a loss of $5, which would be shown by the inflation accounting method. See **current cost accounting, historical cost accounting.**

infrastructure the basis or framework on which something is built. The term is popularly used to describe the services — roads, electricity supply, sewerage, phone lines, bus routes, water pipes and so on — which enable a business, industry or economy to function. Community infrastructure in Australia is largely government-owned but an extensive process of corporatisation and privatisation is under way.

infrastructure bonds bonds issued to help fund infrastructure projects such as those for land or air transport, electricity generation and transmission or distribution of water supply. The bonds carry tax advantages which enable funding at lower interest rates.

initial margin (deposit) the amount paid by a trader in the futures and options markets to cover against losses that might be incurred because of movements in the price of the instruments or commodities traded. It is a cash buffer set by the clearing house. The deposit level can vary, depending on the price volatility in the contract concerned, and represents an estimate of the maximum likely one-day price movement in the contract. If interest rates or gold were moving rapidly every day the deposit margin would be increased to take account of the uncertainty. See **margin call.**

initial public offering the flotation of a company on the stock exchange. A prospectus is issued inviting investors to buy the first issue of shares in the company. *Abbrev.* **IPO.** See **share.**

injunction a writ or court order forcing you to do something (mandatory injunction) or restraining you from doing something (restrictive injunction), usually because your proposed action would be harmful or detrimental to others. If you break the injunction — ie, go ahead as planned — you could be punished for contempt of court.

inputs what goes in at one end of a process to produce, at the other, outputs. In the economic sense, this refers to the materials, services, labour and capital required to create the gross domestic product. See **gross domestic product.**

inscribed stock securities for which ownership is recorded in a registry. The owner receives a certificate which is not itself transferable. The stock can be transferred only by using the appropriate documents. The Reserve Bank records ownership of government stock in its registries and each listed company keeps a register where shareholders' names are inscribed. This relieves holders of the risk of carrying bearer securities. See **bearer.**

inside lag see **leads and lags.**

inside the fees securities that trade inside the fees are selling at a price that allows the underwriter to make money from the agreement to underwrite and distribute an issue of securities. See **outside the fees.**

insider trading buying or selling (usually shares) for profit where the person dealing has privileged information not available to the general market. The practice, generally held to be harmful to the interests of other shareholders, is unlawful but not unknown. Legislation embodying strict disclosure rules has improved shareholder protection.

insolvency a situation where the value of liabilities exceeds the value of assets and debts cannot be paid as they fall due. A company or an individual can be insolvent.

instalment payments the reality of the never-never, the regular payments to be made on a borrowing (hire purchase, personal loan, mortgage, etc). The payments normally include a substantial interest component, especially early in the loan. See **credit, hire purchase.**

Institute of Chartered Accountants in Australia a professional organisation, formed in 1928, representing about 26 000 accountants (as at September 1994) with the greatest proportion practising professionally, rather than working in industry. The institute, with the Australian Society of Certified Practising Accountants, jointly sponsors and funds the Australian Accounting Research Foundation. See

accounting standards, Australian Accounting Research Foundation, Australian Accounting Standards Board, Australian Society of Certified Practising Accountants.

institutional buy-out see **leveraged buy-out, management buy-out.**

instrument market term for a document or security such as a bill of exchange or promissory note, bond, treasury note, letter of credit, option, futures contract and so on. Also *financial instrument.*

insurance protection against possible hazard. You can buy insurance against an event which may or may not happen, such as a burglary, an illness, loss of property or a legal liability. `General insurance' policies can cover a residence, its contents, commercial property, vehicles, livestock or crops against specified events, including natural disasters. They can also cover the expenses of accidents or sickness, loss of income or contractual costs such as the forfeiture of travel tickets through cancellation. Any form of insurance entails the payment of a sum (premium) to the insurer; this is often split into regular instalments. It is important to read the small print in an insurance policy carefully for details of specific coverage, exemptions and liability limits. Insurance on people's lives is usually referred to as *life assurance* (see **assurance**) and comes in various forms. See **annuity, endowment, superannuation, term insurance, whole-of-life policy.**

Insurance and Superannuation Commission the federal government body responsible for regulating the insurance and superannuation industries. Headquartered in Canberra, it has regional offices in most capital cities. *Abbrev.* **ISC.**

insurance bonds see **life insurance bonds**

intangible assets resources of a business which have no easily measurable dollar value but which are nonetheless valuable, such as a good reputation, brand-name or goodwill. Generally, intangible assets cannot be sold separately from the business as a whole. See **goodwill.**

interbank market in Australia, short-term (often overnight) borrowing and lending between banks, as distinct from banks' business with their corporate clients or other financial institutions. See **exchange settlement accounts, federal funds market.**

interbank rate the rate of interest charged on loans between banks. See **federal funds rate, London Inter Bank Offered Rate.**

intercommodity spread where a trader takes a long position in one commodity and a short position in another, eg buys a 90 — day bank-bill futures contract and simultaneously sells a three-year bond futures contract. The rationale behind the strategy is to profit from the changing price differential between the two instruments. Interest-rate instruments are commonly traded to take advantage of changes in the shape of the yield curve, eg, three-year bond futures compared with ten-year bond futures. See **intermonth spread.**

intermonth spread a strategy used in futures and options trading that involves buying one month of a contract and selling a different month of the same contract, for example buying the December contract in ten-year bonds and at the same time selling the March contract in ten-year bonds. The object is to make a profit from the price differential between the two contract months. Also *calendar spread.* See **arbitrage, option spread.**

interest the charge on borrowed money or the return earned on funds out on loan or invested. Interest rates vary with the demand for and supply of credit, and with the creditworthiness of the borrower. They are also influenced by economic factors such as expectations about inflation and the application of government monetary policy. See **compound interest, monetary policy, simple interest, usury.**

interest arbitrage switching between interest-bearing investments to profit from the difference in rates. See **arbitrage.**

interest capitalisation adding interest payments owed by a debtor to the principal of the loan. While this can give relief from pressure on the debtor's cashflow, it can increase the cost of the loan substantially, since future interest obligations will be calculated on an escalating debt.

interest cover a financial measure achieved by dividing the earnings of a company by the total interest payments on its borrowings.

interest-only funds funds on which the borrower pays interest (like a rent) for the use of the money, usually for a relatively short period such as one to three years. Unlike a mortgage or credit foncier, the debt is non-reducible; that is, none of the principal amount is paid back during the term of the loan. The principal is repaid in full at the end of the term, unless the borrower negotiates with the lender to roll the loan on for a further term. In contrast, with a reducible mortgage, each repayment is part-interest, part-principal. Solicitors' funds are a common source of interest-only funds. See **credit foncier, mortgage, solicitors' funds.**

interest-rate collar a combination of an interest-rate cap and an interest-rate floor. The buyer of a collar buys a cap option to limit the maximum interest rate to be paid and sells a floor option to partially offset the premium paid for the cap. A collar restricts interest-rate payments to a band between the strike prices of the cap and floor options. See **zero-cost collar.**

interest-rate condom see **cap.**

interest-rate differential the difference between the interest rates paid on debt instruments, eg, the interest-rate differential (spread) between $US bonds yielding 9 per cent and Swiss franc bonds yielding 4 per cent is 5 percentage points.

interest-rate futures futures contracts based on financial instruments such as bank bills of exchange or government bonds which allow traders and investors to take out protection against future movements in interest rates. See **financial futures, futures markets.**

interest-rate option an option over an instrument such as a bond, giving the buyer, in return for the payment of a premium, the right (but not the obligation) to buy (if a call option) or to sell (if a put option) a given bond at a specified price, on or before a specified date.

interest-rate riskexposure to loss resulting from a change in interest rates. Hedging strategies are designed to minimise, possibly eliminate, interest-rate risk.

interest-rate swap a basic fixed-rate for floating-rate swap organised in one currency, with interest-rate flows paid in arrears and settled on a net cash basis.

interest-rate swap option another variation on the interest-rate swap, this enables a borrower to take an option to enter into a future interest-rate swap at an agreed rate. Also known as *swaption.*

interface the point or area common to two adjacent things, a connecting surface. The word has been eagerly adopted into the jargon of sociology to indicate communication between groups or individuals; and into the jargon of computing to indicate the linking of one computer system or program to another or simply to describe the act of looking at a screen. A computer program with a *graphical user interface* shows the user pictures and symbols on the screen representing the various functions of the program.

interim dividend see **dividend.**

intermarket spread a strategy involving the purchase and sale of the same commodity on two different exchanges.

intermediation having a middleman (intermediary) between borrower and lender, rather than borrower and lender dealing directly with each other. The advantages of intermediation are economies of management costs, spreading of the risk of default, and a degree of liquidity management allowing mismatch of securities (borrowing short, lending long). See **disintermediation, reintermediation.**

internal audit an examination and verification of financial accounts and records carried out by employees of the company or organisation being audited. See **external audit.**

internal rate of return the return from an investment, calculated to show the rate at which the present value of future cashflows from an investment is equal to the cost of the investment. *Abbrev.* **IRR.**

Internal Revenue Service the US federal agency responsible for collecting federal income taxes (personal and company) and for investigating infringements of tax laws. *Abbrev.* **IRS.**

International Bank for Reconstruction and Development see **World Bank.**

international banking facility a US status similar to an OBU (offshore banking unit) which allows a bank to operate in international banking without some of the restrictions that usually apply to domestic banks. IBFs would typically be exempt from restrictions covering reserve requirements and would operate with a concessionary tax rate. *Abbrev.* **IBF.**

International Banks and Securities Association of Australia national organisation representing the interests of members engaged in wholesale banking, securities and financial markets. Members are industry leaders and include Australian and foreign-owned institutions. Formerly the Australian Merchant Bankers Association, the organisation adopted its new name in 1993 when changes to legislation enabled merchant and investment banks to seek licences to operate as branches of their (mainly foreign-based) parent banks. *Abbrev.* **IBSA.**

International Commodities Clearing House London-based provider of clearing services to futures markets. Its main role is to register futures transactions and to guarantee the performance of each contract; it is also empowered to vary the level of deposits and margins according to market conditions. Established in 1888 as the London Produce Clearing House, it changed its name in 1973 to reflect its broader and more international role. Until 1991, when the Sydney Futures Exchange Clearing House began operating, ICCH undertook clearing and guaranteeing services for the Sydney Futures Exchange. *Abbrev.* **ICCH.** See **futures contract, Sydney Futures Exchange, Sydney Futures Exchange Clearing House.**

International Monetary Fund established by the Bretton Woods conference of 1944 to encourage policies, including exchange-rate policies, to keep balances of payments between countries in overall balance. The economist John Maynard Keynes had a major role in the formation of the International Monetary Fund, although it did not begin operating until 1947, shortly after his death. Member countries (numbering 179) contribute to the IMF in accordance with quotas determined by the size of their economies. This pool of funds is used to make loans to member countries with balance of payments problems.

On being approached by a country experiencing such problems, the IMF examines the difficulties. If agreement can be reached with the government concerned about the cause of, and solution to, the problems, a letter of intent is signed. This commits the IMF to a program of assistance to the country, usually over a period of about three years, provided the country carries out the IMF's proposals to correct its balance of payments problems. The IMF is located in Washington and operates with a board of directors and a managing director. Its annual meetings are held alternately in Washington and a member country. *Abbrev.* **IMF.** See **World Bank.**

International Monetary Market a division of the Chicago Mercantile Exchange, established in 1972. The International Monetary Market supports trading in financial instruments, currencies and gold. *Abbrev.* **IMM.** See **Chicago Mercantile Exchange.**

international monetary system the prevailing arrangements among countries for determining the relative values of currencies. There are no formal rules, since each country sets its own policy on how the value of its currency will be allowed to vary against other currencies. At the beginning of the twentieth century the gold standard was an important anchor, with most currencies tied to a value in terms of gold. These arrangements fell apart and a formal attempt to devise an international monetary system was made at Bretton Woods in 1944, resulting in currencies being tied to the $US, which was in turn tied to gold. The Bretton Woods era lasted until 1971, when fixed exchange rates were abandoned in favour of floating rates. See **Bretton Woods, float, gold standard.**

International Petroleum Exchange London-based energy futures and options exchange. *Abbrev.* **IPE.**

International Securities Markets Association based in Zurich, Switzerland, ISMA was founded in 1969 as the Association of International Bond Dealers. Its name was changed in 1992. As world regulator for the eurobond markets, ISMA's statutes, by-laws, rules and recommendations form the core of the regulatory framework of the international securities markets. *Abbrev.* **ISMA.**

International Stock Exchange formerly (until 1987) the London Stock Exchange, it is the principal exchange in London, managing and regulating trading in UK and international equities.

International Swaps and Derivatives Association a US-based international trade association which sets standard documentation and helps markets work with regulators. *Abbrev.* **ISDA.**

intervention see **central bank intervention, monetary policy.**

intestate dying without leaving a will; property not disposed of by a will.

intracommodity spread a strategy based on buying and selling the same commodity but for different expiry months in the hope of profiting from the price differential between the different dates.

intraday (trading) entering into and closing out a futures or options position within the same day. Also known as *jobbing.* See **close out.**

intrinsic value the amount by which an option is in the money. In the case of a call option, intrinsic value is the current futures price less the strike price. For a put option the intrinsic value is the strike price less the futures price. If the difference between the prices is not positive in either case then the intrinsic value is zero. See **in the money, time value.**

inventory a list of what you have. In company accounts, inventory usually refers to the value of stocks, as distinct from fixed assets. An inventory would include items which are held for sale in the ordinary course of business or which are in the process of production for the purpose of sale, or which are to be used in the production of goods or services which will be for sale.

inverse floater see **reverse floater.**

inverse yield curve see **yield curve.**

inverted market see **backwardation.**

investment allowance a tax deduction of 10 per cent from assessable income in the year that eligible new machinery or plant is used or installed for the purpose of producing the assessable income. Being an upfront, one-off move to stimulate investment in new plant and equipment, it was only available for plant and equipment acquired under a contract entered into between 8 May 1993 and 1 July 1994 where the plant and equipment exceeded $3000.

investment bank a financial intermediary which operates at the `wholesale end' of the financial markets; the `middleman' between companies issuing securities to raise funds and the investors who buy the paper. Investment banks derive their income chiefly from fee-based activities or profits from trading securities rather than from a margin between borrowing and lending costs. Investment banks help their clients by underwriting and distributing securities and devising innovative finance packages (in return for fees). Investment banking skills rely on market knowledge and expertise rather than on the strength of the bank's balance sheet. See **International Banks and Securities Association of Australia, merchant bank.**

investment grade a bond or note rated BBB- or above by Standard & Poor's or at least Baa3 by Moody's Investors Service. See **junk bond, speculative grade.**

investor one who lays out money, usually by lending or purchasing, in the expectation of profiting from interest earnings or capital gain.

invisibles as in `invisible exports and imports', transactions such as insurance, banking and foreign travel which are included in the current account of a country's balance of payments. See **balance of payments.**

IOU contraction of `I owe you'; written evidence of a debt, usually signed by the debtor and held by the creditor.

IPE *abbrev.* **International Petroleum Exchange.**

IPO *abbrev.* **initial public offering.**

IRC *abbrev.* **Industrial Relations Commission.**

Irish Futures and Options Exchange opened in 1989, this computerised exchange trades contracts based on Irish government bonds, interest rates, exchange rates and the Irish stock market index. *Abbrev.* **Ifox.**

IRR *abbrev.* **internal rate of return.**

IRS *abbrev.* **Internal Revenue Service.**

ISC *abbrev.* **Insurance and Superannuation Commission.**

ISDA *abbrev.* **International Swaps and Derivatives Association.**

ISF *abbrev.* **Individual Share Futures.**

ISMA *abbrev.* **International Securities Markets Association.**

issued capital the proportion of authorised capital which has been issued to shareholders in the form of shares. If the shares are not fully paid, there remains an uncalled amount for which shareholders are liable, except in a company designated `NL' (no liability). Share capital could be divided thus:

authorised	$20 000 000
issued	10 000 000
paid up	5 000 000
uncalled	5 000 000

See **authorised capital, no liability, share capital.**

issuing house a merchant bank specialising in arranging and underwriting share and securities issues. It is one of three main classes of UK merchant banks, the others being discount houses and accepting houses. In Australia, the Issuing Houses Association merged with the Accepting Houses Association in 1979 to form the Australian Merchant Bankers Association (AMBA). In 1993, reflecting the broader reach of merchant banks following legislative changes to the status of foreign banks, AMBA changed its name to the International Banks and Securities Association (IBSA). See **International Banks and Securities Association.**

J

J curve the illustration of the performance of a country's balance of payments after its currency has been devalued. The immediate effect of a devaluation is to raise the cost of imports and reduce the value of exports, so that the current account deteriorates. Gradually, however, the volume of exports increases because their price is down and the volume of imports declines because they have become more expensive. This should rectify the current account balance, turning deficit to surplus. Like much in economics, this is a persuasive theory which appears to straddle the line between natural law and wishful thinking.

Jackson Committee established in 1974 by the Whitlam government to advise on policies for Australia's manufacturing industry. The committee was chaired by R.G. Jackson, the general manager and a director of CSR Ltd. Its report advocated a move towards a more open economy, with gradual structural adjustment of the nation's manufacturing sector. However, it was criticised over its call for increased assistance to manufacturing through grants and tax concessions and its suggestion that exchange-rate policy should offer more support for the sector.

jawboning see **moral suasion.**

jobber in the Australian futures markets, a day-trader. In the UK, an individual who trades in shares as a principal, dealing directly with brokers, not with clients. See **daytrading.**

jobbing the market see **daytrading.**

joint stock company a nineteenth-century term for a public company whose shares are transferable.

joint venture cooperation between two or more companies, countries or other entities, or between the public and private sectors, to construct or operate a project. Large joint ventures are common in emerging economies, where governments might seek the expertise and technology of industries in more advanced countries in exchange for access to new markets or other benefits. Joint-venture agreements can be complicated by cross-border differences in law, taxation and trade practices.

JOM *abbrev.* **Japanese offshore market.**

junior debt debt obligations ranked behind other debts in terms of priority for payment, eg, a second mortgage which ranks behind the greater claim of a first mortgage on property in the event of default.

junk bond a bond with a credit rating of BB or lower from credit-rating agencies. Many issuers and holders prefer the securities to be called *high-yield bonds* as the term junk bonds, although commonly used, has a pejorative connotation. Junk bonds are issued by companies which do not have long track records of sales and earnings, or by those with questionable credit strength. They are a popular method of financing takeovers. Because they are more volatile and pay higher yields than investment grade bonds, many risk-oriented investors specialise in trading them. Junk bonds surged in popularity in the 1980s largely due to the efforts of one man, Michael Milken of the Wall Street investment bank Drexel Burnham Lambert. The proceeds of junk bond issues placed by Drexels were frequently used by aggressive entrepreneurs to take over larger and more established companies, a trend that caused increasing irritation among traditional business. See **investment grade.**

K

Kansas City Board of Trade the second largest grain exchange in the world, established in 1876. It was the first exchange to trade stock index (share price index) futures. See **Chicago Board of Trade.**

kerb market in the US, trading in shares of companies not listed on the main stock exchange board. In the UK, kerb trading is trading in commodities outside official market hours. In Australia the term `kerb market' has been applied to `junior' shares which have little turnover.

Keynes, John Maynard see **economists.**

kick-back a slice of a fee, salary or commission given to a third party for its assistance, cooperation or non-interference in a commercial arrangement. Sometimes accompanied by a nudge and a wink and often unethical, illegal or both.

killer bees individuals or firms — usually investment banks — employed by a company to help deflect a hostile takeover bid.

killer warrant see **warrant.**

kilo bar a one-kilogram bar of gold, a standard specification in gold trading, popular with jewellers.

kite UK market slang for an accommodation bill of exchange. See **kite flying.**

kite flying in the UK, the use of bills of exchange or other instruments to raise funds to give the appearance of being credit-worthy.

KLSE *abbrev.* **Kuala Lumpur Stock Exchange.**

knock-in option down-and-in or up-and-in barrier options that do not exist until a predetermined price is triggered in the underlying asset or instrument. See **barrier options.**

knock-out option down-and-out or up-and-out puts and calls that expire if a predetermined price level in the underlying asset or instrument is triggered. See **barrier options.**

Korea Stock Exchange established in 1956, located in Seoul. *Abbrev.* **KSE.**

Kondratieff cycle a long-term trade cycle. It is named after the Russian economist Nikolai Kondratieff, who identified 50 to 60 — year cycles of economic activity and who is noted for his analysis of these fluctuations. Also *long (Kondratieff) cycle.*

KSE *abbrev.* **Korea Stock Exchange.**

Kuala Lumpur Stock Exchange incorporated in 1965 as Kuala Lumpur's stock exchange (although share-trading activity dated from the 1930s). *Abbrev.* **KLSE.**

kurtosis the degree to which a statistical distribution is sharply peaked at its centre.

L

Laffer curve illustration of a theory, never conclusively justified, that governments raise more revenue by cutting tax rates than by increasing them. The rationale is that the extra economic activity stimulated by the prospect of lower tax rates generates greater income which in turn lifts the total tax base. The theory was the work of Arthur Laffer of the University of Southern California in the 1970s. Proponents of the opposite theory have been too numerous to enable a single name to be given to *their* curve.

lag see **leads and lags.**

laissez faire `hands off', Literally, the French translates as `let act', an economic system in which activity is virtually untouched by government rules and regulations. Adam Smith (*The Wealth of Nations,* 1776) was largely responsible for articulating the concept. Advocates of pure laissez faire believe that the unhindered forces of supply and demand and self-interest will achieve balance in society, leading to the most efficient use of resources and therefore the highest level of production and income. The Great Depression of the 1930s and high levels of unemployment in the 1980s and 1990s cast doubt on this belief. See **Adam Smith** in **economists.**

last in, first out the valuation of a company's stock on the basis that the latest items purchased are the first to be used in production or sales. Goods on hand represent earliest purchases and are valued at the earlier prices. If prices are rising, inventory values will be understated and if prices are falling they will be overstated. The method is not accepted in Australian accounting practice as it has the effect of reducing reported profits in times of inflation. *Abbrev.* **LIFO.** See **first in, first out.**

laundered funds illicit gains that have been `washed clean' by passing them through a `respectable' institution or transaction to disguise their dubious source. See **funny money.**

lay off a trader can `lay off' the risk attached to a transaction by executing a second deal in the market that offsets the first, eg, an option writer lays off his or her risk by buying the shares over which the option has been granted.

laying off see **reinsurance.**

LBMA *abbrev.* **London Bullion Market Association.**

LBO *abbrev.* **leveraged buy-out.**

L/C see **letter of credit.**

LDC *abbrev.* **less developed country.**

lead manager see **mandate**

leads and lags in international trade, the gaps between shipment and payment. These gaps can be exaggerated as importers and exporters try to advance or delay their payments or receipts according to how they expect exchange rates to move. If devaluation of the domestic currency is forecast, importers with a foreign-currency obligation will hurry to pay (if they wait, they will need more local currency to pay the bill) — they `lead' their payments. Exporters, on the other hand, would benefit in that situation by delaying converting foreign currency receipts into the local currency — they `lag'. Before the virtual abolition of exchange controls in Australia in December 1983, leads and lags could not be exploited extensively because, for example, exporters had to convert foreign receipts into $A within 30 days. Leads and lags are also used in a variety of economic models; for example, investment this year might be determined by last year's profits. Economists talk of the *policy lag*: in this context the *inside lag* is the time taken to implement a policy change once the need for it is recognised, and the *outside lag* is the time taken for the change to affect the economy once implemented.

league ladder (or league table) tables of data ranking the performance of banks and investment banks as managers and co-managers in various markets and instruments.

leaning against the wind central-bank action to dampen swings in the exchange rate. Most central bankers are sceptical of its effectiveness, and would question the value of standing against a strongly blowing wind.

lease an agreement between two parties under which one is granted the right to use the property of the other for a specified period in return for a series of payments by the user to the owner.

leasing arrangements, similar to rent agreements, for the use of property (buildings, cars, office equipment and other items) in return for payments to the owner. The lessee (person taking out a lease) agrees to pay a number of fixed or flexible instalments over an agreed period to the lessor, who remains the owner of the asset (item) throughout the period of the lease. There are two main types of lease: *finance* and *operating.* With a finance lease, the lessor effectively transfers all risks and benefits attached to ownership of the leased property, whereas this is not the case with an operating lease. Some attractions of leasing, from the lessee's point of view, are that it can provide tax advantages (lease payments are usually tax-deductible) and free up cash that would otherwise be used for outright purchases. Further, operating leases do not affect a company's gearing because they are not shown in the balance sheet. At the end of a lease period, the lessee can re-lease for a further period, upgrade the lease to cover a newer or different item, or offer to buy the leased property from the lessor, usually at a `residual value' agreed at the start of the lease. Traditional sources of lease financing are banks, merchant banks, specialist leasing companies, finance companies and leasing divisions which are offshoots of major equipment suppliers. See **gearing, leveraged leasing, off-balance-sheet financing, residual value.**

left-hand side a foreign-exchange term for the rate at which a bank will offer currency against, say the $US. A quote reading 80.25/30 yen indicates the bank's selling rate of 80.25 yen for one $US; the bank would buy at 80.30 to the $US — the theory being `sell low, buy high' (in directly quoted currencies). The expression `trading on the left-hand side' means there is selling pressure on the currency. See **trading on the right-hand side.**

leg in the air a futures market situation where a trader is looking to complete a straddle; the trader may take a view on market movements that suggests doing one leg of the straddle first and completing the second leg later the same day. Both legs of the straddle have to be executed within one day to qualify as a straddle.

Traders talk of `lifting a leg' which indicates liquidating one leg of an existing straddle. Those who get caught with a `leg in the air' or `leg up' have to get out of it as best they can. See **straddle.**

legal risk in the context of financial risk management, the risk that a counterparty is not legally able to enter into a contract. Another legal risk relates to regulatory risk, ie, that a transaction could conflict with a regulator's policy or, more generally, that legislation might change during the life of a financial contract. See **Hammersmith & Fulham, ultra vires.**

legal right of set-off see **netting.**

legal tender officially recognised money which cannot be refused when given in payment.

lender of last resort a term applied to a central bank in circumstances where it makes loans to certain financial institutions under strictly defined conditions. Lender-of-last-resort facilities do not form part of the Reserve Bank of Australia's day-to-day arrangements with the banks, however the RBA has the power to make such loans should it chose to do so — which would occur only in an extreme emergency such as a systemic crisis in the financial system. Otherwise, a bank forced to generate liquidity would be expected to sell some of its high-quality liquid assets, held under the prime assets requirement (PAR) arrangements. See **prime assets requirement.**

LEPO *abbrev.* **Low Exercise Price Option.**

leptokurtosis see **fat-tailed curve.**

less developed country a country characterised by a low level of industrial development, poverty-level income, a growing population, high unemployment, a high level of agricultural employment and agriculture-dominated exports. Such countries are also called Third World. *Abbrev.* **LDC.** See **Third World.**

lessee the person to whom a lease is granted and who pays the due instalments (rent) to the lessor.

lessor the grantor of the lease, who remains the owner of the leased property throughout the term of the lease and who receives lease payments from the lessee.

letter of credit an irrevocable and unconditional undertaking by an international bank (although local banks will sometimes issue

L/Cs) to repay the principal and interest of a loan in the event of a default by the borrower. Letters of credit help the flow of trade and financing by giving added assurance to a lender that a loan will be repaid or goods paid for. Letters of credit are frequently used by finance companies which are subsidiaries of overseas banks and which borrow using the backup of the parent company L/C. They can also be used to back a lessee in a leveraged lease deal or the borrower in a promissory note issue. Modern use of the L/C is an extension of the centuries-old custom by which a traveller was provided by his or her bank with a letter of credit, addressed to another bank, to ensure access to funds when away from home. *Abbrev.* **L/C.**

letter of comfort not quite a guarantee; usually a document issued by a parent company on behalf of a subsidiary operating in a different country. The parent company (Company A) agrees to make every effort to ensure that Company B (the subsidiary) will comply with the terms of a given contract, but Company A is not committed to perform B's obligations if B cannot do so or defaults.

letter of hypothecation a letter, for example between a broker and client, pledging securities as collateral for loans made to buy shares. Such a pledge does not transfer title of the securities, but it gives the broker the right, should the client default, to sell the securities detailed in the letter of hypothecation.

level playing field jargon phrase which became so worn that its users often forgot what it meant; that is, an equal opportunity for all. Some politicians, economists, lawyers and business people have seized on the level playing field as a utopian goal to be achieved by regulating away the differences between people. Of course, in a competitive economy, which seems to be the only sort that works, the field is never level. It is the irregularities that create competitive advantage (another jargon phrase). See **competitive advantage.**

leverage 1. financial power; the potential to make profits far in excess of the outlay required to gain entry to an investment or position. For example, futures contracts offer huge leverage because, for an initial margin payment, an investor can build up and control a large parcel of bonds or shares. Options also offer leverage. 2. the relationship between debt and capital. See **gearing.**

leveraged buy-out a method of buying a company using borrowed money, generally undertaken by the company's existing management. Those carrying out the takeover might not have the necessary funds but are convinced of the merits of the deal; the lending institution, often a venture capital organisation which either provides money or takes an equity position, expects to be repaid principal plus interest or to make a profit on the equity. Also known in the UK as institutional buy-out. *Abbrev.* **LBO.** See **management buy-out, venture capital.**

leveraged equities facility see **margin trading.**

leveraged floatersee **reverse floater.**

leveraged leasing a type of finance lease using taxation concessions relating to plant and equipment (for example, depreciation or investment allowances) which the lessee might not otherwise have been able to use fully. The method results in a lower cost of funds and is often used in the financing of high-cost `big-ticket' items such as aircraft or industrial plant. `Leveraging' simply means using financial muscle to make a profit far in excess of an outlay. Leveraged leasing involves, in addition to the lessor and lessee, a third party — a credit provider who makes available the bulk of the funds needed to acquire the leased item. Finance is made available to the lessor under a non-recourse loan which is often secured by a mortgage over the leased property or assignment over the lease and the lease rentals. For the lessee nothing changes under a leveraged lease agreement except that the lease rate available is cheaper than other forms of finance. See **big ticket, leasing.**

LGS *abbrev.* **liquid assets and government securities convention.**

liability opposite of asset. Liabilities generally refer to a person's debts, or in the case of a company, to its debts and the dividends payable to shareholders. See **asset.**

liability assumption see **defeasance.**

LIBID *abbrev.* **London Inter Bank Bid Rate.**

LIBOR *abbrev.* **London Inter Bank Offered Rate.**

lien the right to hold property of another as security for the performance of an obligation. A *possessory lien* requires the security holder to have possession of the goods or assets over which the security is claimed. A simple example is the case of a person leaving a car at a garage for repairs; the garage proprietor who has physical possession of the car would have a lien over it until he is paid for the work done. Some liens created by statute (*statutory liens*) are misnomers because they do not entail possession of the security. An example is a crop lien — a lender holding a crop lien has security over the crop without having possession of it.

life assurance/insurance see **assurance, insurance.**

life insurance bonds launched in Australia in 1979, life insurance bonds are life insurance policies backed by investments in a life office statutory fund. The bonds do not pay income or dividends to bondholders but accumulate income, after normal charges and tax, for further investment.

Trading profits and capital growth are also taxed and the balance reinvested. Insurance bonds, being governed by the Life Insurance Act, do not require a trust deed, prospectus or trustee. A customer information brochure is provided to potential investors.

life insurance office see **life office.**

life office a large financial institution which mobilises funds from the household sector to provide various forms of life assurance. Many life offices also operate superannuation funds. See **annuity, insurance, superannuation.**

life-cycle hypothesis an attempt to explain why people apply their money as they do. For example, older people, who normally earn more than younger people, tend to save a greater proportion of their income than the young; however, once retired, older people revert to a more youthful pattern, spending a larger proportion of their money.

LIFFE-LTOM *abbrev.* **London International Financial Futures Exchange and London Traded Options Market.**

LIFO *abbrev.* **last in, first out.**

lifting a leg see **leg in the air.**

LIMEAN the average (mean) of LIBID and LIBOR. See **London Inter Bank Bid Rate, London Inter Bank Offered Rate.**

limit order an order that might read: `Buy 10 June BAB at 93.00', meaning a client is willing to pay no more than 93.00 for the June bank bill contracts. The order can be executed at a price below that, but if the price were a mere few points above, the broker would contact the client to check if he or she is allowed a few points leeway and, if so, would execute the trade.

limited liability a legal concept which protects shareholders in a company by restricting their liabilities to the value of their shares, even if the company has debts exceeding that value. The limited liability company is the basic commercial structure developed during the nineteenth century to allow individuals to carry on a business without exposing all their personal assets to the risk of the business failing, resulting in personal bankruptcy. See **company, no liability.**

limited recourse finance funds that have been arranged on the understanding that the lender has recourse to the borrower only in certain circumstances. For example, a lender providing funds for mineral exploration might have no recourse to the borrower if minerals were not found in sufficient quantity.

limited stop order an order that would say: `Buy 10 June SPI on stop 2100 limit 2105', meaning that the order is to be executed if the market trades at or above 2100 but no more than 2105 is to be paid. The client accepts the possibility that the market might rise quickly above 2100 and so the order, or part of it, might not be executed.

line of credit a flexible loan from a bank or merchant bank which allows the customer access to funds over a given period but does not entail regular fixed repayments. A line of credit is similar to an overdraft in that the amount the client chooses to use is left to his or her discretion, within the agreed limit. Banks regularly review the level of use of a line of credit; if the funds are not being used the bank may reduce or withdraw the facility, since funds must be allocated to back the line and the bank expects the capital to earn a return. A line of credit can include an option to draw bills of exchange rather than cash. Bank charges need to be considered when calculating the overall cost of a line of credit.

liquid assets assets which can be turned into cash easily or swiftly with minimum capital loss. See **liquidity.**

liquid assets and government securities conventionan understanding reached in 1956 between the major Australian trading banks and the central bank under which the banks agreed to hold a minimum ratio of liquid assets and government securities to their deposits and, if necessary, to borrow from the central bank (now the Reserve Bank) to maintain this ratio. The convention was replaced in 1985 by the *prime assets ratio. Abbrev.* **LGS.** See **non-callable deposits, prime assets ratio, statutory reserve deposit.**

liquid ratio a measure of the relationship between a company's current assets and its current liabilities. Also acid test, quick test. See **current ratio.**

liquidation the winding up of a business by its members or its creditors. The assets are sold, liabilities settled as far as possible and any remaining cash returned to shareholders. A company can be liquidated even if it is viable (ie, able to pay its debts) if it is believed to be preferable to distribute funds to the shareholders rather than carry on the business.

liquidator a person appointed to oversee the winding up and liquidation of a company. A *provisional liquidator* is appointed by a court, sometimes as a matter of urgency if it is feared that the assets may be `dissipated' to the detriment of creditors and shareholders.

liquidity the capacity to be converted easily and with minimum loss into cash. Ultra-short-dated treasury notes are an example of a liquid investment. A liquid market is one in which there is enough activity to satisfy both buyers and sellers.

liquidity ratio the proportion of a financial institution's assets held in easily cashable form. This may be established as a matter of internal control or by direction from the monetary authorities, as in the case of liquidity ratios imposed on banks by the Reserve Bank for prudential reasons.

listed company a company whose shares are quoted on the stock exchange and are available to be bought and sold by the general public. See **going public, stock exchange.**

listing rules requirements imposed on companies by stock exchanges, generally concerning financial reports and the information provided to the sharemarket.

Little Mo see **cash base.**

LME *abbrev.* **London Metals Exchange.**

loan shark a moneylender (possibly unlicensed) who lends small amounts of money at much higher rates of interest than those charged by conventional lending institutions. Loan sharks often exploit the predicament of financially distressed people who cannot qualify for, say, a bank, building society or credit-union loan. See **moneylender, usury.**

local in futures markets, a person who trades on the futures exchange on his or her own personal account, not as a broker. Often known as a scalper. See **futures markets, Sydney Futures Exchange.**

loco a term used in commodity markets, meaning `at' (from the Latin *locus,* place). A trader would talk of gold traded `loco London' meaning gold held in London and priced for delivery in London; gold can also be quoted `loco Tokyo or loco Zurich'.

Lombard rate the Bundesbank (German central bank) rate charged to the commercial banks; the equivalent of the US discount rate.

London Bullion Market Association a small group of companies dealing in gold bullion, formerly known as the London Gold Market. The members meet twice daily (in what is termed the `Gold Fix') to set the market price of gold. *Abbrev.* **LBMA.**

London International Financial Futures Exchange offers traders and speculators opportunities in a range of short-dated interest-rate futures contracts such as short sterling euromark, euroswiss and eurodollar futures and bond futures contracts based on German, Italian, Japanese, Spanish and UK bonds and a contract based on the Financial Times 100 share market index and a Midcap 250 index. The exchange began trading in 1982, encouraged like others by the success of financial futures in the US, notably in Chicago, and in Sydney. Merged in 1992 with London Traded Options Market and since known as LIFFE-LTOM. *Abbrev.* **LIFFE-LTOM.** See **futures contract, futures markets, Sydney Futures Exchange.**

London Inter Bank Bid Rate the rate of interest bid by the big London banks on the $US call money loans traded among themselves. It is the other side of a LIBOR quote. *Abbrev.* **LIBID.** See **London Inter Bank Offered Rate.**

London Inter Bank Offered Rate the benchmark interest rate in eurodollar lending, the borrower agreeing to a rate expressed as a margin over the London Inter Bank Offered Rate (rarely under). It represents the rate of interest charged by the major London banks on call money loans made among themselves. The margin or spread paid varies according to the borrower's credit standing in the market. The lender stipulates the period for which the rate is to apply. *Abbrev.* **LIBOR.** See **HIBOR, LIMEAN, London Inter Bank Bid Rate, TIBOR.**

London Metals Exchange established in 1877 to cope with Britain's growing imports of, for example, copper from Chile and tin from Malaysia. The exchange expanded its products after the Second World War, adding aluminium and nickel to a range that already included copper, tin, lead, zinc and silver. The LME has established itself as the world benchmark in pricing metals. *Abbrev.* **LME.**

long in foreign exchange and share trading, a net asset position; that is, a trader has bought more of a commodity than he or she has sold. `Borrowing long' means borrowing for the long term. See **long position.**

long cycle see **Kondratieff cycle.**

long position long denotes an asset position, ie, a trader has bought more of a commodity than he or she has sold. Someone with a long position benefits from a rising (bull) market. A currency trader who says, `I'm long US' is indicating an excess of $US purchases over sales. See **short position.**

long term subject to arbitrary interpretation but generally held in financial markets to mean a term of at least one year and probably more than five. See **short term.**

long the basis a long (bought) position in the cash market hedged using a short (sold) position in a future or forward market. See **basis, short the basis.**

long-dated forward a forward contract whose settlement date is more than one year away.

long-dated option an option with an exercise date more than one year hence.

lookback option an option giving the buyer the retrospective right to buy or sell the underlying asset at its lowest or highest level within the period specified under the lookback agreement. Also *hindsight currency option.*

lookforward option an option giving the buyer the future right to the difference between the strike price at the start of a specified period and its peak (if a call) or trough (if a put) over that period.

Lorenz curve a graph illustrating inequality of income distribution. The curve was devised by the Italian economist Max Lorenz to show what slice of the national cake goes to the top wealthiest ten per cent of the population and what goes to the bottom ten per cent.

loss leader an item sold at less than cost to attract buyers, who might then purchase other products at profitable prices.

loss pricing holding down prices, despite the loss this might entail, in the hope of wooing customers from a competitor.

Louvre Accord an agreement reached in February 1987 by the five countries which comprise the G-5 (France, West Germany, Japan, the UK and US) following an earlier decision to correct an overvalued $US. They agreed that the $US had fallen sufficiently and that they would take steps to ensure stability in exchange rates. See **Group of Five, Plaza Agreement.**

Low Exercise Price Option devised by the Australian Stock Exchange in 1994, a form of deep in-the-money option whose risk profile is similar to that of a futures contract. The buyer is margined and, for a low entry price, gains control over a large parcel of shares. *Abbrev.* **LEPO.**

LTFX a long-term, ie, beyond twelve-month, forward foreign-exchange contract.

lunch a tribal ritual deeply ingrained in the culture of the business community by which the general condition of the economy can be judged. In prosperous, carefree times such as the mid-1980s lunches tended to extend for several hours and involve the consumption of many bottles of expensive wine. In a more sombre economic climate, lunches are more likely to have genuine business purposes and be accomplished with speed, efficiency and mineral water. See **expense account, free lunch, fringe benefits tax.**

M

M&A *abbrev.* **merger and acquisition.**

Maastricht Treaty the pact for a redesigned European economic union, resulting from meetings in 1991-93 in the Dutch city of Maastricht. The breaking down of political divisions in Europe changed the relationships which had kept the old `common market' functioning through the 1980s. There was general agreement that the market would inevitably grow larger and looser. Influential countries such as France, Germany and Britain saw some forms of economic unification as desirable but were reluctant to yield their own power. Some changes, such as monetary unification, proved too difficult and were shelved, and other elements of a `single market' failed to find quick or unanimous agreement. However, following Maastricht, much had been achieved in encouraging business to `think European'. A common legal infrastructure had been largely completed, citizens could take goods for personal use across borders without paying duty, road-freight was free of customs checks and most controls on the movement of capital had been removed. Some economists believed fine-tuning of the Maastricht achievements would be a ten-year process, always in danger from a resurgence of protectionist sentiment. See **European Union, GATT.**

Mabo the name of a Torres Strait Islander, Eddie Mabo, who fought for Aboriginal land rights. The term `Mabo' has been applied generally to the entire issue of native land title in the 1980s and 1990s, including various pieces of legislation and instances of litigation. The federal government's native title policy generally recognises traditional Aboriginal land rights although many grey areas in interpretation of the legislation have led to protracted debate. The issue is particularly important for Australia's resources industry because the residual uncertainties cast doubt on the validity of many mining and petroleum exploration leases.

Macaulay duration a market-value, weighted measure of the time to maturity of a security. With fixed-interest securities, or any known set of cashflows, it is the sum of the time to each cashflow (eg, coupon payment) weighted by the ratio of the market value of each cashflow to the total market value of the security. The concept was devised in the US in 1938 by Frederick Macaulay, as a measure to capture the characteristics of bonds rather than merely classifying them by maturity.

macroeconomics the big picture (*makros* is Greek for `large'). Macroeconomics focuses on the major aggregates, such as gross domestic product and the balance of payments, and the links between them in the context of the national economy. It examines the effects of fiscal, monetary and foreign exchange policies on those aggregates (in contrast to microeconomics, which is the study of markets, the behaviour of buyers and sellers in response to changes in demand, supply, costs and other factors). Macroeconomists accuse microeconomists of being unable to see the forest for the trees (and vice versa). See **microeconomics.**

Maginot spread the difference between the yields on German *bunds* (bonds) and French *OATs* (*obligations assimilables du Trésor,* government bonds).

main board the stock exchange board on which publicly listed industrial and mining company shares are traded. For several years until 1992 the Australian Stock Exchange was divided into a main board, for large, well established companies, and a second board for small, often high-technology companies needing equity finance to support rapid growth. See **second board.**

Makati Stock Exchange Inc established in Manila in 1963, the exchange began trading in November 1965 and is the largest stock exchange in the Philippines.

Malthus, Thomas see **economists.**

management and investment companies MICs were established under the Management and Investment Companies Act 1983 as a federal government initiative to stimulate investment in research and development. The objective of the scheme was to raise funds to invest in new, high-tech industries, with the relatively high risk rewarded by the possibility of high returns and by some tax benefits. However, the program achieved limited success, partly because of taxation policies which impeded the commercialisation of innovations. MICs were replaced in 1993 by the pooled development fund scheme. *Abbrev.* **MICs.** See **pooled development fund, venture capital.**

management buy-out a transfer of ownership or control of a company to those who are involved in running the business. This usually occurs when a vigorous management believes it could run the company better than the existing owners, so they buy the shares, or when a venture capital company foresees a profit for itself in advancing money to the management to enable the buy-out. Most management buy-outs involve some leverage (borrowing). *Abbrev.* **MBO.** See **leveraged buy-out, management buy-in, venture capital.**

management buy-in a management buy-out where the new management is not already involved in the operation of the company. Finance providers tend to regard this category of business as a fairly high-risk investment. *Abbrev.* **MBI.** See **management buy-out.**

management expense ratio calculated by taking the total amount of fees deducted from an unlisted managed fund and all expenses recovered from or paid out of the fund, and expressing this as a percentage of the average fund size for the period under review. Management expense ratios are required by law to be included in managed fund prospectuses. *Abbrev.* **MER.**

Manchester School see **free trade.**

mandate the authority to act for another party. The term is commonly used in the euromarkets: a borrower with a fundraising proposal will talk to various banks about terms, then appoint a lead manager who will be awarded the mandate or authority to arrange the finance. In the fund management and superannuation industries, a manager is given a mandate to handle all or some of a fund's investments.

margin the difference between a benchmark interest rate and the rate charged to an individual borrower. It is sometimes called a spread. In the euromarkets, LIBOR is used as a base rate and borrowers pay a margin above (rarely below) according to their creditworthiness. A margin can also be added when taking security against a loan; the lender can require a higher rate of interest to cover potential risk. See **London Inter Bank Offered Rate, spread.**

margin account an account enabling a trader to use funds advanced by his or her stockbroker, futures broker or bank. See **margin trading.**

margin call a request for funds to cover an unfavourable movement in price in the futures and options markets. Margin calls are made by the clearing house on its members, who in turn call clients. If a client fails to meet a margin call, the clearing member can close out that client's position in the marketplace, and the client has to carry any loss incurred. A margin call has two stages: the clearing house issues a statement to the clearing member early in the morning; the clearing member then contacts the clients concerned. It is the clearing member who is liable to the clearing house for the funds demanded — the clearing house recognises only the obligations of the member, not those of the client. Margin call money must be lodged by a specified time, otherwise the member is in default. Also variation margin. See **initial margin.**

margin spread concession a reduced margin, calculated by the Sydney Futures Exchange Clearing House, for offsetting positions in pairs of related contracts, eg, for a trader short (has sold) three-year bond futures and long (has bought) 10-year bond futures, or one who is long BHP individual share futures and short share-price index futures.

margin trading using a margin account; ie, trading with money borrowed from your broker or bank for that purpose. For example, share margin trading allows an investor with limited cash reserves to buy more shares than would be possible using his or her own resources. The investor `gears up' with the borrowed funds. Also *geared equities investment, leveraged equities facility.* See **protected portfolio loans.**

marginal buyer someone willing to buy at the present price but who would be deterred by any increase.

marginal utility a measure of the increase in total utility (satisfaction, use or need) of consumption of a good which is produced by increasing the quantity consumed by one unit. The marginal utility of any good or commodity — eg, beer or ice-cream — is said to diminish as successive units (portions of it) are consumed, while consumption of other commodities is held constant. The concept is the basis of modern standard microeconomic theory. Critics say the notion of utility cannot be measured. See **utility.**

mark to market to revalue (an asset, liability, financial instrument, etc) to the current market price, as distinct from historical cost. Marking to market is an important risk-management procedure in financial sectors such as derivatives, where small price movements can result in large exposures to loss. Marking a portfolio of derivatives to market shows the value of the portfolio and the market risk attached to it, and enables decisions about what hedging strategy should be adopted. It enables traders to react quickly to adjust their positions. The Group of Thirty report recommended that derivatives dealers mark their portfolios to market at least daily. Some accounting practices also require marking to market to represent balance-sheet items at their current, rather than historic, values. See **Group of Thirty.**

market the key to the free-enterprise system; a generic term for the arrangements by which people buy and sell things, usually with profit as the objective. Some markets have a physical location — fruit markets, the stockmarket, the futures market; others such as the money market and foreign exchange are a network of traders connected by telephones and computers.

market capitalisation the stockmarket's assessment of a company's value, calculated by multiplying the number of shares on issue by the current share price.

market forces supply and demand — those terrible twins which are held to determine the price of a product and the volume in which it will be sold. Letting market forces prevail suggests everything will sort itself out. This is not necessarily true, but there is widespread support these days for the `natural order' rather than government regulation or interference.

market maker a recognised institution or individual willing to trade certain securities at any time; that is, making a secondary market in those securities.

market-if-touched order an order to buy or sell if and when the market price reaches a specified level. Once the specified price level is reached, it becomes a market order and is carried out. For example, a trader might place a market-if-touched order to buy bank-accepted bills at 93.00 when the bills are selling for 93.20; once the price drops to 93.00 the trade will be executed on the buyer's behalf as a market order. Used widely in futures trading. It is often used to initiate an order, perhaps to take advantage of a signal generated by technical analysis. Also called a *board order* (and *market watch* in OTC markets). *Abbrev.* **MIT.**

market on close buying or selling at the market price at the close of the day's trading, ie, during the last few minutes of the trading session. *Abbrev.* **moc.**

market operations see **open-market operations.**

market order an instruction to buy or sell a commodity or share at the current market price, with minimum delay. Also *at market.*

market raid see **raid.**

market risk the possibility that future earnings could be adversely affected by a change in market prices caused by movements in interest rates or exchange rates.

market share the proportion of the total amount of a service or product — banking or air-conditioners — that is provided by one supplier. Sometimes companies focus on capturing a big share of the market rather than making a profit.

market value what you would get for an asset were you to offer it for sale. The value might be quite different from what it cost you, what you have recorded as its book value, its insured value or its replacement cost. See **book value.**

marketable securities see **securities.**

Marshall, Alfred see **economists.**

Martin Committee (Review Group) a committee formed in May 1983 to examine the proposals of the Campbell Committee in the light of the Labor government's economic and social objectives. The chairman of the committee was Vic Martin, then executive chairman of MLC. Other members were: Professor Keith Hancock, then vice-chancellor of Flinders University; Richard M. Beetham, first assistant secretary, Treasury; Des Cleary, deputy chief manager, Reserve Bank of Australia. See **Campbell Committee.**

Marx, Karl Heinrich see **economists**

MAS *abbrev.* **Monetary Authority of Singapore.**

master agreement see **netting by master agreement.**

master trust a superannuation vehicle which enables a number of companies or individuals to combine their superannuation business under a common trust deed. Master trusts, offered by insurance companies, banks and other institutions, liberate small superannuation funds from the administrative burdens of complex compliance requirements.

matched book traders talk of their book being matched when their borrowings and loans are equal in so far as borrowing costs are offset by the interest earned on loans, and the book is also evenly balanced as to liquidity and maturities. A trader running a book that was matched in all respects would be said to have a *defensive strategy.*

match-out in futures trading, offsetting open positions. A trader holding both bought and sold contracts in the same futures contract month will close out the positions through a clearing house match-out.

MATIF Marché à Terme International de France, the Paris futures exchange trading futures and options contracts over commodities and financial instruments.

Matilda bonds global bonds, first sold in 1991, denominated in $A and issued by supranationals such as the European Investment Bank and the Swedish Export Credit Corporation.

matrix an arrangement of numbers or figures which helps in assessing their significance. An understanding of matrix algebra is useful in understanding some aspects of sophisticated economic modelling. The economist François Quesnay used a diagrammatic representation of a matrix in his *Tableau Economique,* long before the term was adopted. See **Quesnay, François,** in **economists.**

mature market a consumer market which has reached virtual saturation, with few new customers. In a mature market, producers have to concentrate on refining and `customising' their products or `creating' demand by developing new products to take advantage of social trends. See **virgin market.**

maturity the term at the end of which a debt or borrowing is to be repaid. A 90-day bank bill of exchange is due for payment 90 days after its issue day. A borrower repays a lender when the loan matures — that is, on the predetermined repayment date. Bondholders are paid out when the bonds mature; entitlements due under insurance policies are paid out when the policies mature.

maturity mismatch risk the risk in a cross hedge that because the long and short positions have different maturities the exposures will not be perfectly offset.

May Day 1 May 1975, the day that fixed brokerage commissions ended in the US and brokerage became negotiable. A similar change occurred in Australia in 1984 and in the UK in 1986, where it was termed the Big Bang. See **Big Bang.**

MBI *abbrev.* **management buy-in.**

MBO *abbrev.* **management buy-out.**

MBS *abbrev.* **mortgage-backed securities.**

mean in the arithmetic sense, an alternative for `average'. The arithmetic mean is arrived at by dividing a total by the number of its components; if ten pairs of shoes cost $800, then the mean cost is $80. The geometric mean is the nth root of the product of a series of numbers; this is used to calculate rates of growth of, say, bank deposits. See **median, mode.**

media newspapers, magazines, television and radio and any other channel of information. A knowledge of the media is useful to business executives who are often torn between trying to get things into the press and trying to keep them out. Many companies delegate their relations with the media to public relations consultants, many of whom have had experience as journalists, which should give them a start in understanding journalists' quirky minds. Good media relations means telling them everything they want to know; effective media relations means telling them what *you* want them to know. In the advertising industry, the term media is applied loosely to the entire field of communications. Also **mass media.**

median an alternative measure of the typical value of a group of numbers. Median differs from mean; it is the middle value in a listing of numbers in order of magnitude. If five individuals earn respectively $200, $250, $300, $1000 and $2000 a week, the mean would be $750 but the median wage would be $300 because half earn more and half earn less than this amount. In the range of numbers 3, 4, 6, 7, 9, the median is 6. The median can have advantages in that it is not affected by large deviations at the extremes, as is the mean. See **mean, mode.**

medium-term notes intermediate-term debt securities, issued for three to thirty years and continuously offered. They are not underwritten. *Abbrev.* **MTN.**

meeting a gathering of two or more people at which something is discussed. In the corporate lexicon the word has assumed a new value as a catch-all euphemism for any absence of activity which is better not described in plain words. In its various contexts, meeting can be used thus: `he or she is in a meeting' = a secretary's way of saying the boss does not want to talk to you; `we'd better have a meeting on this' = the boss doesn't understand the problem and needs time to ask his or her assistant; `I have to be in Melbourne for a meeting' = it's Melbourne Cup week; `I think we should have another meeting with our corporate finance people' = we've got you over a barrel and we're going to screw you.

meltdown a term coined to describe the disaster that ensues when the core of a nuclear reactor overheats and self-destructs. The word has been borrowed by the financial markets to describe a cataclysmic and uncontrollable drop in the prices of shares, bonds and related instruments.

members' scheme see **scheme of arrangement.**

memo a memorandum — a written or electronic message. Ideally, a way of getting information on to the record or of circulating information widely and quickly. In practice, a device for creating files, and therefore an impression of efficient activity. Memos can be cleverly worded to confuse the recipient where the purpose is to slow down unwelcome work; they can be employed to divert the embarrassment of ignorance (`It's a complex situation — I'd better give you a memo on it'); they can be invented retrospectively to disguise dereliction (`But I sent you a memo on that yesterday — boy, that mail room's a mess'). A large proportion of memos are unnecessary. Many good managers never write them — they simply scribble `yes' or `no' on other people's.

memorandum of association a company document which sets out the basis on which a company is established, giving such details as its name, capital and the extent of the liabilities of its members. The memorandum of association covers the company's external dealings, as distinct from the articles of association, which spell out the company's internal rules. See **articles of association.**

MER *abbrev.* **management expense ratio.**

mercantilism an economic theory common in Europe from the sixteenth to mid-eighteenth centuries which stressed the importance of a country's balance of trade and so its accumulation of wealth in the form of bullion or specie (coin). Mercantilism promoted government intervention to maximise national wealth; it favoured the regulation and protection of trade so that exports increased and imports were held to a minimum. Adam Smith, in his *Wealth of Nations,* strongly criticised mercantilists. He and other critics opposed the idea that one nation should or could grow rich at the expense of others; they emphasised the two-way aspects of trade. See **laissez faire, Smith, Adam,** in **economists.**

merchant bank merchant banks originated in the sixteenth century in Europe, when they financed trade. The banking and finance side of their business developed as an adjunct to their trading activities. Merchant banks appeared in Australia in the 1950s and became an important sector of the capital markets, filling the gap left by trading banks which were conservative by habit and subject to heavy government regulation. The Australian merchant banks equate approximately to the US investment banks, having moved towards an investment banking style and away from direct lending. Their activities are generally spread among trading in money, securities and futures markets, organising longer-term finance for corporate clients and assisting clients with foreign-exchange management. Merchant banks also advise on mergers and takeovers; some undertake project financing and investment management, or underwrite short and medium-term corporate debt. By the 1990s most Australian merchant banks had adopted the term *investment bank.* See **investment bank.**

merger and acquisition the combining of two companies to form one entity, suggesting a balance of strength and willingness between the two to join forces. This is not necessarily the case. Companies talk of mergers and acquisitions when they really mean takeovers, sometimes hostile, but the former term is more sensitive to the feelings of the target company. *Abbrev.* **M&A.** See **takeover.**

mezzanine debt a borrowing that falls between straight debt and equity, such as subordinated debt or equity-linked bond issues. Mezzanine debt generally has a higher risk and potential return than senior debt but a lower risk and potential return than equity. It is often provided by specialist investors in mezzanine finance such as venture capital funds or leveraged buy-out funds.

MFN *abbrev.* **most-favoured nation.**

microeconomics the study of markets and individual units in the economy (from the Greek *mikros,* meaning `small'). Microeconomists study consumers, firms and households to see their effect on prices, productivity and other factors. See **macroeconomics.**

MICs *abbrev.* **management and investment companies.**

MidAmerica Commodity Exchange Chicago's `third' commodity exchange. Founded in 1868, it is the fourth-largest in the US, providing futures contracts, mostly in agricultural products such as pigs, oats and soya beans, and also in precious metals and some financial products.

middle office as its name suggests, an area in a bank or investment bank which `sits' between the front office and back office, providing analysis and management of risk, portfolio valuation and checking earnings and risk positions independently of the dealers and sales staff. **See back office.**

midrate the middle rate between buy/sell quotes in foreign exchange. If the $US/yen quote were 80.20/80.30, the midrate would be 80.25.

Mill, John Stuart see **economists.**

mini-budget see **budget.**

mini-max floatera floating-rate note with an embedded collar, providing a return in a specified band between a cap and a floor. Used in the euromarkets.

minimum lending rate the minimum rate at which the Bank of England would lend funds to the discount houses. The minimum lending rate succeeded the bank rate from 1971 to 1981 when it was suspended, although the Bank of England reserved the right to reintroduce it if deemed necessary and did so for one day in 1985. The base rate, which succeeded the minimum lending rate, is a less formal arrangement. *Abbrev.* **MLR.** See **base rate, discount house.**

Ministry of International Trade and Industry a powerful department of the Japanese government which oversees industry in the same way that the Ministry of Finance supervises the financial sector. *Abbrev.* **MITI.**

Ministry of Finance Japan's equivalent of a department of treasury. This department has many functions including the control of the budget, tax matters, monetary policy (in cooperation with the Bank of Japan), and control over financial institutions (banks, insurance institutions and securities companies). *Abbrev.* **MoF.**

minority shareholders shareholders who do not own the controlling interest in the equity (shares) of a company. In the case of a takeover, those shareholders who have not accepted the offer after the offeror company has received 90 per cent acceptance may be called outstanding minority shareholders.

minority interestthe proportion of a company's profit or loss attributable to outside shareholders in subsidiary companies which are not wholly owned.

mint a factory which produces coinage. The Royal Australian Mint, located in Canberra, is a division of Treasury which sells the coins to the Reserve Bank which in turn issues them to banks. Money in the form of notes is printed by the Reserve Bank's Note Printing Australia division.

minutes written details of a meeting, usually certified by the chairman as being an accurate record of the proceedings. Many hours of discussion can often be reduced to a few minutes.

mismatch a discrepancy in the maturities of assets and liabilities. This may be brought about deliberately, for example when `gapping' (taking advantage of different rates applying to different maturities). A mismatch in foreign exchange could involve no net exposure against the domestic currency but an exposure between third (foreign) currencies. See **gapping.**

mismatch risk the market risk created if a hedge does not exactly cover an exposure.

missing the market what broken try to avoid. A broker who missed the market for a client would have lost the opportunity for a favourable trade. If the broker carries out the trade at a later time and on less favourable terms, he or she could be obliged to make up the difference to the client.

MIT *abbrev.* **market-if-touched order.**

MITI *abbrev.* **Ministry of International Trade and Industry** (Japan).

mixed economy one containing features of both capitalism and socialism. Australia is a mixed economy, with major state-owned enterprises in communications, transport, banking, energy generation and health services, as well as privately owned enterprises in the same areas. In common with capitalist economies such as the UK and New Zealand, Australian governments are reducing these activities by privatising state-operated businesses. Other examples are seen in eastern Europe and the former Soviet Union, where newly independent states have embraced the principles of private enterprise. China, too, provides a striking illustration of the transition to a mixed economy. See **privatisation, corporatisation.**

MLR *abbrev.* **minimum lending rate.**

MMC *abbrev.* **money market certificate.**

moc *abbrev.* **market on close.**

mode a measure of the typical value in a series of numbers. The mode is the value which occurs most frequently in a group. If four items are red, one blue and one white, then the mode is red. See **mean, median.**

modified duration a measure of the proportional change in the value of an instrument that results from a change in interest rates, ie, it shows a security's sensitivity to interest rates.

MoF 1. *abbrev.* **Ministry of Finance** (Japan). 2. *abbrev.* **multi-option facility.**

Monep Marché des Options Négociables de la Bourse de Paris, the Paris equity options market, under the umbrella of the Paris Bourse.

monetarism the belief that the quantity of money is the main influence on economic activity and price levels. Adherents follow the economic school which asserts that inflation is caused by too-rapid growth in the money supply; therefore, keeping money supply growth within a desired band should be the aim of anti-inflationary policy. Extreme monetarists believe that monetary expansion has no effect on real economic activity (employment, spending, production etc.). More realistic versions of monetarism acknowledge that the links between money and inflation are imprecise and long-term and that in the short run, monetary expansion can stimulate the economy. Monetarists tend to denigrate the efficacy of income policies (wage restraint) in curbing inflation, advocating instead a steady reduction in the growth of money. They also tend to oppose frequent changes in policy in attempts to `fine-tune' the economy, believing that if only governments would stick to steady, non-inflationary policies and stop fiddling with them, the economy would tend towards full employment of its own accord. Monetarism has its origins in the quantity theory of money, and was revived by Milton Friedman and others in the 1960s. It was favoured by policymakers in the 1970s when targets for monetary growth were adopted in many countries, including Australia. Margaret Thatcher, prime minister of Great Britain from 1979 to 1990, was a leading exponent of monetarism, as was Ronald Reagan when president of the US from 1981 to 1989. However, monetarism's star waned as it became clear that the theory was not a panacea for all economic ills and governments which had slavishly adopted it switched to less rigid versions of monetarism. See **fine-tuning, monetary policy, money supply, quantity theory of money, rational expectations.**

monetary aggregates the various measures of the money supply used to determine the growth of credit. See **broad money, credit, money supply.**

Monetary Authority of Singapore the organisation in Singapore carrying out the functions of a central bank. *Abbrev.* **MAS.**

monetary policy the branch of economic policy usually handled by a country's central bank and concerned with the management of the money supply, interest rates and financial conditions generally as part of the bank/government's broad objectives of achieving high employment, sound economic growth and low inflation (with the priority of these objectives varying from country to country). In a deregulated financial system such as prevails in many countries, the tools of monetary policy include open market operations by the central bank in securities markets and intervention in the foreign-exchange market. The pendulum tends to swing between an active and passive role for monetary policy. In the 1950s and 1960s governments tended to focus on fiscal policy — on prices and income levels. Surging inflation in the 1970s brought monetary policy into greater prominence as control of monetary growth was generally seen as necessary, if not sufficient, to control inflation. That did not turn out to be a cure-all either and governments have come to use a mix of monetary, fiscal and wages policies to keep inflation under control and maintain growth. See **fiscal policy, monetarism, money supply.**

monetise to convert into money.

money in one sense, the lubricant of all economies. An enigmatic textbook description says that `money is what money does'. Money is often equated with notes and coins, but it is more complicated than that. More explicitly, money is held to have three functions:

- as a means of exchange, more convenient than barter;
- as a unit of account, enabling the value of items to be measured in, say, dollars and cents, so that you know the cost of your lunch or your new shoes;
- as a store of value, enabling you to store your wealth in a form which will not melt in the sun or rot in the rain.

Money as we know it, in the form of notes and coins, is an advance on a bag of salt (the Roman soldiers' payment, hence the word `salary', from the Latin *sal,* salt) or a bar of gold. Money has always existed in some form. Primitive tribes recognised the need for a medium of exchange; cattle were popular, being self-transporting, but had the disadvantages of being bulky and of varying quality. The Lydians used money in the form of precious metal in the seventh century BC; the Chinese were using paper money in 800 AD. Now `plastic money' in the form of credit and debit cards is commonplace and has opened the door to electronic transactions which could eventually eliminate the need for physical money. See **currency.**

money base see **cash base, money supply.**

money broker a firm which borrows parcels of money as agent and lends them to another, charging a fee for acting between the provider and consumer of the funds.

money market the `shorter end' (ie, the short-term area of the capital market, where banks, finance companies, merchant banks, large corporations, building societies and credit unions, life offices and superannuation funds trade short-term securities (often called money market securities) and borrow and lend cash for short periods (generally less than twelve months). Much money-market borrowing and lending of funds is overnight, although long-term transactions are also arranged. See **capital markets, investment bank, merchant bank, short, short-term money market.**

money market certificate a savings instrument in the US, offering an interest rate tied to the US Treasury Bill rate. *Abbrev.* **MMC.**

money market mutual funds the US equivalent and forerunner of Australia's cash management trusts.

money supply a measure of liquidity in the economy (as shown by the quantity of cash in the hands of the public, plus deposits with banks). The term became popular in the 1960s and 1970s with the rise of monetarism (although the concept existed centuries before the monetarists gave it a new prominence). In Australia, the money supply measures range from the narrowest category, money base, to the widest measure, called broad money. In between are M1, M2 and M3. The money (or cash) base consists of currency in circulation and the deposits of the banks with the Reserve Bank; broad money covers M3 plus borrowings by non-banks, including cash management trusts. The Reserve Bank focuses on a broader measure of monetary movements — credit (being credit provided by financial institutions to the private sector).

- M1 = currency plus total current deposits with banks, excluding commonwealth and state government deposits and interbank deposits;
- M2 is no longer used in Australia (and M1 rarely referred to);
- M3 = M1 plus other deposits (certificates of deposit and term deposits) with banks. M3 is therefore currency plus total bank deposits of the private non-bank sector, excluding government and interbank deposits.

See **credit.**

money-centre bank a large US bank, usually found in a key city location, that trades and issues securities. The big international banking names that are to be found in the world's financial centres (London, New York, Paris, Tokyo) are money-centre banks. They lend, borrow and trade financial instruments on a grand scale, playing an important role in international finance and economics.

moneylender a once pejorative term for someone lending at rates of interest well above those charged by `traditional' lending institutions such as banks, building societies, credit unions and finance companies. The term has come to mean any person or organisation whose business is lending money and who is therefore covered by the credit legislation as a `provider of credit'. See **loan shark, usury.**

monopoly the control of the production and sale of a product, and therefore its price, by one individual or corporation. Trade practices and anti-trust laws can hold a company to be a monopolist even though it has less than 100 per cent of market share. `Natural' monopolies often occur in the provision of government services such as postal, telephone or electricity systems.

monopsony the other side of monopoly. There is only one buyer, who therefore dictates the price.

Monte Carlo simulation a method of random sampling to achieve numerical solutions to mathematical problems.

Moody's Investors Service a leading US corporate credit rating agency. Founded in 1903 by John Moody, it merged in 1961 with Dun and Bradstreet. See **Dun and Bradstreet, Standard & Poor's.**

moonlighting holding down more than one job (the second is done by moonlight). Usually applied disapprovingly, where the second job has to be performed furtively.

moral hazard the risk that a counterparty in a transaction has an incentive to take exceptional risks in an attempt to avoid losses, or has an incentive to be less than 100 per cent cautious because of the existence of a `safety net'. Palgrave's *Dictionary of Money and Finance* offers the following: `the adverse effects, from an insurance company's point of view, that insurance could have on an insured party's behaviour'.

moral suasion benevolent compulsion, or making others conform without enforcing rules directly. The Reserve Bank of Australia has shown a preference for influencing banks through moral suasion even where direct controls might have been used. Often termed simply `suasion' (in Japan it is known as `window guidance'), it has been used to persuade banks and other financial institutions to keep to official guidelines. The `moral' aspect stems from pressing on the targets of the suasion their `moral responsibility' to operate in a way that is consistent with furthering the national good. In the US it is known as `jawboning' — exercising the persuasive power of talk rather than legislation.

mortgage a form of security, most common in property purchases. In the case of a mortgage under Australia's Old System of land titles, the borrower in effect transfers (`conveys') title to the lender subject to the borrower's right to redeem, ie, to have title transferred back to the borrower once the debt is paid. The Real Property Act defines a mortgage as `any charge on land created merely for securing the payment of a debt'. See **charge, Old System title, security, Torrens title.**

mortgage banking the business of originating secured mortgage loans, either as principal or agent, managing and servicing the loans and, where appropriate, selling the loans to other investors.

mortgage pool a portfolio of mortgages. See **mortgage-backed certificate, pass-through security, securitisation.**

mortgage trust a unit trust that pools investors' funds and invests them in residential, commercial and industrial property mortgages, usually for terms of three to five years and offering a variable rate of return. See **unit trust.**

mortgage-backed security a variety of asset-backed security, representing an interest in a pool of mortgages. A major issuer in Australia has been FANMAC; large issuers include Citibank and PUMA, a wholly-owned subsidiary of Macquarie Bank Ltd. The instrument was pioneered in the US by the Federal National Mortgage Association (Fannie Mae) and the Government National Mortgage Association (Ginnie Mae). *Abbrev.* **MBS.** See **asset-backed security.**

mortgagee the lender of funds under a mortgage; for example, a bank or building society.

mortgagor the borrower of funds under a mortgage.

most-favoured nation status a country given favourable tariff treatment by another, usually reciprocally *Abbrev.* **MFN.**

moving average the average of a sequence of numbers over a specific period. The average `moves' as new numbers are added to the end of the sequence and others are dropped from the beginning. Used by financial analysts in charting price trends.

MTN *abbrev.* **medium-term note.**

multi-option facility a facility with a wider range of funding options than the standard underwritten euronote, sometimes involving the underwriters' carrying a contingent liability for short-term instruments such as bankers' acceptances or for cash advances as well as the euronote issue. *Abbrev.* **MOF.**

multi-currency loan finance provided with the option of using different currencies. Some loans are written with a multi-currency option so that the borrower could start with, say, all funds in $US, but at a designated stage review the borrowing and switch a pro- portion to yen or deutschmarks if that looks desirable; other loans may allow the borrower to use several currencies at once.

multilateral netting offsetting of receivables and payables among three or more parties to a transaction, with each making payments to an agent or clearing house for net obligations due to others or receiving net payments due from others. The process reduces credit and settlement risk. See **netting.**

multinationals companies operating in more than one country, often in several, producing a significant proportion of their output `offshore'. The Singer Sewing Machine Company may have been the first example. Multinationals are seen to make their corporate decisions in the light of their global operations, rather than according to what is best for the individual countries in which they operate, and this has led to a poor image for some. Multinationals have been criticised for avoiding tax and exploiting other countries. In recent years they have responded by showing a greater willingness to work alongside local companies and integrate themselves more harmoniously into local economies.

multiplier a term used by Keynes to describe the effect on the cumulative national income of a change in one component of aggregate demand. Some economists have argued that the multiplier was the single most important tool to come out of the Keynesian revolution but as a measuring device it has come under extensive criticism. The concept is best illustrated by textbook exercises but can be explained basically as the relationship between an initial change in one of the components of aggregate demand (eg, investment) and the total change in national income which results from it. Suppose that during a period of some unemployment a firm decides to build a new factory at a cost of $1 million. The incomes of the contractors who carry out the building work and provide services will rise, as will the wages of workers who were previously unemployed. The size of, or change in, the multiplier will depend on the proportion of extra income saved by these income-earners. Thus if the income generated is all kept under the bed, the impact will be minimal. If only one-fifth of the $1 million is saved or taxed and so not spent, the remaining four-fifths must be spent and so must re-emerge as extra demand for goods and services somewhere else in the economy. This generates an extra $0.8 million of output and thus an extra $0.8 million of income as wages, rents and profits. Production has now risen in total by $1.8 million. Again, of the extra $0.8 million, four-fifths, or $0.64 million, is returned to the spending stream and thus generates an extra $0.64 million of output. Total production is now higher by $2.44 million (1+0.8+0.64). And so on. See **Giblin, Lyndhurst Falkiner** in **economists, trickle down.**

mutual offset the ability to buy or sell in one market and close out the position in the same commodity or contract in another market; eg, to trade the eurodollar contract on the Singapore International Monetary Exchange (Simex) and close it out on the Chicago Mercantile Exchange (CME).

mutual fund US term for a unit trust. See **unit trust.**

N

NAFTA *abbrev.* **North American Free Trade Association.**

Nagoya Stock Exchange established in 1886 to trade stocks and bonds. The exchange is ranked third in volume among the eight stock exchanges operating under the auspices of Japan's Ministry of Finance. *Abbrev.* **NSE.**

naked option an option whose writer has not hedged — eg, a writer of call options over shares who has sold the right to buy the underlying shares but who does not own them, or the writer of a put option over shares who has sold the right to sell the shares (to the writer); if the holder chooses to exercise the option the uncovered writer will be obliged to buy the shares at an exercise price which will be a higher-than-market price (otherwise the holder of the option would not exercise). Naked options are high-risk and can involve large losses for a writer.

naked position see **naked option.**

naked warrant a debt warrant issued alone without a host (underlying) bond or security. **See host bond, warrant.**

narrowing the spread closing the gap between the bid and ask (buy and sell) prices of a commodity or share. For example the bid price of a share, which is the highest a buyer is willing to pay, might be $20 and the asked price, which is the lowest price a seller will accept, might be $21. A broker making an offer to buy at $20.50, assuming the asked price remains $21, would be narrowing the spread between the bid and asked prices from $1.00 to $0.50. The term is also used with reference to spread/straddle trading, eg, the June/September spread narrows from four points to two.

NASD *abbrev.* **National Association of Securities Dealers.**

NASDAQ *abbrev.* **National Association of Securities Dealers Automated Quotations.**

NASDAQ International an international service, launched in 1992, providing a screen-based quotation system to boost market-making in US registered equities during the European trading day.

national accounts periodic summaries of income and expenditure for the economy as a whole and for various sectors of it. Australia's national accounts were first constructed following the Second World War and published with the commonwealth budget in 1945. The accounts, published annually to supersede quarterly estimates, provide useful information for economic analysis and are the source of estimates of gross domestic product (GDP). The national accounts are subject to constant long-term revision and can be interpreted in different ways.

National Association of Securities Dealers a US organisation of investment houses and brokerage firms that deal in securities. The association is supervised by the Securities and Exchange Commission and aims to ensure ethical standards and practices are maintained in securities trading. *Abbrev.* **NASD.**

National Association of Securities Dealers Automated Quotations a computerised system providing brokers with the prices of shares and securities traded on the New York stock exchange and over the counter. The quotes are published daily NASDAQ is owned and operated by the National Association of Securities Dealers. *Abbrev.* **NASDAQ.**

National Companies and Securities Commission the forerunner to the Australian Securities Commission. See **Australian Securities Commission, Corporate Affairs Commission, Corporations Law.**

National Competition Council a body formed in 1995 by the Australian government to examine and make recommendations about the pricing of government business in the states and territories. See **Australian Competition and Consumer Commission.**

national debt a country's government debt to both foreigners and residents. See **external debt.**

National Economic Summit Conference a historic meeting called in April 1983 to promote a climate of consensus between the Australian government, industry and trade unions. Delegates assessed the economy, industrial relations and strategies for recovery. The conference established the Economic Planning Advisory Committee and contributed to government policies on prices and incomes. See **Economic Planning Advisory Commission, Statement of Accord.**

national income a measure of the health of the economy; the money value of the total flow of goods and services produced within the country, including what is spent in the country and income earned by residents abroad. Economists calculate national income in three ways, for the purposes of comparison: the value of the output of all goods and services in the country, net of indirect taxes and subsidies and adjusted to avoid double-counting; all household incomes and the retained profits of companies; and all that is spent on consumer and investment goods, government expenditure and what foreigners spend on exports less domestic spending on imports. In principle, these should come to the same value, but in practice there is usually a divergence because of deficiencies in the statistics. National income is similar to gross domestic product at factor cost. See **gross domestic product, gross national product.**

nationalisation the takeover by the state or government of privately owned and controlled industries and services. The opposite process is privatisation. See **privatisation.**

nationalised industries those owned and operated by the state — usually monopolistic and related to infrastructure, such as power generation and telecommunications. The degree of state ownership varies among countries and tends to be greatest under socialist regimes. In developed economies, the trend towards privatisation of state-owned enterprises has accelerated in recent decades. See **privatisation.**

natural hedge a position which establishes assets or borrowings in a currency that provides an offset to expected cashflows; for example, an Australian-based company with operations in Germany which provide a natural hedge against its deutschmark borrowings.

NBFI *abbrev.* **non-bank financial institution.**

NCSC *abbrev.* **National Companies and Securities Commission.**

near money assets that can quickly be turned into cash, such as call deposits or very short-dated securities. See **short-dated.**

negative carry where the cost of funds borrowed to finance an investment outweighs the yield on the assets. Borrowing at 10 per cent to invest in bonds yielding 8 per cent would produce a negative carry although a trader might expect the negative carry to be outweighed by a capital gain or trading/arbitrage profit. Also *negative spread.* See **positive carry.**

negative gearing an investment strategy in which related costs such as interest payments on funds borrowed to buy an income-producing asset, say, property or shares, exceed the income from the asset. On the face of it, this is a loss-making situation. However, the interest expenses can be deducted from the investor's taxable income, and if the asset shows good capital growth, the net benefits can be substantial. See **gearing.**

negative mark-to-market a paper loss. Bonds bought at a yield of 9 per cent when the market is 11 per cent are showing a negative mark-to-market of 2 per cent (but still earning 9 per cent).

negative pledge an agreement with a lender that the borrower will not create security in favour of a subsequent creditor without the approval of the lender, or without extending the benefit of the security also to the first creditor.

negative spread see **negative carry.**

negative straddle see **straddle.**

negative yield curve see **inverse yield curve.**

negotiable instrument a piece of paper representing ownership of debts and obligations. The ownership is passed on with the delivery, or endorsement and delivery, of the piece of paper. Negotiable instruments traded in the money market include bills of exchange, promissory notes and certificates of deposit, which are written orders promising to pay a specified sum of money at a predetermined time to the order of a specified person or bearer.

neo-classical economics a system of economic theory built on some of the foundations provided by the classical economists. Neo-classical economists have provided a very elaborate and esoteric defence of Adam Smith's idea of the `invisible hand'. This rests on a series of heroic assumptions which critics such as Galbraith have argued are too far removed from the realities of modern economics. From the 1870s emphasis has been placed on the notion that in a competitive market economy, made up of innumerable producers and consumers, the free operation of the market would produce the best outcome given the initial distribution of resources. Producers would combine the various inputs to maximise efficiency and consumers would receive the best possible basket of consumer goods. Government intervention should thus be kept to a minimum. Critics of this school of economics maintain that assumptions such as perfect knowledge and rationality on behalf of all the economic actors (and the alleged absence of a logical theory of distribution) raise serious doubts about the policy prescriptions which are drawn from this body of theory. Modern neo-classicists are reluctant to define the term — others try. The late Joan Robinson of Cambridge University is reported to have said that the only real-world situation to which this kind of economics could be applied honestly was a concentration camp. See **classical economics, economists.**

net clear of charges and deductions. A wage-earner's net income is the `take-home pay' left after deductions for income tax and other levies. In weights and measures, not including packaging. See **gross.**

net book value see **book value.**

net investment total investment less the cost of replacing existing assets that have worn out. A company with assets worth $100 makes a new investment of $10 but loses $5 through depreciation of existing equipment. The net investment is therefore $5 (gross investment is $10) and assets have increased to $105.

net profit gross profit less all expenses such as cost of goods sold, selling expenses, tax and interest on borrowings. See **bottom line, gross, profit.**

net realisable value the market value of an inventory of goods or other assets less the costs of sale.

net tangible asset backing net worth. See **asset backing.**

net yield the after-tax return on an investment.

netting offsetting payables against receivables so that settlement is effected by a cheque for the net amount. This reduces counterparty credit exposure.

netting by master agreement an umbrella contract under which all transactions executed between parties to the agreement are automatically netted, ie, amounts due and owing are offset. For example, Party A and Party B are two of the several signatories to a master agreement covering, among other transactions, swaps. Under a swap, Party A owes Party B $200 but Party B owes Party A $300 so a net cheque for the difference of $100 is paid, rather than the parties exchanging cheques for the full amount. See **Aussie ISDA, master agreement.**

netting by novation replacing all agreements between two parties with a single agreement and single net payment stream.

never-never see **hire purchase.**

New Deal the policies developed by US president Franklin D. Roosevelt in 1933 to cope with the Great Depression. These were similar to Keynes's remedies but were independently formulated (some would say without the benefit of an underlying theory). The deficit was increased, the national debt almost doubled, trade unions were encouraged and farm prices raised. It is still debated whether the New Deal was solely responsible for the recovery; some claim recovery was already under way when the New Deal was introduced, others say that real recovery did not happen until after the Second World War. The New Deal did reduce unemployment but it had its drawbacks and many of its provisions were declared unconstitutional by the US Supreme Court in 1935-36.

new issue an issue of securities to raise money. New share issues are offered to existing shareholders and to outside investors — these differ from rights and entitlement issues, which are offered only to existing shareholders. New issues are often underwritten (for a fee) by merchant banks or stockbrokers and generally sold to the public through a prospectus. Recently issued shares are quoted as `new' when they do not yet rank equally with existing shares in respect of dividend payments. See **entitlement issue, initial public offering, prospectus.**

new money the amount by which a replacement issue of securities exceeds the original issue (more money is raised for the borrower). Some people talk disparagingly of those who have what is called `new money' (the *nouveaux riches*) — those who have got rich quick but lack the social respectability often considered to go hand in glove with old, inherited wealth. Conveniently, it is often forgotten how that was come by.

New York Futures Exchange the `youngest' of the US commodity exchanges, first trading in 1980. The exchange, a subsidiary of the New York Stock Exchange, is best known for its activity in the New York stock (share price) index futures contract. *Abbrev.* **NYFE.**

New York Mercantile Exchange the world's largest energy futures market. In 1994 the exchange took control of the Commodity Exchange of New York (Comex), the leading precious metals futures exchange. In 1994 Nymex forged a link with the Sydney Futures Exchange enabling SFE members to trade Nymex's energy contracts. *Abbrev.* **Nymex.**

New York Stock Exchange the oldest and largest stock exchange in the US. The New York Stock Exchange was established in 1792, and stands in Wall Street. It is also known as the Big Board. Shares traded on the New York Stock Exchange make up about two-thirds of all trading on US exchanges. *Abbrev.*: **NYSE.**

New Zealand Futures and Options Exchange established in January 1985 with its head office in Auckland. From the outset the New Zealand exchange did not operate by open outcry on a trading floor but traded electronically, with brokers communicating by computer. In late 1991 the business of the exchange was taken over by the Sydney Futures Exchange. *Abbrev.* **NZFOE.**

newly industrialised economies those at a point in economic development where they are no longer poor but, by western standards, not yet prosperous. An element of judgment is required when making such assessments but usually the term covers, say, South Korea, Hong Kong and Taiwan. A more general term is *developing economies. Abbrev.* **NIEs.**

niche in banking and merchant banking, a specialist position in which the institution serves an exclusive client base, as distinct from `high-street' or financial supermarket operations. See **boutique, financial supermarket.**

Niemeyer statement the monthly statement of commonwealth financial transactions showing movements in government accounts. It took this informal name from the person who devised it, Sir Otto Niemeyer (1883-1971). Sir Otto was an adviser to the Bank of England who visited Australia in July 1930 at the invitation of the prime minister, James Scullin, to confer with the commonwealth government on the financial problems of the economic depression. When Sir Otto recommended a single solution — wage cuts — Jack Lang, then premier of New South Wales, nicknamed him `Sir Rotter'.

NIF *abbrev.* **note issuance facility.**

Nikkei 225 index Japan's equivalent of the Australian All-Ordinaries index, the US Dow Jones index and the UK Financial Times index. It includes the top 225 companies listed on the Tokyo Stock Exchange.

NL *abbrev.* **no liability.**

no liability a category of company in which the shareholders with partly paid shares are not bound to pay calls for the unpaid capital, although non-payment of these calls means they forfeit the shares. The investor can lose the initial investment on forfeiture of the shares but has no further liability. A total loss is not inevitable; if the proceeds of the sale of forfeited shares exceeds the cost of the shares, the excess is returned to the shareholder. *Abbrev.* **NL.** See **company.**

Nobel Prize awards made each year for outstanding achievements in chemistry, physics, medicine, literature, the promotion of peace — and economics. The first Nobel Prize for economics was awarded in 1969, the Swedish National Bank having agreed to finance the prize (the sixth category). There has been support for the idea that the Nobel Prize for economics should be awarded less frequently (some would argue not at all). It is a more controversial award than, say, physics: it is a more complex task to reach agreement on who is the `best' economists (economists would never agree on that point). The awards are supposed to be for a single contribution. It is hard to judge in economics whether a popular theory is a `contribution' or just a fashion. The Nobel Prizes are a legacy of a Swedish chemist, Alfred Bernhard Nobel (1833-96) who invented dynamite (1867) among other explosives; this plus the exploitation of the Baku oilfields left him a wealthy man and the bulk of his wealth was left in trust for the Nobel Prizes. The following are Nobel Prize winners in economics since the first award in 1969:

1969	Ragnar Frisch (Norway), Jan Tinbergen (Netherlands)
1970	Paul Samuelson (US)
1971	Simon Kuznets (US)
1972	Kenneth Arrow (US), Sir John Hicks (UK)

1973	Wassily Leontief (US)
1974	Gunnar Myrdal (Sweden), Friedrich von Hayek (Austria)
1975	Leonid Kantorovich (USSR), Tjalling C. Koopmans (Dutch/US)
1976	Milton Friedman (US)
1977	James E. Meade (UK), Bertil Ohlin (Sweden)
1978	Herbert Simon (US)
1979	Sir Arthur Lewis (US) and Theodore Schultz (US)
1980	Lawrence Klein (US)
1981	James Tobin (US)
1982	George Stigler (US)
1983	Gerard Debreu (born France, naturalised US citizen 1975)
1984	Richard Stone (UK)
1985	Franco Modigliani (US)
1986	James Buchanan (US)
1987	Robert Solow (US)
1988	Maurice Allais (France)
1989	Trygve Haavelmo (Norway)
1990	Harry Markowitz, Merton Miller and William Sharpe (US)
1991	Professor Ronald Coase (UK)
1992	Gary S. Becker (US)
1993	Robert W. Fogel and Douglass C. North (US)
1994	John Harsanyi (Hungary)

nominal value the stated (face) value of an asset as distinct from its market price. See **face value.**

nominee a name put forward as a surrogate, an agent acting on behalf of a principal, often used when the buyer or seller of shares or other securities wants to keep his or her identity confidential, or wants another party to administer a portfolio (for example, bank nominees for overseas shareholders).

nominee company a company whose sole function is to hold shares or securities on behalf of someone else.

non-accrual loans loans on which banks have stopped accruing interest and against which specific provisions have been made, also loans where the security is insufficient to cover the principal involved and the interest that is in arrears. *Abbrev.* **NALs.** See **non-performing loans.**

non-bank bill a bill of exchange which does not carry the name of a bank, either as acceptor, drawer or endorser. See **commercial bills, commercial paper.**

non-bank financial institution any institution which is not a bank as defined by legislation but is involved in finance, such as investment banks, merchant banks, finance companies, building societies, credit unions and life offices. Some, such as merchant banks and finance companies, were often established or acquired by banks. (before the early 1980s) as back-door entry to activities disallowed under tight banking legislation. With deregulation of the financial system, the distinctions between banking and non-bank functions became blurred. However, specific supervision of non-banks became formalised in 1993 with the creation in 1993 of a regulatory body, the Australian Financial Institutions Commission, with responsibility for non-bank financial institutions. Also *non-bank financial intermediary. Abbrev.* **NBFI.** See **Australian Financial Institutions Commission, Campbell Report.**

non-callable deposits funds compulsorily lodged by banks with the Reserve Bank of Australia, equivalent to about one per cent of a bank's domestic liabilities (excluding capital). Non-callable deposits were introduced in 1988 to replace the earlier system of statutory reserve deposits. *Abbrev.* **NCD.** See **prime assets ratio, statutory reserve deposit.**

non-durables a statistical label for consumer or producer goods with a limited life.

non-farm product total industrial output; the part of the gross domestic product that stems from production in industries rather than agriculture and services to agriculture.

non-par swap a swap where one or both of the securities underlying the swap sells at a discount or premium, ie, at a non-market rate, and compensation is usually made for this. Also *off-market swap.* See **discount swap.**

non-performing loans loans where the borrower has failed to repay on time or in full, but which are not considered to be in default; the borrower has merely not `performed' — ie, met the legal terms of a contract — but the bank is still booking interest due. Non-performance loans spell trouble for banks, which will often reschedule the debt with different conditions, rather than allowing it to lie on the books without producing any return. See **default, non-accrual loans, rescheduling.**

non-standard option see **exotic options.**

non-sterilised intervention central bank action in foreign-exchange markets which is not offset by other open-market operations. This would occur, say, when a central bank bought the domestic currency, draining funds out of the system, but did not offset this by buying government securities which would inject funds into the system. Such a tactic would suggest that the central bank wanted a change in monetary conditions. See **sterilised intervention.**

North American Free Trade Association an agreement between the United States, Canada and Mexico in 1993 to form an open market. The association, which was predicted to create one of the world's biggest free-trade regions over the ensuing 15 years, faced the task of getting the three countries' legislation into harmony and continuing resistance from US and Canadian groups fearful that Mexico's abundant, cheap labour would lead to the undermining of employment and production in its northern neighbours. Others saw economic cooperation as leading to the speedier modernisation of Mexico and the building of a long-term defence against other trade blocs such as the European Economic Area and potential Asian alliances. *Abbrev.* **NAFTA.** See **Asia-Pacific Economic Cooperation, Association of South-East Asian Nations, European Economic Area.**

nostro account an Australian bank with an account in New York will call the record in its own books of its New York account a `nostro account'. The same account in the New York bank's books would be a `vostro account' (from the Latin, `ours' and `yours'). See **vostro account.**

not negotiable applied to cheques which cannot be cashed over the counter but must be deposited into a payee's cheque or savings account. A cheque is rendered not negotiable by drawing two parallel lines across its face and writing `not negotiable' between the lines.

note paper money, or a banknote. Also a type of security, issued by borrowers, bought by lenders and frequently traded in the money market. Examples of notes are treasury notes, which are issued by the commonwealth government, and promissory notes, which are issued by semi-government authorities and private-sector borrowers such as companies. See **promissory note, treasury note.**

note issuance facility a founding member of the RUF family, this now describes all underwritten euronote (ie, offshore) facilities. The notes provide a fairly cheap and flexible finance, and a tradeable security. *Abbrev.* **NIF.** See **revolving underwriting facility, short-term note issuance facility.**

Note Printing Australia a division of the Reserve Bank which prints notes for Australia and other countries. The RBA is the sole issuing authority of Australian currency notes and under the Reserve Bank Act has responsibility for the issue, reissue and cancellation of these notes. All Australian notes are printed at the company's note-printing branch at Craigieburn, Victoria, and are distributed through the different branches of the Reserve Bank.

notes to the accounts a series of notes at the end of a company's financial statements, explaining details of certain items in the balance sheet and profit-and-loss statement. The notes make important reading for financial analysts as they flesh out much of the story behind the declared numbers.

notional principal the amount in a swap which forms the basis for calculating payment streams. With interest-rate swaps the principal amount is not exchanged at the outset or at maturity.

novation generally, assigning or replacing one or a series of contracts with new contracts, often with a third party replacing one of the originals. Also a futures-market term to describe the clearing-house process which allows one party's open position obligation to another to be switched to a new entrant as one of the initial (two) parties to the contract withdraws. Novation results in the clearing house being the central counterparty to all transactions on the futures exchange. See **open position.**

NSE *abbrev.* **Nagoya Stock Exchange.**

NSW TCorp see **central borrowing authority.**

number-cruncher a colloquialism referring to the `faith in numbers' people (econometricians) who believe that by analysing data and crunching numbers, adequate policy can be assured. More narrowly, `number-cruncher' is an Australian money-market term for an economist, actuary or research and planning officer. See **bean counter, econometrics.**

numbered account a bank account identified by a number rather than the account-holder's name. Numbered accounts are traditionally associated with Switzerland, although several countries offer the facility. A common misnomer for such accounts is `anonymous accounts', which is misleading because the client's identity is known to the bank's senior executives. Switzerland has a reputation as a safe haven for funds and a tradition of secrecy (the Swiss call it discretion) that dates back seven centuries.

NX a market abbreviation for `new (stock) ex-interest'. Stock is listed NX from the time it is issued until the first interest payment; the first interest payment is made to the original subscriber and therefore is discounted off the price.

NYFE *abbrev.* **New York Futures Exchange.**

Nymex *abbrev.* **New York Mercantile Exchange.**

NYSE *abbrev.* **New York Stock Exchange.**

NZFOE *abbrev.* **New Zealand Futures and Options Exchange.**

O

OATs *abbrev.* **obligations assimilables du Trésor.**

obligations assimilables du Trésor French government bonds, the basis of the French bond futures and options contracts. *Abbrev.* **OATs.**

OBU *abbrev.* **offshore banking unit.** See **offshore.**

odd date see **broken date.**

odd lot a parcel of securities that does not conform to the stockmarket's conventional round numbers (usually multiples of 100).

odd run a description of a forward contract such as a forward-rate agreement (FRA) whose starting date and end date do not match, eg, 12 March to 22 June. Odd runs are harder to price. Opposite is a **straight-date run.**

OECD *abbrev.* **Organisation for Economic Cooperation and Development.**

off change away from the stock exchange or futures exchange trading floor. It can refer to any transactions for which a formal exchange exists but which are carried out elsewhere. In an era of electronic trading, off change increasingly means not dealt through an exchange's system. See **on change, over the counter.**

off the run infrequently traded; descriptive of stock that languishes in an inactive market. See **on the run.**

off-balance-sheet financing methods of raising funds which are not reflected in a company's balance sheet. Examples are sale-and-leaseback and operating leases. For operating leases, where the company `rents' rather than buys assets, leased assets and leasing liabilities are not shown in the balance sheet, so the company's reported gearing (indebtedness) remains unaffected. See **leasing, off-balance-sheet instrument, sale and leaseback.**

off-balance-sheet instrument an instrument or contract, such as a swap or option, that changes a company's risk profile but which appears in the notes to the accounts and not as an asset or a liability. See **off-balance-sheet financing.**

offer the price at which a trader is willing to sell or lend. Also *come at, I give/sell/offer at.*

offeree the company which is the object of a takeover bid; the bid is made by the offeror to the shareholders of this company. See **takeover.**

offeror the acquirer, the party making the bid in a takeover. See **takeover.**

official dealers see **authorised dealer.**

off-market swap see **non-par swap.**

offshore a term used in describing trades in other than domestic currency. Offshore transactions are usually with non-residents, although some variations can involve residents, with or without restrictions on flows of funds.

offshore banking unit a financial institution carrying out offshore trades. Offshore banking has been regarded as an alternative to opening up a local market to foreign banks. In effect, offshore banking enables an institution to engage in banking and foreign-exchange activities free of the regulations of the host country, and many offshore banking centres offer tax concessions to foreign companies operating within their borders as a way of attracting lucrative foreign-exchange business. The first offshore banking unit was the euromarket; others include Singapore, Hong Kong, Luxembourg, Bahrain, the Cayman Islands, the Channel Islands and the Netherlands Antilles. Australia's taxation regime has been historically unfavourable to the operation of offshore banking business. In the early 1990s, the commonwealth and state governments (particularly New South Wales) relaxed some tax provisions in an attempt to make Australia more competitive as an international financial centre. *Abbrev.* **OBU.** See **regional headquarters.**

oil-pricederivatives risk-management products whose underlying instrument is an oil index.

Old Lady of Threadneedle Street an affectionate term for the Bank of England, the UK's central bank, which is located in Threadneedle Street, London.

Old System title a system of land title where a purchaser receives a title that is only as good as that which the vendor has to sell. Old System transactions require examination of a series of deeds and documents relating to all dealings in the land back to what is recognised in law as `good root of title' (for example, a conveyance for value more than 30 years ago). In Australia, Old System land theoretically dates back to an original Crown grant. Old System titles require considerable time-consuming research to establish satisfactory title and necessitate the storage of large volumes of documents. Torrens title has simplified the procedures needed to prove title to land. Old System and Torrens systems are both in operation in Australia, although the proportion of land under Old System titles is rapidly declining. See **Mabo, Torrens title.**

oligopoly a situation in which an industry is dominated by a few companies. Oligopoly has similar effects to monopoly, in that control is not widespread. It is characterised by the interdependence of the small number of firms in the industry. The concentration of power and influence in the hands of a few can lead to cartels and collusion, particularly price collusion, which ultimately means no price competition. See **monopoly, monopsony, oligopsony.**

oligopsony a market characterised by a small number of buyers who are able to influence prices. See **monopoly, monopsony, oligopoly.**

on a covered basis protected by a form of insurance or offsetting transaction. The phrase would typically be used in the context of borrowing or lending overseas, where the borrower or lender uses a currency hedge contract or the forward market in foreign exchange to minimise the risk of loss due to exchange-rate movements. The borrower or lender would be described as `covered'.

on change literally, on the trading floor of the stock exchange, although an increasing number of exchanges operate electronically so that `on change' now means having been transacted through the exchange's system. See **off change.**

on market on the stock exchange floor, as in `on-market offer'. See **takeover.**

on the run stock that is being actively traded is `on the run'. See **off the run.**

one-name paper see **promissory note.**

one-sided market circumstances in which most market participants hold the same view (or have underlying business largely in the same direction on a day, for example exporters), so that there is a heavy leaning towards all sellers or all buyers and few are willing to take an opposite position.

onlend to lend funds that have been borrowed from one party to a third party, often within a short space of time.

onsell to sell securities or other assets which have just been bought; as with `onlend', it implies rapid turnover of the assets.

ontrade similar to `onsell'; a dealer in the money market trades in securities and assets which have recently been bought, often only minutes earlier.

OPEC *abbrev.* **Organisation of Petroleum Exporting Countries.**

open cheque a cheque which has not been crossed or marked `not negotiable', which can be cashed at the bank on which it is drawn and does not have to be paid into an account.

open economy a loose description of an economy where goods, service and funds flow freely in and out; ie, there are no import quotas or export restrictions or exchange controls in the way of financial transactions.

open interest the number of open contracts in a futures market or in a particular class of options. The Australian convention is to include in the daily figures published by the Sydney Futures Exchange unmatched bought contracts and all unmatched sold contracts; the convention elsewhere is to show one side only of transactions.

open-market operations the activities of central banks in the market. In Australia, this refers to the Reserve Bank's activity in foreign exchange and its purchase and sale of commonwealth government securities through the members of the Reserve Bank Information and Transfer System. By its transactions, the Reserve Bank affects conditions in financial markets, influencing in particular interest rates, day-to-day cash in the system and the rate of monetary growth. Often called *market operations.* See **central- bank intervention, Reserve Bank Information and Transfer system.**

open outcry a trading method where dealers call their bids and offers aloud on the trading floor of an exchange. The shouted bargaining can become almost frenzied during market booms. In the Australian Stock Exchange open outcry has been replaced by more sedate, computerised screen trading, but it persists at the Sydney Futures Exchange. This is in line with other established futures exchanges which continue to rely on trading floors as their primary vehicle for executing trades. However, because of the cost of establishing a trading floor, many new exchanges are screen-based.

open position in foreign-exchange trading, an exposure to exchange-rate movements; assets denominated in a particular currency are not matched (as to amounts or maturity) by liabilities in that currency. Trading banks usually set internal limits on their open positions in foreign exchange; central banks may (and often do) impose open-position limits on trading banks. In Australia, limits are imposed on the trading banks and other foreign-exchange dealers by the Reserve Bank. In futures trading, the term `open position' describes a futures contract that has been bought or sold and not subsequently offset by an opposite position in the same delivery month.

operating lease a lease under which the lessor (the owner) effectively retains most of the risks and benefits that go with ownership of the leased property. See **finance lease.**

operating profit/loss the after-tax profit or loss made by a business from its ordinary revenue-producing activities. Gains and losses derived from activities outside the normal operations of a business are called `extraordinary items' and are added to or deducted from operating profit to arrive at a `net profit/loss after extraordinaries'. See **extraordinary items, profit.**

opportunity cost the value of a benefit forgone in favour of an alternative course of action. The concept is favoured by economists and accountants who hold that every action has an opportunity cost because if you had not pursued course A you would have taken course B, which may or may not have provided a better return.

optimality the best or most desirable situation, one which makes the most of some objective function; for example, the pattern of inputs and outputs which gives maximum profit to the entrepreneur. See **Pareto optimality.**

option a contract which gives the holder, in return for paying a premium to the option seller, the right to buy or sell a financial instrument or commodity during a given period. Option trading is used in the futures and share markets and a significant volume of option trading takes place over-the-counter (OTC), ie, not on an exchange. Financial futures options were introduced on the Sydney Futures Exchange in 1982 and were the first such options in the world. Futures options offer buyers a useful method of limiting risk: if the option is not exercised the option taker (buyer) is limited in outlay to the cost of the premium on the option, plus brokerage. Likewise, options over shares offer the right but not the obligation to buy or sell the underlying share. Options over shares were introduced on the Australian Stock Exchange in 1976 and are actively traded on ASX Derivatives. Options can be either *call options,* which give the option holder, in return for paying a premium, the right to buy from the grantor of the option at the strike price, or *put options* which give the option holder, in return for paying a premium, the right to sell to the grantor of the option at the strike price. See **American option, Asian option, ASX Derivatives, currency option, European option, exchange-traded option, futures markets, interest-rate option, option spread, option straddle, over-the-counter options, strike price.**

option on a floor see **floortion.**

option on a swap see **swaption.**

option spread a strategy used by an options trader hoping to gain from the difference between the prices of two options, ie, simultaneously buying one option and selling another of the same type on the same futures contract, security or index. If the number of options bought is not the same as the number sold then a *ratio option* has been initiated. Option spreads generally fall under the headings of *put, call* and *calendar* spreads See **bear spread, bull spread.**

option straddle a strategy which uses both a put and call option. The trader who buys a straddle (buys a put and a call) will make money no matter which way the market moves — provided that the size of the movement is sufficient to cover the cost of the two premiums paid. Buyers of straddles are therefore hoping for large price movements to occur while sellers of straddles (sellers of a put and a call) are hoping for prices to remain largely unchanged.

option stocks company shares on which options are traded. The Australian Stock Exchange allows option trading on only a limited range of shares.

option writer a seller of an option.

order with discretion an order which gives a futures trader a degree of latitude which would be defined as, for example, a few points above or below a specified price level. Such an order might be: `Buy 10 June BAB 93.00 with two points discretion', ie, the client would be happy to pay a price as high as 93.02. See **at best order.**

ordinary shares fully paid shares which carry voting rights but rank after debentures and preference shares for dividend payments. If the company is wound up, ordinary shareholders rank as unsecured creditors, behind secured creditors such as debenture holders.

Organisation of Petroleum Exporting Countries a formal grouping of major producers and exporters of crude oil, able to set world oil prices and output levels because its members own some two-thirds of known reserves. It also determines the level of aid granted by its members to developing countries. The organisation was established in 1960 in Iraq; other founding members included Saudi Arabia, Iran, Kuwait and Venezuela. Subsequent members included Qatar; Libya, Indonesia, the United Arab Emirates, Algeria, Nigeria, Ecuador and Gabon. The organisation's profile rose markedly after the 1974 oil price rise. At times OPEC is seen by western powers as a pressure group, flexing its muscle over those who need its products. At the same time OPEC is not always one big happy family; rather it has had its own internal ructions as members try from time to time to override production quotas. *Abbrev.* **OPEC.**

Organisation for Economic Cooperation and Development an organisation formed in 1961, as part of the Marshall Plan for post-war European recovery, to encourage economic growth, high employment and financial stability among member countries and to contribute to the economic development of less advanced members and non-member countries. It also gives the industrialised countries an opportunity to discuss international monetary problems. The 25-member organisation, which has its secretariat in Paris, is an important discussion centre, undertaking regular studies and producing economic surveys and forecasts. Australia became a member in 1971. When Mexico was admitted as a member in 1994 it was the first new arrival in the club since New Zealand joined in 1973. *Abbrev.* **OECD.**

Member countries are:

Australia	Luxembourg
Austria	Mexico
Belgium	Netherlands
Canada	New Zealand
Denmark	Norway
Germany	Portugal
Finland	Spain
France	Sweden
Greece	Switzerland
Iceland	Turkey
Ireland	United Kingdom
Italy	United States of America
Japan	

OSE *abbrev.* **Osaka Securities Exchange.**

Osaka Securities Exchange one of the oldest of Japan's eight stock exchanges and second-largest in the country after the Tokyo Stock Exchange. The Osaka Securities Exchange also trades large volumes of stock-index futures and options contracts. *Abbrev.* **OSE.**

ostensible authority an elementary legal concept that authority is implied, though a lawyer would point out the subtle distinction between ostensible and implied authority. Ostensible authority is the basis for most dealings in financial markets. Two people putting together a transaction each rely on the other's ostensible or apparent authority to deal on behalf of his or her company.

ounce see **troy ounce.**

out of the money an option that cannot be exercised at a profit. An out-of-the-money option is a call option whose strike price is higher than the current market level, or a put option whose strike price is below market. A call option on December bonds at 100 would be out of the money if December bonds are at 99 or less; a put option would be out of the money if they were at 101 or more. See **at the money, in the money.**

outplacement the sack. This delicate substitute was in popular use by the end of the 1980s, when companies were thinning out senior and middle managements which had become bloated during the previous prosperous years. Outplacement seemed somehow kinder and more positive than firing. Some companies, mindful of the sensitivities of unwanted staff, were hiring `outplacement consultants' who did the firing, counselled the stricken executives and tried to find them other work. See **downsizing.**

outright forward rate a total forward price for a currency or a commodity, comprising the spot rate and the forward margin.

outside lag see **leads and lags.**

outside the fees an issue of securities that trades outside the fees loses money for the underwriter. To encourage buyers into the issue, the underwriter's fees are reduced to allow a corresponding boost to the buyer's return. See **inside the fees.**

outsourcing a fashionable word, much loved by bureaucrats, meaning the buying of goods and services as an efficient alternative to producing them `in-house'. It is much the same thing as calling tenders and awarding contracts.

over-award payments any portion of what is deemed standard pay that is surplus to the amount set in a minimum wage-rate award.

overbanked a financial system with too many banks (in their view) to enable them individually to generate good returns.

overbought traded to an extent where the price has been pushed to an apparently unrealistic and unsustainable level. A trader who has overbought in a commodity would be described as having a `long position' in that commodity. See **long position, oversold.**

overcapitalise to spend more on improvements to an asset than can be regained on its sale. You buy an old property in a slum area with no views, surrounded by factories, under a flight-path, near a railway line and a freeway and you install a backyard pool, landscape the ground, add a second storey and construct a patio. You have overcapitalised.

overdraft what you need before you can even contemplate over-capitalising. Banks allow selected customers to write cheques in excess of the balance in their current account, ie, to overdraw. Overdrafts are arranged up to limits which depend on the customer's credit standing and the bank manager's humour. The arrangements allow flexibility in the amount spent and, equally, allow flexibility in repayments (although technically a bank can demand repayment of an overdraft within 24 hours). In that respect overdrafts are unlike personal loans, which are structured with regular repayments. Interest on overdrafts is charged on the fluctuating daily balance. The bank can charge a further fee for unused overdrafts to compensate it for having to set aside funds which it believes are not being usefully employed. Also **line of credit.**

overheads costs incurred whether you make a profit or not, such as salaries, rent, electricity, wear and tear; they are often expensive and usually unavoidable.

overheated economy the result of a high level of economic activity which, while basically a good thing, can put pressure on existing productive capacity, run out of control and send up interest rates and inflation.

overnight dealing today for tomorrow. It can also refer to the shortest short-date swap and the most commonly used. This would involve a simultaneous purchase and sale (of currencies), of which the first transaction is settled today and the reverse transaction settled tomorrow. See **short-date swap, spot/next, tom/next.**

overnight moneyfunds lent for the shortest period for which they can earn interest (except through daylight overdraft from a bank). Funds placed out overnight are callable, repayable or renegotiable by 11am next day.

oversold the opposite of overbought. A commodity which has been oversold is one whose prices have been pushed down to a level that some believe is unrealistically low and unsustainable, and could therefore herald an upward reaction. A trader who has oversold a commodity would be said to hold a `short position' in that commodity. See **overbought, short position.**

oversubscribed an issue of stock in which the value of applications exceeds the amount to be issued. Finance companies, semi-government authorities and corporates are allowed to take oversubscriptions up to a given amount through their prospectuses.

over-the-counter market a market where commodities and instruments are traded between bank or investment bank and client as distinct from being traded on a recognised exchange. Over-the-counter products can be tailored to individual clients whereas exchanges trade standardised contracts. A large over-the-counter market has grown up in, for example, derivatives. *Abbrev.* **OTC.** See **over-the-counter options.**

over-the-counter options options that can be tailored to individual clients' needs. The client arranges the option with his or her bank or merchant bank, instead of buying an `off-the-peg' model such as an exchange-traded option, so that details such as amount, maturity and price are arranged between client and bank. Over-the-counter options cannot be traded but they can be sold back to the bank or investment bank which initiated the product. These options are a useful hedging device and like exchange-traded options they involve the cost of a premium. See **exchange-traded options, options.**

overvalued currency a currency whose quoted or traded rate is above what the market believes to be its correct level, given its country's balance of payments position and other relevant factors. Traders and speculators would be reluctant to buy a currency they believed to be overvalued as that suggests it should fall. If the domestic currency is considered overvalued, exporters would delay bringing in foreign-currency payments, while importers would benefit from advancing payments. See **leads and lags.**

P

Pacific Economic Cooperation Council an organisation comprising academics, business people and government, established in 1968 to promote regional economic cooperation. Initially largely an extension of the Australia-Japan Business Cooperation Committee, it extended to include the US, New Zealand and Canada and now includes most Asian nations and participants from Latin America and Europe. *Abbrev.* **PECC.** See **ASEAN Regional Forum, Council for Security Cooperation in Asia-Pacific.**

Pacific Rim the countries and regions bordering the Pacific Ocean, encompassing parts of the North and South American continents, North-East Asia, South-East Asia and Australasia. It has been suggested at times that the Pacific Rim countries could form an economic union but the interests of other regional power blocs have generally taken precedence. See **Asia-Pacific Economic Cooperation.**

paid-up capital the proportion of a company's issued capital that has been paid for by its shareholders. Details of paid-up capital should show the different classes of shares issued, the number of shares issued in each class, the amount paid on each and what has been called and not yet paid. See **authorised capital, issued capital.**

paper market parlance for securities (which are pieces of paper) such as government bonds or bank bills of exchange. Also *government paper.* See **bank paper.**

paper profits unrealised profits that would be crystallised if the owner were to act; for example, land or securities might have improved in market value compared with their purchase price but the owner's profit remains on paper unless the land or securities are sold. If the owner waits too long and the market weakens, the paper profits could fade.

par equal; used in foreign exchange to describe a currency whose forward rate is the same as its spot rate. See **par value.**

PAR *abbrev.* **prime assets requirement.**

par forward a facility favoured by gold producers which evens out the price curve or income stream (normally in contango in the gold market) to provide a constant price for the life of the transaction. This produces steady cashflow and also brings forward some income. A par forward in foreign-exchange markets is a series of contracts with the same forward rate applying to all forward commitments to produce an even set of foreign-currency cashflows. Also *flat forward.* See **contango.**

par value the face value of a security. If a commonwealth bond is trading at $102 and it was issued at $100 then it is trading `above par', ie, at a premium. Conversely, if the $100 bond were sold for $98 then it would be at a discount or `below par'. The par value of a share is set by the issuing company and often is quite different from the share's market price. Also *face value, nominal value.*

parallel loan the forerunner of a swap; a method of raising capital in a foreign country to finance assets there without a cross-border movement of capital. For example, a $US loan would be made to an Australian company to finance its factory in the US; at the same time the US party which made the loan would borrow $A in Australia from the Australian company's parent to finance a project in Australia. Parallel loans enjoyed considerable popularity in the 1970s in the UK when they were frequently used to circumvent strict exchange controls. Also *back-to-back loan.*

parcel a bundle or quantity of bills of exchange, bonds, treasury notes or shares whose details, such as maturity date or issuer, are identical.

parent company a company that controls one or more other companies. The parent company's financial statements are presented to show the parent's own financial situation, as well as that of the group of companies. See **consolidated accounts, group accounts.**

Pareto optimality a concept of optimality, recognised as Pareto's

Law, which essentially means a situation in which nobody could be made better off without someone else being made worse off. It was the result of early work by the Italian economist and sociologist Vilfredo Pareto (1848-1923). See **optimality.**

pari passu Latin for `with equal progress'. The phrase is used to indicate simultaneous and equal change or to describe similar ranking of securities or lenders; for example, when a new issue of shares is made, they could be said to rank *pari passu,* ie, equally with existing shares for the purposes of dividend payments. A common agreement between joint lenders is a *pari passu* clause under which, in the event of a shortfall, they agree to share equally whatever is available.

Paris Club an informal grouping of government officials who meet about once a month to oversee government-to-government loans which get into difficulties. The Paris Club has been operating since 1956, more or less voluntarily, and includes about fifteen countries, depending on who needs to attend. It is located in Avenue Kleber, Paris, and is run by the French treasury.

parity in financial terms, equality of value. The word has come to be used in the sense of `one-for-one' in foreign exchange. When the $A fell below 100 US cents, it was described as `falling below parity'. See **fixed parity.**

Part A (Part B, Part C, Part D) see **takeover.**

partial equilibrium theory see **general equilibrium theory.**

partial lookback option an option with a time `window' of 30 or 60 days when the strike price is set or adjusted at the optimum level. After that, the option operates as normal. The cost of a partial lookback option falls between that of a conventional option and a lookback option because its window is for a limited period. See **lookback option.**

participation similar to an option in structure, a participation contract includes a floor return and a reduced exposure to a favourable outcome on the underlying instrument, or a ceiling return with reduced exposure to an unfavourable outcome.

participation certificate a pass-through security representing an interest in a pool of instruments such as mortgage-backed securities. *Abbrev.* **PC.**

partly-paid shares see **contributing shares.**

partnership two or more individuals who have joined together to carry on a business, sharing in risks and profits. As partnerships are not incorporated, each of the parties shares equally in these risks and rewards and is liable for all the partnership's debts. Creditors of a partnership can claim on the partners personally; there is no limited liability for the partners as is available to shareholders of a limited liability company. See **company, corporation, incorporation, limited liability.**

pass a dividend not declare (pay) a dividend. A company would choose not to pay a dividend if it had made no profit, if it had made a loss or if it intended to retain profits for investment or restructuring.

pass-through security a security, such as a bond or certificate, that represents an interest in a pool of mortgages. All payments from the mortgagors on the loans in the pool pass through to the certificate holders to repay principal and interest. Mortgage-backed securities are the most common type of pass-through security; these operate either as direct issues of pass-through securities or as issues structured with a trustee. With direct issues the originator of the mortgage issues pass-through securities to investors, giving them beneficial ownership of the underlying mortgage. The trustee structure interposes a third party which can be an additional safeguard; in this case beneficial ownership of the mortgage passes to the trustee and the trustee in turn issues pass-through securities which represent interests in the underlying mortgage. The securities are marketed by the party originating the mortgage. See **mortgage-backed certificate, securitisation.**

pay-back period the length of time needed before an investment makes enough money to recoup the initial outlay of cash.

PAYE *abbrev.* pay-as-you-earn tax. **See taxation.**

payee the person to whom a cheque or bill of exchange is made payable. See **bill of exchange.**

paying bank the bank on which a cheque is drawn (the bank whose name is printed on the cheque) and which pays the amount for which the cheque is written and deducts that sum from the customer's account.

payment netting see **netting.**

pay-off the value of an option when it expires.

pay-off diagram a diagram showing an option's value at expiry relative to a range of underlying prices.

payola sometimes a reward, sometimes a bribe; a gift or remuneration to someone who has the potential to use his or her influence in your favour.

payout ratio the proportion of profit distributed through dividends to ordinary shareholders. The ratio is calculated by dividing the dividends by the amount earned in profit.

payroll tax see **taxation.**

PC *abbrev.* **participation certificate.**

PDF *abbrev.* **pooled development fund**

P/E *abbrev.* **price-earnings ratio.**

peace dividend the `profit' that comes to an economy when political confrontation ends and resources such as materials and labour and scientific, management or creative skills are diverted from defence-related areas to economic construction.

PECC *abbrev.* **Pacific Economic Cooperation Council.**

pegged tied to. When the $A was pegged to sterling, its exchange rate with other currencies moved in line with those of sterling. In 1971 the $A became linked instead to the $US and its moves against other currencies reflected the $US's moves against those currencies. The $A operated under a `flexible peg' to a trade-weighted basket of currencies for a number of years before being freely floated in December 1983. See **exchange rate, float.**

penny dreadfuls low-priced, highly speculative shares, an extension of the original meaning of cheap, sensational novels.

pension funds superannuation funds which pay out benefits in the form of a pension (ie, in instalments) on the member's retirement. See **allocated pension, annuity, superannuation.**

percentile the `top percentile' is the same as the top 1 per cent. Percentile is a common breakdown on a scale of numbers. It appears 99 times in the scale 1 to 100. The percentile of a set of numbers is that number below which a certain per cent of the numbers fall; for example, in a range of 1 to 10, 5 is the fortieth percentile as 40 per cent of the numbers are below it. The fiftieth percentile is in the middle.

perfect competition a theoretical device found mostly in textbooks. Perfect competition assumes that buyers and sellers of a product are equally matched so that neither side can determine prices, the economy is free from barriers and restrictions and all participants have perfect knowledge and act in a rational manner. Despite the absence of perfect competition in the real world (except perhaps at the racetrack) the concept provides a useful starting point for the analysis of forms of competition which are not perfect (and is an important influence on trade practices legislation).

perks short for perquisites, the additional non-cash benefits provided by an employer to an employee over and above the employee's salary. Once a tax-effective way to enhance employee rewards, these benefits have lost much of their appeal to both sides since the introduction of a comprehensive fringe benefits tax.

perpetual bond a bond that is issued with no maturity date. The bondholder earns income on the bond through the coupon stream; a buyer has to be found in the market if the holder wishes to sell, as the bond has no redemption date on which the issuer must pay out the face value.

perpetual floating-rate note a note with the same characteristics as the perpetual bond; that is, no set maturity date and an even interest stream. Such notes were launched in 1984 as euro-FRNs and have been issued by many of the world's big banks because they represent a fairly inexpensive method of raising capital. Perpetuals are privately placed and held by banks, for whom they rank as quasi-capital; they are not very liquid and tend to be repackaged with, say, options attached, to make them more attractive to a buyer.

personal identification number a number issued by banks to their customers as a personal code to be used in conjunction with a plastic card to gain access to automatic teller machines. *Abbrev.* **PIN.**

personal loan a type of loan available from banks, finance companies and other financial institutions, generally for purposes such as buying a car, boat or furniture. Funds are advanced (lent) to the customer for a fixed period, at a variable or fixed rate of interest with repayments calculated at the outset on the basis of monthly instalments. Personal loans are a popular means of finance for both secured and unsecured loans of $2000 and more. See **flat rate of interest.**

petrocurrency the currency of a country with oil to export, for example, Saudi Arabian riyals. North Sea oil has made sterling a petrocurrency. The $A is not, because although Australia has oil it does not export enough to qualify the dollar as a petrocurrency.

petrodollars see **petrocurrency.**

Philadelphia Stock Exchange best-known for its highly successful currency option contracts. *Abbrev.* **PHLX.**

Phillips curve a graph of the relationship between wage increases and unemployment. In 1958 A.W. Phillips showed that in the UK periods of high unemployment were associated with small increases in wages and prices. This suggests that a government could make a choice between unemployment and inflation, which might be politically difficult. Phillips reportedly said in later years at the Australian National University in Canberra that if he had known what they would do with his graph he would never have drawn it. Phillips was not as dogmatic about his causal relationship as the popular version of his theory suggests.

PHLX *abbrev.* **Philadelphia Stock Exchange.**

phone jockey a non-decision-making money-market or foreign-exchange dealer.

piggy bank a retail bank, as distinct from a wholesale or investment bank.

piggy-back option a share option which when converted to a share automatically creates another option.

PIN *abbrev.* **personal identification number.**

pip see **point.**

pit the area on the trading floor of a futures exchange where traders gather for action. Each commodity traded on the exchange has its own pit and only traders are allowed into the pits.

placement see **direct placement.**

plain vanilla a description of a basic financial instrument, uncomplicated by **bells and whistles.** See **vanilla product.**

planned economy an economy in which the government maintains absolute control of the production and distribution of resources.

plateau indexation see **wage indexation.**

Plaza Agreement an agreement reached in September 1985 by the G-5 countries (France, West Germany, Japan, the UK and US), on a need to adjust current exchange rates. The governments of these countries agreed that the $US was overvalued, lectured foreign-exchange markets about the need to take account of economic fundamentals and directed markets to bring the $US down. They made plain their intention to intervene if necessary. See **Louvre Accord.**

plough back to reinvest profits in a business rather than distribute them to the owners (shareholders). See **undistributed profits.**

PN *abbrev.* **promissory note.**

point the last decimal place in a foreign-exchange quote. If the $A were to rise from 70.10 US cents to 70.40 US cents then it would have gained 30 points. Also *pip.*

poison pill a defensive action against a hostile takeover in which a target company takes action to make itself appear less attractive to its predator.

policy lag see **leads and lags.**

pooled development fundthese were established in 1993 to replace the management and investment companies (MICs) program. Based on the same concept, the scheme provides for a concessional corporate tax rate of 15 per cent, can pay fully-franked dividends and its shares are free of capital gains tax. However, losses incurred by investing in the pooled development fund scheme are not tax deductible and the scheme has had little impact. *Abbrev.* **PDF.** See **management and investment companies.**

portfolio a collection of various company shares, fixed interest securities or money-market instruments. People may talk grandly of `running a portfolio' when they own a couple of shares but the characteristic of a serious investment portfolio is diversity. It should show a spread of investments to minimise risk — brokers and investment advisers warn against `putting all your eggs in one basket'.

portfolio balance the blend of investments in a portfolio, taking into account interest rates, inflation, other potential uses for the money, whether an investment is in a politically sensitive area, etc.

portfolio investment the acquisition of bonds (of more than twelve months to maturity) or of shares in a company, domestic or foreign, for investing purposes only. Portfolio investment carries a share in profits and dividends but stops short of bringing a say in how the business is run. See **direct investment.**

portfolio insurance a form a portfolio protection developed in the late 1970s by the California-based firm Leland O'Brien Rubinstein Associates Inc. At its simplest, portfolio insurance is an investment strategy designed to manage exposure to a risk asset (usually shares) to limit or control losses. The concept was tested in the October 1987 sharemarket crash. Supporters of the theory concede that such strategies may not achieve their targets if financial markets gap (record large, one-off movements in price) as severely as happened during that crash.

portfolio management managing a large single portfolio or being employed by its owner to do so. Portfolio managers have the knowledge and skill which encourage people to put their investment decisions in the hands of a professional (for a fee).

position money-market, futures, foreign-exchange and sharemarket traders talk of `taking a position' when taking a stand, executing a deal when others are hanging back. `Position' can also refer to a trader's cash/securities/currencies balance, whether he or she is short of cash, has money to lend, is overbought or oversold in a currency, etc.

position limit the maximum amount, either net long (bought) or net short (sold) of futures and option contracts that may be held by one party, as designated by the exchange on which he or she is trading or by the board or management of his or her company as part of its overall risk-management strategy.

position paper more sombre-sounding than a `report' but it is the same thing.

position trading holding strategic trading positions for a period rather than trading to cancel out positions at the end of each day.

positive carry the opposite of negative carry. With a positive carry the cost of borrowed funds is lower than the return earned on investments. Also *positive spread.* See **negative carry.**

possessory lien see **lien.**

post trading the system used in Australian share trading from 1959 to the introduction of SEATS in 1987, where the bid and offer prices of shares and securities are recorded on chalkboards. See **chalkie, SEATS.**

posting transferring details of financial transactions to ledger accounts.

power of attorney legal authority to do in another's name anything that person might do, or anything within limits set out in the power of attorney document. Specific powers of attorney are often granted to a person such as a solicitor or company executive to sign certain documents on behalf of a person or company.

PPS *abbrev.* **prescribed payment system.** See **withholding tax.**

PR *abbrev.* **public relations.**

preference shares shares which rank ahead of ordinary shares for the purposes of claiming dividend payments or any assets of the company should it be wound up. Preference shares rank behind debentures.

preferential trading a style of futures trading that allows floor traders to deal with anyone they choose. The rules were introduced on the Sydney Futures Exchange in 1987 and were modelled on those of the Chicago Board of Trade and Chicago Mercantile Exchange. Under preferential trading, buyers and sellers are free to choose the party with whom they trade; if there is one buyer and five sellers, the buyer can chose one seller or any combination of them. Typically, though, traders tend to split their orders to satisfy as many other players as possible. In this way they will not miss out should another trader hold contracts which they need to buy or sell.

Premiers' Plan a strategy adopted in June 1931 by Australia's Scullin government to reduce interest rates and cut expenditure by 20 per cent, partly through slashing public-sector wages. The objective was to reduce Australia's huge budget deficit problems. Australia had to get its books in order if the country was to continue to get overseas finance. Devaluation had already been forced and increased tariffs tried. The rationale behind the Premiers' Plan was to revive business confidence. The plan was welcomed as an example of creative economic planning; Douglas Copland claimed it was `a judicious mixture of inflation and deflation'. Later it was criticised as overly deflationary. See **Copland, Douglas,** in **economists.**

premium special value. Shares or securities bought at a premium are bought for more than their par or face value. In the context of options, the premium is the cost of buying an option; it represents the maximum amount the option-buyer can lose (and is likened to an insurance premium) and is income for the option seller. In foreign exchange, a currency trading at a premium is worth more in the forward market than in the spot market. In insurance, the premium is the price paid (usually in regular instalments) by a policyholder to the insurance company to maintain an insurance policy. Premium is also the opposite of discount. See **discount, insurance, par value.**

premium raid see **dawn raid.**

prepayment paying a bill or debt before it is due. Some loan agreements carry penalties for early repayment, reflecting the lender's expectations of the interest to be earned under the original contract. Sometimes exporters will hasten payments if they believe that their own currency is about to appreciate or be revalued.

prescribed payments system see **withholding tax.**

preservation certain superannuation benefits must, by law, be maintained (`preserved') in either a superannuation or rollover fund until retirement, ie, the `preservation age' has been reached.

pre-settlement risk the chance that something might go wrong in a transaction before it is settled; eg, a counterparty could go into liquidation.

preshipment finance funds to cover an exporter's costs before goods are sent overseas.

presold issue stock that has been placed with subscribers before an issue officially opens and before all details of rates, terms and conditions have been released.

price discovery determining the price level for a commodity or instrument based on supply and demand.

price discrimination see **price maintenance.**

price maintenance collusion among manufactures to maintain artificially high prices for their products. Such concerted action is illegal under section 45 of the Trade Practices Act. Dealing with customers on differing terms can be a normal aspect of business in any market but in certain cases is outlawed by the act. Also *price discrimination, price fixing.* See **Trade Practices Commission.**

price takers/makers in perfect competition, all producers are price takers, as they have to accept what the market says is the appropriate price and they cannot do anything to shift that price; in a pure monopoly, though, one firm is the price maker and the rest of the market has to take that price. Real-world markets are mostly oligopolistic, with a handful of producers able to make prices which price takers have to accept.

price-earnings ratio a yardstick for measuring the value of a company's shares. It shows the relationship between the market price of a company's shares and the earnings per share. Divide the annual earnings per share of, say, $2 into the market value of, say, $12 and the price-earnings ratio is 6. *Abbrev.* **P/E.** See **earnings per share.**

Prices Surveillance Authority a commonwealth statutory authority established in March 1984 under the Prices Surveillance Act. The authority's two main functions are to review notifications of price increases and to hold public inquiries. The authority also monitors price movements in a number of industries undergoing microeconomic reform. For example, having held public inquiries into credit-card interest rates, and fees and charges imposed by financial institutions on retail transaction accounts, the authority continues to monitor these markets. In 1995 the Prices Surveillance Authority merged with the Trade Practices Commission to form the Australian Consumer and Competition Commission. *Abbrev.* **PSA.** See **Australian Consumer and Competition Commission, National Competition Council, Trade Practices Commission.**

primary dealer a US bank or investment house authorised to trade in government securities directly with the Federal Reserve Bank as part of the central bank's open-market operations. Broadly the US equivalent of Australia's official dealer and the UK discount house.

primary industry basic industries such as agricultural, pastoral and mining activities, which have always accounted for a large proportion of Australia's exports.

primary market the new issue market. Bonds and treasury notes sold by the Reserve Bank in regular tenders are primary market stock; once they are sold into traders' hands they are in the secondary market. See **secondary market.**

prime assets requirement an obligation on banks to hold a stock of `prime' or high-quality liquid assets such as notes and coin, balances with the Reserve Bank (excluding non-callable deposits) and commonwealth government securities (bonds and treasury notes). The requirement was introduced in 1985 to replace the liquid assets and government securities (LGS) convention. *Abbrev.* **PAR.** See **liquid assets and government securities convention, non-callable deposits.**

prime (or base) rate the rate charged by banks to their best (prime) customers. Most bank customers pay the prime rate plus a margin that is assessed according to perceived credit risk. The term is often abbreviated to `prime' or `base'. See **base rate, benchmark rate.**

prime underwriting facility a form of revolving underwriting facility (RUF), in which the maximum margin is set against the US prime rate. *Abbrev.* **PUF.** See **revolving underwriting facility.**

principal the face value amount of a loan, on which interest is calculated. See **rule of 78.**

prior charge a charge that ranks ahead of another. For example, a specific mortgage will usually rank ahead of a floating charge over assets. See **charge.**

private companysee **company.**

private enterprise economic activity that is owned and controlled by individuals as distinct from businesses owned and operated by the state.

private placement 1. debt: a method of fundraising where the borrower obtains cash by selling securities — bonds or promissory notes — direct to a group of investors. There is no advertising of the issue, no prospectus has to be circulated as the stock is not on offer to the public, and the fundraising is often only publicly recorded after the event in a `tombstone'. See **tombstone.** 2. equity: where a company issues new capital which is placed, usually through a broker, direct to a small panel of institutions.

private sector the activities within an economy that are operated by and undertaken by private individuals, rather than by government. See **public sector.**

private sector liquidity money and short-dated government securities in the hands of the private sector, ie, companies and private individuals. See **liquidity, money supply, private sector.**

privatisation the transfer of government-owned services into private hands. This is usually justified on the grounds that private ownership makes for greater efficiency, although it is argued that greater efficiency is achieved only if privatisation goes hand-in-hand with increased competition. Privatisation became a popular course of action for many governments in the 1980s, either to raise funds through public tenders or share offerings or as a response to an ideological attitude that governments have no business competing with private enterprise. The policy was enthusiastically embraced by the UK's conservative government under Margaret Thatcher and by 1991 most public utilities such as telecommunications, gas, airports, water and electricity had been privatised. Some Australian examples are the government's sale of part of its international airline, Qantas, to British Airways, and the public issue of shares in the Commonwealth Bank of Australia. See **nationalisation, nationalised industries.**

pro forma a description applied to a balance sheet, profit-and-loss and cashflow statement drawn up using various stated assumptions. From the Latin *as a matter of form.*

probate the hearing and determining of any queries about entitlements under the terms of a will. The executor of a will has to obtain the probate document (certificate) from the court to enable him or her to carry out the instructions contained in the will. A deceased person's estate or wealth described as `subject to probate' is frozen pending the issuing of the probate certificate which confirms that the will is valid and can be executed. Probate comes from the Latin *probatus* meaning `proved'.

product in mathematics, the number which results from multiplying two others. Otherwise, almost anything. Once clearly understood to mean something tangible, which resulted from a creative effort and usually involved physical energy and machinery, the word has taken on a new colouration in the language of commerce. Now it means something that can be sold, bartered, taken advantage of or just talked about. When an advertising man talks of a product he may mean his strategy for selling an item. A financial dealer may call an interest rate a product, as if he had made it with his own hands. `I'd like your conceptual input on an innovative product' means `What do you think of this idea?'

productivity a measure of the economic efficiency of individuals, businesses or capital, ie, it can measure labour or capital productivity which combine to produce multi-factor productivity. The concept has assumed importance in enterprise bargaining — employees are required to earn pay increases by producing more. See **enterprise agreement, unit labour costs.**

profit the accounting term for what is left from earnings after all expenses have been provided for. Profit can be gross, which is the difference between sales and the costs of the goods sold; or operating, which is the difference between gross profit and operating expenses, including income tax expenses. The term `net profit' can be used to refer to `operating profit' or `operating profit after extraordinary items'. See **bottom line, gross, net profit, operating profit.**

profit-and-loss account an account showing a company's earnings and expenses over a period, what it has done with its profits, how much is being paid out in dividends and how much is retained in the company. It shows the results of activities during a period, whereas the balance sheet shows the company's assets and liabilities at a point in time (balance date). At the end of the accounting period all income and expense accounts are closed and the balance transferred to the P & L account. After calculating profit and determining dividends, the balance of retained earnings is transferred to owners' equity in the balance sheet. The new year's income and expense account begins with a clean sheet, a zero balance. *Abbrev.* **P & L.** See **balance sheet.**

profit-taking cashing in paper profits while the going looks good. If traders or speculators believe a commodity has reached its peak or near it after a good run, they will take the profits by selling, which can have the effect of pushing the commodity's price down again.

program tradinga highly computerised method of trading and arbitraging between physical, futures and options markets, where buying or selling can be automatically triggered by specific market movements. It is used widely in the US, less in the UK, Japan and Australia. Program trading has been blamed in the US for disruptive falls in prices but rarely praised for raising or supporting price levels. See **triple witching hour.**

progressive tax a method of distributing the tax burden so that those who earn the most pay the most — the tax levy increases as income rises.

project finance financing arrangements where the funds are made available for a specific purpose (the project), with the loan repayments geared to the project's cashflow. Project finance is used in connection with raising large amounts of money for big-ticket, energy-related facilities. The term has come to be loosely applied to various forms of financing. A strict definition (from *Project Financing* by Peter K. Nevitt) sums it up thus: `A financing of a particular economic unit in which a lender is satisfied to look initially to the cashflows and earnings of that economic unit as the source of funds from which a loan will be repaid and to the assets of the economic unit as collateral for the loan.' Project financing can be — but is not always — off-balance-sheet. See **big ticket, off-balance-sheet financing.**

promissory note an IOU issued by a borrower, whose name appears on the front of the note and who undertakes to pay the amount stated on the note to the noteholder at a specified date. PNs can be issued at a discount from face value, representing the interest (yield/return) on the funds for the lender and the cost for the borrower. PNs are actively traded in the money market. In the US they are referred to as *commercial paper;* in Australia they are also known as *one-name paper,* as distinct from bills of exchange where two names appear on the front of the bill. PNs are covered by the Bills of Exchange Act 1909-73 and have the same legal status as bills of exchange. *Abbrev.* **PN.** See **bill of exchange.**

property trust a type of unit trust which pools its unitholders' funds into real estate investments. See **unit trust.**

proprietary limited company see **company.**

proprietary trading trading as principal for a bank or investment bank's own account, as distinct from transactions on behalf of clients. In-house trading, or `betting the bank'.

prospectus a brochure that must be issued by any company or authority, such as a finance company, unit trust or semi-government borrower, seeking to raise money from the general public through the issue of shares or other securities. The prospectus sets out details of the investments offered, spelling out what interest rates are offered, what different investment maturities are available and other terms. It must be registered with the Australian Securities Commission.

protected equity notes see **All-Ordinaries Share Price Riskless Notes.**

protected portfolio loan a variation on margin trading, with the benefit that the borrower is protected from an unwelcome drop in the market. A borrower is able to get 100 per cent funding for an investment in equities and insurance against losses. See **margin trading.**

protectionism a regime favouring high tariffs and import restrictions to give domestic industry an advantage over imported goods. Protectionist moves by governments or industry groups include duties and quotas on imports and generous subsidies to exporters. Any measure of protectionism is the reverse of free trade. Non-tariff forms of protectionism exist, such as health regulations or production standards. Some of these can include quirky details, such as the width of a seat-belt in a car. See **tariff.**

provisional liquidator see **liquidator.**

provisional tax see **taxation.**

provisions the allowance that companies make as a charge against profits in order to account for expenses which have been incurred but for which the amount and time of payment can only be estimated — for example, provisions for long-service leave or provision for bad debts. Sometimes provisions are used to manipulate reported profits. Overprovision in good years can create `hidden reserves'. These overprovisions can be reversed in bad years to avoid a fall in profits.

proxy one person acting on another's behalf, usually in the context of company meetings. A shareholder in a company can give another person the authority to represent him or her (and is usually required to notify the company of the appointment). See **annual general meeting.**

PSBR *abbrev.* **public sector borrowing requirement.**

Pty Ltd *abbrev.* **proprietary limited company.**

public listed company a company listed on the stock exchange, whose shares can be bought and sold by members of the public. See **company, going public.**

public loan a fundraising by a company or semi-government authority in which securities can be bought by members of the public. When raising funds through a public (as opposed to private placement) loan, the borrower has to draft a prospectus and have that approved and registered by the Australian Securities Commission. Public loans can be underwritten by a group of financial institutions which would also market the stock. See **private placement.**

public policy assumptions, sometimes backed by legislation, about what is in the public interest, which form part of the broad range of government policies covering economic, financial, social, environmental and health issues.

public relations let's not be coy: Goebbels and the Chinese have been content to call it propaganda, and that is the most honest description of the art of the public relations person. The finest definition that can be put on public relations is that it is the craft of disguising reality in a web of words that make the person (or company or product) paying for the service smell like a rose. The man credited with the conception of public relations was an American newspaperman named Ivy Lee who, in 1906, convinced the US coalmining industry that its image would improve if the public knew more about what the industry did. He opened the closets of the industry — one which the American populace distrusted — and the mining companies were delighted to find that the public began to believe and accept them. Ivy Lee went on to serve the American railroad companies, which had suffered from a tarnished image, and started an industry which continues today in a much refined form. PR (the universally recognised acronym) is essential to businesses today. Highly skilled specialists, often with degrees in this nouveau-science, command high salaries because they use words cleverly enough to soften potential conflict between industry and consumer, or government and citizen.

PR and advertising have been equated on the ground that they both use information to persuade the consumer. This may be too loose a comparison; the PR consultant is often the one person, because of training in communication science, who can make sure that accurate and clear information reaches its intended audience. It is true that a cynical PR can sell latherless soap, but it is just as true that an honest one can right wrongs. Ivy Lee, it should be noted, was the man who made America love John D. Rockefeller. *Abbrev.* **PR.**

public sector the part of the economy which is not privately owned and is controlled by one of the tiers of government. Examples of public sector enterprises are Telecom, a commonwealth authority, and state instrumentalities such as an electricity commission or water board. The public sector has become a large part of western industrialised economies, accounting for more than 20 per cent of gross domestic product in the US, UK and most European countries, although many governments have divested themselves of state-run enterprises through selective privatisation programs. The public sector is, by its nature, often unprofitable, creating an excess of expenditure over receipts which has led to a large public-sector borrowing requirement. See **privatisation, public-sector borrowing requirement.**

public-sector borrowing requirement the expected or actual shortfall between government revenues and expenditure, plus the requirements of all other public-sector entities such as local and semi-government authorities. Many western countries have run big deficits since the Second World War. PSBR can be financed by increasing notes and coins in circulation (printing more money), by selling more government securities or by borrowing overseas. *Abbrev.* **PSBR.**

public securities trust a form of unit trust that invests in government and semi-government securities, and selected short-term money-market instruments. Public securities trusts engage in long-term investments on behalf of unitholders. See **unit trust.**

PUF *abbrev.* **prime underwriting facility.**

pulling an issue withdrawing an issue of bonds or notes after it has been announced. This is usually embarrassing for an investment banker (underwriter) and the issuer because the abortion of an issue can imply that somebody got something wrong, perhaps by misreading legislation or misinterpreting a technicality or simply misjudging market appetite.

pump priming an alternative expression for deficit financing. See **deficit financing.**

punter in gentlemen's language, someone who invests money in a chancey game or business in the expectation of making a profit. Most punters bet on horses, which run races at a predictable pace and have an assessable chance of winning. Others test their intuition in the sharemarket or more esoteric branches of the investment field. The odds in favour of winning are roughly the same. A racetrack punter's results are as good as his information. In the financial markets, too, the successful punter is the well-informed one.

purchase tax an *ad valorem* duty imposed on consumer goods. Purchase tax is calculated on the wholesale price and is paid by the wholesaler, who passes the cost on to the retailer, who in turn recoups from the customer. Value-added tax replaced purchase tax in the UK in 1973. Australia does not have a specific form of purchase tax but it has an increasing plethora of wholesale sales taxes. See **goods and services tax, sales tax, value-added tax.**

purchasing-power parity the theory that if a common unit of currency existed, it should be able to buy the same value of goods in every country. In practice, many factors such as living standards, inflation and taxes affect purchasing power but the theory is useful in determining whether exchange rates are in or out of line with economic fundamentals. See **Big Mac index.**

put see **option.**

put spread a spread composed of a long position and a short position in puts on the same underlying instrument.

puttable swap a swap contract which can be cancelled or terminated by either counterparty. See **callable swap.**

pyramiding 1. a form of corporate structure based on a chain of units, where the level of ownership held by the initial holding company is progressively watered down as subsidiary companies acquire further subsidiaries. The holding company has control but significantly less ownership in the subsidiaries further along the chain. 2. expanding a business by making heavy use of borrowings to build up the corporate structure. 3. in the context of investments, using unrealised profits from, say, futures trading, as security to borrow funds to buy more investments, such as additional positions in the futures market. These techniques have quite different meanings from pyramid selling, which refers to a sales scheme where the person initiating the sales (at the top of the pyramid) sells agencies to others, who in turn sell them to others. Goods are sold by those at the foot of the pyramid, who pay commissions to those at higher levels. There is a strong moral opposition to pyramid selling on the grounds that it disadvantages the last-in investors.

Q

quality stock a blue-chip stock. See **blue-chip.**

QANGOs *abbrev.* **quasi-autonomous non-government organisations.**

quant see **quantitative analyst.**

quantitative analyst a mathematician who explains the characteristics of financial markets by using statistical models and formulas. *Abbrev.* **quant.**

quantity adjusting option an option **which generates a profit or loss in a currency different from that in which the option was dealt.** *Abbrev.* **QUANTO.**

quantity theory of money a very influential (some say tautological) notion which asserts that there is a relationship between the quantity of money in an economy and the level of prices (basic monetarist principle). The tautological nature can be illustrated by the following: any student of economics, set the question `Describe the manner in which the price level is determined on an island in which the currency consists of shells picked up on the beach', would glibly reply: `The price level on this island is determined by the number of shells and their velocity of circulation.' Only the brightest and cheekiest would add that it is equally true to say that the number of shells in circulation is determined by the price level. The theory can be rendered as:

- MV = PT,

where M = money supply, V = velocity of circulation (how often the same money changes hands), P = price level, and T = volume of transactions in goods and services.

- The concept was a favourite among classical economists. The quantity theory of money originated in the seventeenth century and was revamped into its twentieth-century form notably by Chicago economists Irving Fisher and Milton Friedman. The formal theory has been criticised empirically because V and T are not constant, particularly V, which depends on the consumer/businessperson's spending and investment whims. Monetarists say that if there is a change in the money supply, either the price level will adjust or the supply of goods will alter; assuming full employment, the price level will be affected by a change in the money supply. The modern form to express the quantity theory of money is M = (Y/V)P where M, V and P are defined as above, and Y is a measure of the flow of goods and services. See **economists, monetarism.**

QUANTO *abbrev.* **quantity adjusting option.**
QUANTO swap a swap where the pay-off is determined in one currency and paid in another, eg, a $US/DM swap `quantoed' into sterling.
quants *abbrev.* quantitative analysts. See **rocket scientists.**
quantum leap a big change, as expressed by an economist, futurologist or finance practitioner deluded into the belief that `quantum' sounds more impressive than `amount'. In its legitimate usage, mainly in particle physics, quantum in fact relates to very small things.
quasi-autonomous non-government organisations entities established by the government and required under their charters to function as self-supporting, although not necessarily profit-making, organisations. They have often been under fire from critics who see them as competing with private enterprise but with the security of government sponsorship. Other critics claim that the only purpose of some such organisations is to fuel their own existence. *Abbrev.* **QANGOs.**
query in stock exchange language, questioning a company about its shares or some aspect of its performance. An erratic movement in a company's shares would prompt a stock exchange query to the company, requesting an explanation. The process often halts trading in the shares of the company concerned.

Quesnay, François see **economists.**

quick test see **acid test, liquid ratio.**

quorum the minimum number of eligible people who must attend a formal meeting to allow it to proceed. For a company's business meetings, the number is stipulated in the articles of association.

quotas a form of trade protection which takes no account of price, demand or quality but stipulates the quantity (quota) of, say, cars that can be imported from one country by another in a given period. Quotas do not generally produce revenue for the government (although a government can `sell' a quota) but can raise the price of the imported goods by restricting supply, thereby (it is thought) giving equivalent domestic goods a head start. Quota systems can operate to protect a particular industry. For example, the quotas on margarine that were designed to protect the dairy industry were fiercely debated in the 1960s.

quote a price offered or asked. Financial markets traders talk of a quote when they mean an interest rate or exchange rate at which they are prepared to deal. The question `did you get a quote on these 180-day bills?' means `what interest rate were you offered?'

quoted securities the shares and securities of companies listed on the stock exchange. The companies are described as `listed'; their shares are `quoted' and available for trading to the general public.

R

R & D *abbrev.* **research and development.**

Rae Committee a committee established in the early 1970s in Australia following the collapse of a boom in mining company shares. The collapse generated concerns about the need to regulate the securities industry, to protect investors and to lay down groundrules for trading practices. The committee, headed by Senator Peter Rae, tabled a five-volume report in July 1974 which was the forerunner of the national companies and securities legislation. See **Australian Securities Commission.**

raid rapid, active buying of a large quantity of shares in one company by another company, often signifying the intention of seizing control or at least taking a major shareholding position. Also *market raid.*

raider (corporate) the stockmarket pirate. A corporate raider buys into a target company with the intention of securing control over its cashflow or selling its assets.

rally an upswing or brisk improvement in market activity and prices after a downturn.

ramping collusion by market participants to create, through artificial trades, an impression of activity that forces prices higher. The rampers sell out at a quick profit, leaving duped investors in a false market that has nowhere to go but down.

random walk hypothesis a theory among market analysts that explains movements in share prices as being independent of previous changes. Each new change, according to the theory, is explained by new information.

range floater a security which does not pay interest if interest rates move outside a specified range. See **inverse floater, reverse floater.**

range forward contract a type of forward contract which combines the ability to take advantage of favourable movements in price with protection against unfavourable movements. Used mostly in foreign-exchange trading, it operates in a similar way to a collar on interest rates.

rate differential swap a swap where one of the payment streams is denominated in a currency other than that of the notional principal amount. Also *cross-rate swap, diff swap.*

rate of return profit earned in relation to capital invested; what you get back as a reward for risking your money. It sounds a simple concept but the statistics used in various methods of measuring the rate of return can make a nightmare of the exercise. To be accurate, you have to consider inflation, human resources employed and cost-benefit analysis, to name but three factors.

ratio analysis an examination of a company's ratios, such as gearing and liquidity, to determine its financial worth.

ratio option (spread) an option spread where the number of contracts bought and sold are not equal, eg, selling one in-the-money call and buying two or three out-of-the money calls so that income received from the sale is used to buy more in-the-money calls.

rational expectations an approach to modelling the way in which people predict future values for economic variables. Expectations are defined as rational when they are the best prediction based on all available information. New information may yield a surprise, but under rational expectations this new information is immediately incorporated into a revised set of predictions. This makes it difficult for governments to implement policies aimed at giving `short, sharp shocks' to the private sector. People anticipate government action and so are prepared for its effects — a great theory but it implies perfect knowledge (though not necessarily perfect foresight).

rationalisation pruning, merging or reorganising a business or sector of the market to improve efficiency and cut costs.

RBA *abbrev.* **Reserve Bank of Australia.**

real income the true spending power of wages or salary after allowing for erosion by inflation.

real estate land, houses, buildings. The term generally refers to immovable property, which can be contrasted with the personal property that goes into it, such as furniture.

real interest rates interest rates less the rate of inflation. If inflation is *n* per cent and the interest rate is *n* per cent, the real rate of return is zero. To illustrate: $100 invested at 10 per cent per annum would yield $10 at the end of one year — but if inflation is running at 10 per cent, that $110 buys only as much as $100 would have bought a year earlier. Negative real interest rates occur when interest rates are lower than the inflation rate — for example, if the return on funds invested is 10 per cent but inflation is running at 15 per cent.

realise to turn a change in value from potential to actual, usually by selling an asset. For instance, a sharetrader whose portfolio is increasing in value will realise a profit on the sale of his securities.

real-time gross settlement an internationally accepted system to minimise interbank settlement risk by requiring that settlement occurs simultaneously with delivery of payments (ie, in real time) for full value of each payment (ie, gross). The regime is proposed for implementation in Australia in 1997, and is well-established in several leading countries such as the US, Germany and Japan. Under this system, delivery occurs only if there is a transfer of settlement balances between accounts at the central bank. In some countries, there are limits on these accounts which prevent them from being overdrawn so any liquidity problem is immediately revealed. All payments settled under real-time gross settlement are same-day funds. *Abbrev.* **RTGS.** See exchange-settlement accounts, same-day funds.

real value the worth of an item when inflation is taken into account. It is relatively simple, by observing the market, to set a nominal present value on a business, house, or investment. It is harder to judge its continuing or future real value because inflation is an unguessable variable. See **real interest rates.**

real unit labour costs see **unit labour costs.**

real wages what you earn, expressed in terms of how much you can buy with it. If prices are rising faster than your pay, then your real wages are falling. Trade union organisations watch this closely and may take militant action to make up lost ground.

reasonable benefit limit the maximum amount an individual can receive over his or her working life, at the concessional tax rate applying to superannuation benefits. Amounts over the reasonable benefit limit are taxed at the highest marginal tax rate. *Abbrev.* **RBL.**

rebatable bonds a type of commonwealth bond still in existence but which has not been issued since May 1968. Investors receive a tax rebate equivalent to 10 per cent of the interest derived from the bond. The most common type of commonwealth bond now issued is non-rebatable; no tax rebate applies.

receivables money that should be coming your way in payment for goods or services you have provided. You have sent the invoice and, you are assured, the cheque is in the mail. If it is not, the receivables may turn into bad debts.

recession a drastic slowing of the economy. The Americans, who are good at making precise definitions, often apply the term to a situation where gross national or domestic product has fallen in two consecutive quarters. A recession would be indicated by a slowing of a nation's production, rising unemployment and falling interest rates, usually following a decline in the demand for money. A popular distinction between recession and depression is: `Recession is when your neighbour loses his job; depression is when you lose yours.'

reciprocal rate the price of one currency in terms of another when the official quote gives the second currency in terms of the first. For example, the usual $A/$US quote gives the $A in terms of US cents; the reciprocal would show the $US in terms of the $A. If the $A is worth 70 US cents, the reciprocal quote for the $US is $A1.4286.

reciprocity scratch my back and I'll scratch yours. The concept is well illustrated by the internationalising of banks, where foreign banks are invited to open branches — on condition that the host country has access to the foreign country's markets. Reciprocity is a common play in international trade, with one country making tariff concessions to another in return for compensating favours.

recourse the right to claim payment of a debt or obligation from a particular party, even though that party is not primarily liable. If you are the guarantor of a defaulted debt, you may be a recourse target. There is also non-recourse financing, popular in leveraged leasing and mineral exploration, where the borrower has no liability to repay the debt except from the proceeds of the venture in which the funds are used. In the case of mining, this means that someone lends money to an exploration company in the knowledge that if there is nothing at the bottom of the hole, there will be no return of the funds. Non-recourse lenders are usually confident that something will come up, and have usually put a high price on their risk by laying claim to a comfortable share of the potential returns.

recycling an environmental term adopted by economists during the oil price crisis of 1973-74 when they talked of `recycling petro-dollars'; that is, using the currency surpluses of oil-exporting countries to ease the deficit burdens of the oil-importing countries. It didn't work; the deficit countries fell further and further into debt they could not afford.

red the debit side of finance. `You're in the red' means you are in debt. Debits used to be entered in bank statements in red ink. See **black.**

redeemable preference shares shares which, on a stated maturity date, the issuing company will buy back for face value plus dividend. Being preference shares, they rank ahead of ordinary shares, but behind debentures, in any claim on the assets of the company.

redeemable warrant a warrant offering cash redemption rather than a conventional exercise. Also *puttable warrant.*

redemption paying off or cancelling a debt. Commonwealth bonds are redeemable at face value on maturity; that is, the commonwealth government pays you, the lender, your money and redeems its debt. If you hold your commonwealth bonds until they mature, the yield you earn is called *redemption yield.* With some lending institutions early redemption of a debt carries a penalty; if you find you do not need the personal loan you have borrowed you might decide to pay it off ahead of schedule, but it would be worth checking if any penalty is involved. See **prepayment.**

redemption yield see **yield to redemption.**

rediscount resale or resell. The word is used in the context of selling a security such as a bill of exchange or treasury note which has already been discounted (ie, sold for less than face value). The Reserve Bank offers rediscount facilities in treasury notes which holders can use to generate cash by selling (rediscounting) the notes to the central bank. See **discount window.**

reference rate a rate used as a yardstick or benchmark for setting other rates, eg, LIBOR, HIBOR and so on. Also **benchmark rate.** See **LIBOR, HIBOR.**

refinancing extending existing loans or replacing existing funds with alternative borrowings, which may be at different interest rates or for longer or shorter terms. See **rescheduling.**

reflation economists' jargon for measures which they hope will improve productivity and demand while they try to lower, or at least control, the inflation rate and reduce unemployment. Common reflation tactics have been tax cuts and increased government spending, perhaps leading to lower interest rates and more generous money supply growth. Unfortunately, this can lead to rising inflation. Ideally, demand should rise without pushing up interest rates or inflation — but existing economies are never ideal.

regional headquarters the base chosen by a company operating in several countries, for example, a finance centre in the Asia-Pacific region or the US. The country or capital city chosen benefits in terms of increased employment and spin-off demands for services, so there is considerable competition for the title of regional headquarters (often associated with tax benefits specifically designed to win business). Singapore and Hong Kong are popular locations for regional headquarters. Some tax advantages have been introduced to encourage the establishment of regional headquarters in Australia. *Abbrev.* **RHQ.**

regression analysis a statistical technique used to measure the relationship between a dependent variable and one or more independent variables. For example, a company producing camping equipment would be interested to identify the relationship between sales of camping gear and the growth rate of employment, on the assumption that if employment rises, more people have more money to spend on leisure gear.

Regulation Q an authority given to the US Federal Reserve in the Great Depression of the 1930s, under which it was able to set a ceiling on the interest rates banks could pay on deposits. Regulation Q was aimed at limiting competition following the failure of about one-third of US banks. Problems emerged in the 1960s when unregulated interest rates shot up, money-market funds were able to offer investors better returns than those available from the banks and savings-and-loan associations and bank deposit bases shrank. The Fed agreed in 1980 to phase out Regulation Q. See **Fed.**

reinsurance the insurance companies' insurance which enables them to spread their risk by paying premiums to other insurers. On the racetrack, it is called `laying off'.

reintermediation a reversal of the process of disintermediation. It occurs when regulations which created disintermediation (ie, which caused transactions to revert to direct financing) are removed and business flows back to financial intermediaries. See **disintermediation, intermediation.**

reinvestment rate the interest rate at which the cashflow from a coupon or principal payment can be reinvested.

reneg see **renegotiation.**

renegotiation revision of money-market interest rates either by 11am or 4pm, depending on whether the funds are 11am call or 24 hours' notice of call. *Abbrev.* **reneg.**

rent payment made to the owner of an asset for the use of that asset, as in paying a fee to occupy someone else's house. In its original English usage, the word means income from property. Its economic use, as in `resources rent' reflects that meaning. See **economic rent, resources rent tax.**

rentier someone whose income comes from sources other than wages, who makes money from investments.

reorganisation and divestment getting rid of the dead wood; selling off the loss-maker; sacking the manager.

repo see **repurchase agreement.**

reporting entity a company or other organisation which is obliged to prepare general-purpose financial reports complying fully with accounting standards. This obligation arises when users of financial information (say, investors or suppliers) are dependent on the reports for the information they need in making financial decisions and are unable to command specific information from the organisation. Although there is some debate among accountants, it is generally the existence of these `dependent users' that determines whether the organisation is a reporting entity. A `non-reporting entity', for example a small company where the owners are the managers, is not bound to prepare complying financial statements.

repurchase agreement a transaction between two parties in which securities are transferred in exchange for cash, on the basis that the deal will be reversed at a predetermined date and at an agreed rate. *Reverse repos* are the opposite. Repos based on commonwealth government securities are the instrument used most frequently by the Reserve Bank of Australia in its market operations. *Abbrev.* **repo.** See **open-market operations.**

resale price maintenance a practice in which a supplier or manufacturer influences or requests a wholesale or retail seller to stick to a particular price or minimum price when reselling goods. In many economies a supplier or manufacturer can only *recommend* a resale price.

rescheduling a euphemism for postponing payment of money owed. The word became popular following controversy over the foreign debt financing of a number of countries such as Poland, Mexico and Brazil, which took on more debt than they could handle. Traditional lenders such as multinational banks have been reluctant to lend more to countries with balance of payments problems caused by a surfeit of short-term borrowings (themselves a consequence of reluctance on the lenders' part to lend long-term). Impoverished nations have found that a world recession makes it virtually impossible to trade themselves out of debt; the answer is to rewrite the debt so that interest and principle repayments become less of a burden. Lenders quite like rescheduling: it means that interest payments keep rolling in, even if the principle drifts further away. After all, they can't repossess the country which owes them a few billion. Consider this maxim: if you owe the bank five dollars, you are in its power; if you owe it five million dollars, you call the shots. See **refinancing.**

research and development a positive way to divert sums of money, which might otherwise go to the tax collector, into the creation of new products. R & D does, indeed, result in valuable additions to medicine and high technology, as well as to the convenience of life through innovations such as the cardboard wine cask and the ballpoint pen. It is widely held in the manufacturing sector that Australian governments have failed to provide sufficient taxation and other incentives to encourage research and development and consequently foster potential export industries. *Abbrev.* **R & D.** See **patent, product, taxation.**

reserve currencya stable currency of a country featuring prominently in world trade. Central banks hold a significant proportion of their countries' reserves in these reserve currencies (the rest is in gold) and can use them to pay international debts. Sterling was a dominant reserve currency in the days of an influential British empire. In recent decades the $US has been a traditional reserve currency and many central banks, including the Reserve Bank of Australia, hold their foreign exchange reserves mostly in $US.

Reserve Bank Information and Transfer System a simultaneous electronic transfer and settlement system for commonwealth government securities, developed by the Reserve Bank in conjunction with Austraclear Ltd and introduced by the Reserve Bank in 1991. *Abbrev.* **RITS.**

Reserve Bank of Australia the country's central bank, combining the roles of financial system supervisor, banker and manager of monetary policy. The bank was created by an act of parliament in 1911 as the Commonwealth Bank of Australia, and was renamed and reconstituted as the Reserve Bank of Australia in 1959. It began operations in 1960 when the commercial banking business of the Commonwealth Bank was separated from the regulatory function. As central bank, it does not compete with the commercial banks; its duties are overseeing the activities of Australia's financial markets, with particular responsibilities for, and controls over, the banking system. The RBA's activities, powers and responsibilities are spelled out in three pieces of legislation: the Reserve Bank Act 1959, the Banking Act 1959 and the Financial Corporations Act 1974.

Under the Reserve Bank Act the central bank has the responsibility of ensuring that its monetary and banking policies contribute to the stability of the Australian economy and to the welfare of its people. Under the Banking Act, the Reserve Bank has a duty to protect the deposits of the Australian banks, and has the power to regulate bank lending and interest rates and to influence banks' asset holdings. The Financial Corporations Act provides the means for the government — through the Reserve Bank — to monitor and, if necessary, control the activities of non-bank financial institutions registered under the act.

The Reserve Bank acts as banker and financial agent for the federal government, and as banker to the banking system. Together with the federal treasury, the Reserve Bank is responsible for managing the federal government's annual borrowing program; as agent for the commonwealth, it sells government treasury bonds and treasury notes. Through Note Printing Australia, the Reserve Bank prints and distributes paper currency in Australia. Reserve Bank publications, such as its annual report, monthly *Bulletin,* information booklets and occasional papers, are regarded as excellent sources of information on Australia's economic and financial conditions. *Abbrev.* **RBA**

Governors of the Reserve Bank have been:

Dr H.C. Coombs 1959-68 (1949-59 governor of the Commonwealth Bank of Australia)

Sir John G. Phillips 1968-75

Sir Harold Knight 1975-82

R.A. Johnston 1982-89

Bernie Fraser 1989-

reserves funds set aside from company profits not distributed to shareholders in the form of dividends. This form of retained profits is different from provisions, which are set aside to cover known but unquantifiable liabilities. Reserves and issued capital together are known as shareholders' funds, being the company's capital base. Countries also hold reserves, which are usually held by central banks and are generally made up of gold and foreign exchange. See **provisions, reserve currency, statutory reserve deposit.**

reset swap see **in-arrears swap.**

residual value the notional value of a leased property such as a car or photocopier at the end of the lease term, usually stipulated at the beginning of the agreement. Normally, if the lessee decides to buy the item at the expiry of the lease, the owner, or lessor, will accept the residual value as the price. See **leasing.**

resistance level the price level at which buyers or sellers lose interest and at which the price should stabilise or move in the opposite direction. Chartists use the term when analysing share and futures prices, as well as interest and exchange rates: a currency or commodity price which rises steadily then stops, or tumbles and then steadies, has `hit its resistance level'. If you are unsure how to pick resistance levels, simply ask yourself whether the deal is worth doing at the prevailing price. See **chartists.**

resources boom at the end of a yellow brick road, or at the end of a rainbow, there is Arcadia, or paradise or a pot of gold, a field of buttercups or a boom. A resources boom is a rapid economic expansion based on mineral products. It happened in Australia with the 1850s gold rush, again at the turn of the century and again in the late 1960s. Booms are forecast from time to time because of a belief that a country with oil, iron or gold in the ground will become wealthy. The promotion of this belief is good politics because it makes people feel secure. However, it is not necessarily good economics; the value of these resources depends on the appetite of the importing countries, and they are at the mercy of their own economic variables. Australia was confidently poised for a resources boom at the outset of the 1980s but it was illusory. There was profligate spending on infrastructure that was never used, and the country was lowered into recession as demand for her exports fell. See **boom.**

resources rent tax the tax levied on profits over a (theoretic) level defined as an `adequate' return from an Australian resource project. It was introduced in 1987 to apply to new offshore oil projects. The threshold level of return on a project at which the tax started to apply was set at 15 per cent above the long-term commonwealth bond rate, Once applied, it was levied at the rate of 40 per cent. Resources rent tax had two advantages — although the benefits of these were estimated to be far outweighed by disadvantages in the eyes of the companies concerned. These advantages were:

- royalties to the federal government would cease; and
- investors were allowed recoupment of capital expenditure before the tax was applied.

Because RRT was levied on new, as against existing, projects, it was some time before the federal government received much revenue from this source. Those who justify RRT claim that to tax so-called `super-profits' should not scare away investment, rather would provide a fair share of the benefits of resource development to the host country. Opponents believe it deters exploration investment. Oil exploration is a high-risk activity and could well use incentives to increase the exploration level, which would ultimately lead to more discoveries. This in turn would benefit the country. *Abbrev.* **RRT.** See **rent, economic rent.**

restrictive trade practices market activities which manipulate supply and/or demand to create an unfair collusive or monopoly-based profit — for example, cartels fixing prices, market-sharing deals, mergers which create a monopoly or a dominant position and a number of resale and discriminatory pricing practices. Steps were taken to minimise the possibilities for exploitative arrangements in Australia with the Trade Practices Act 1974. The act encourages price competition by working against monopolies and against conduct which is likely to lessen competition substantially in a market. The official watchdog is the Trade Practices Commission, which undertook a surge of activity in the early 1990s with increased scrutiny of professional groups. The will of the federal government to enforce legislation is a key variable. Australia tends to have a heavy incidence of restrictive trade practices, which is a product of its small domestic market and limited opportunities for exploiting economies of scale. The Hilmer report, released in 1993, argues for increased competition in government utilities and services as well as in the professions, the objective being to bring about lower costs to business and consumers. See **Hilmer report, Trade Practices Commission.**

retail price index the UK equivalent of what in Australia and the US is known as the consumer price index. It is used to measure inflation and movements in the cost of living. See **consumer price index, index.**

retail banking banking services catering for ordinary individuals and small businesses, as distinct from large corporations. Retail banking operations offer deposit facilities, lend money, transfer funds and are prepared to deal in relatively small amounts. See **piggy bank, wholesale banking.**

retained earnings the proportion of after-tax profit that is held in a business after dividends have been paid. Also *accumulated profits, unappropriated profits, undistributed profits.*

retire a bill to pay a bill of exchange before it falls due. A company which has issued bills of exchange or promissory notes as a method of raising short-term finance can retire the paper by buying it back before its maturity date. See **bill of exchange.**

return the amount earned on an investment or made on a transaction.

revaluation an increase in the worth of, say, a currency. The word has wandered from its literal meaning of a change in value to denote specifically an upward movement. See **devaluation.**

revenue earnings; what a company makes in monetary terms from its activities. Not to be confused with profit, since expenses have to come out of revenue.

reverse dual-currency bond a bond whose coupon is in a non-base currency and pays principal in the base currency. See **dual-currency bond, indexed currency option notes.**

reverse floater a type of structured security where the rate paid to the holder increases as floating rates decline (the return to the holder falls as the general level of interest rates rises). In 1986 the US's Sallie Mae (Student Loan Marketing Association) issued reverse floating-rate notes called `Yield Curve Notes' which paid a coupon of 17.2 per cent less LIBOR. The coupon on the issue increased as LIBOR fell. Orange County made use of similarly structured notes and came to grief. Also **leveraged floater.** See **bear floater.**

reverse repos see **reverse repurchase agreements.**

reverse repurchase agreement the opposite of repos; the Reserve Bank (central bank) sells securities to the market to drain off funds, or a client sells a repo to a bond dealer. See **repurchase agreement.**

reverse takeover purchase of a controlling interest in a company by one of its subsidiaries.

revolving credit arrangements enabling a borrower to have access to a credit line, often with the ability to re-borrow immediately any repayments made. Examples are credit cards such as Bankcard, Visa and Mastercard and store credit cards. Overdrafts and mortgage-backed facilities are also revolving credit lines.

revolving underwriting facility a type of note issuance facility involving a medium-term commitment by a group of underwriters (usually banks) to purchase one, three or six-month euronotes at a fixed margin set against LIBOR, in the event that a single agent fails to place the notes with investors at, or under, that margin. *Abbrev.* **RUF.** See **note issuance facility, prime underwriting facility.**

rho the sensitivity of an option's theoretical value to a change in interest rates. Represented by the Greek letter (ρ).

RHQ *abbrev.* **regional headquarters.**

Ricardo, David see **economists.**

rigged market a market in which prices have been manipulated so that buyers or sellers have been attracted to come in, crystallising profits for those who initiated the manipulation. See **daisy chain.**

right-hand side see **trading on the right-hand side.**

rights issue an offer of additional shares to existing shareholders, in proportion to their holdings, to raise money for the company. Unlike a bonus issue, a rights issue is not free. The shareholder is not obliged to take up a rights issue — the offer can be allowed to lapse — but rights issues are renounceable, which means the shareholder can sell or transfer his or her right to the shares. See **bonus issue, entitlement issue.**

risk arbitrage spread/yield curve plays which are closer to lowlevel speculation than arbitrage.

risk capital in Australia, similar to venture capital but without the connotation of involving new technology. It is money invested in a business or project which offers a lower than usual probability of profit but, if successful, a big return. See **venture capital.**

risk management trying to control outcomes to a known or predictable range of gains or losses. Risk management involves a set of steps which begin with a sound understanding of one's business and the exposures or risks that have to be covered to protect the value of that business. Then an assessment should be made of the types of variables that can affect the business and how best to protect against unwelcome outcomes. Consideration must also be given to the preferred risk profile — whether one is risk-averse or fairly aggressive in approach. This also involves deciding which instruments to use to manage risk, and whether a natural hedge exists that can be used. Once undertaken, a risk-management strategy should be continually assessed for effectiveness and cost.

risk-averse most people try to avoid high risks when investing or, if they knowingly incur a higher-than-average risk, they demand a higher-than-average return by way of compensation. The term risk-averse has come to be used to describe not only the unadventurous investor but also conservative bankers, distinguishing them from more aggressive entrepreneurs.

risk-weighted assets assets which are weighted for credit risk according to a formula used by the Reserve Bank (and other OECD central banks which conform to the BIS's capital adequacy guidelines). On and off-balance-sheet items are weighted for risk, with off-balance-sheet items converted to balance-sheet equivalents (using credit-conversion factors) before being allocated a risk weight. Risk weights are in five categories, from zero to 100 per cent. Those carrying a zero weight include notes and coins, gold matched by gold liabilities, balances with the Reserve Bank and commonwealth government securities with less than twelve months to maturity. Commonwealth government securities with more than twelve months to maturity carry a 10 per cent risk weighting, as do state government securities. Claims on other banks, Australian local governments and public-sector organisations, other than those with corporate status or which operate commercially, carry a 20 per cent risk weighting. Loans secured by a mortgage over residential property and with a loan-to-valuation of 80 per cent or less carry a 50 per cent risk weighting and loans to companies or individuals carry a 100 per cent risk weighting. See **capital adequacy.**

RITS *abbrev.* **Reserve Bank Information and Transfer System.**

Robinson, Joan see **economists.**

rocket scientist a Wall Street *wunderkind.* Rocket scientists are the geniuses of investment banking who had their heyday in the 1980s, inventing new financial products and money-spinning techniques based on options, futures, swaps and program trading. That they are still busy in their laboratories is shown by the continuing emergence of new acronyms for their inventions. See **quantitative analysts.**

rollercoaster swap an interest-rate swap whose notional principal fluctuates, generally to suit the financing requirements of a counterparty.

rolling hedge a continuous position in exchange-traded futures and options contracts, maintained by closing contracts as they near maturity and opening more distant ones.

rollover the renewal of a loan facility or continuance of a deposit at each maturity date, usually with a revision of the interest rates. (Rollover periods are often written into financing arrangements, as against refinancing or rescheduling, which suggest continuing a debt that should have been paid off.) Rollovers allow long-term funds to be provided with flexibility in the interest rate charged. For example, a merchant bank lends a client $5 million for five years but on condition that the funds are rolled over every six months, ie, that the interest rate can be adjusted. You can place funds in a fixed deposit and when that deposit matures you can choose to roll the funds over (probably at a different interest rate) or withdraw the money.

In the foreign-exchange market, **a historical rollover** involves a maturing currency contract which is re-booked at the exchange rate which applied when the initial transaction was struck, rather than the market rate applying at the time of the rollover. See **historical rate roll, underwater roll.**

rollover fund a feature of the superannuation system in Australia since 1983, when the federal government introduced legislation to encourage people to provide income for their retirement, rather than spend an accumulated lump sum immediately and then draw an age pension. The government legislated for increased tax to be levied on lump sum benefits but offset this by providing tax relief on lump sums `rolled over' (converted) into specified forms of investment which would either store the funds until retirement age or convert them to an annuity or pension. The term is often used in reference to a transfer, after leaving employment, of a benefit received, to an approved deposit fund or another superannuation fund. See **annuity, approved deposit fund, pension, superannuation.**

round robin a circular transaction that shifts funds from one account to another but has no effect on the overall level of cash — taking from Peter to pay Paul. Peter uses funds from his unused overdraft to lend Paul overnight money, which Paul then onlends to another. They help each other but the improvement in the appearance of account balances is more apparent than real. Since 1990, when the Reserve Bank began setting the overnight cash rate, the opportunities for arbitraging the overnight rate have virtually been eliminated. See **handkerchief transaction.**

Royal Australian Mint see **mint.**

Royal Commission into Money and Banking an inquiry in 1935-37 which resulted in the defining of the role and responsibilities of the banking system in Australia, particularly the function of a central bank. A major recommendation in its report (August 1937) was the establishment of special deposits by the private banks with the Commonwealth Bank. The private banks opposed this and the outbreak of the Second World War prevented a bill drafted to legislate for the special deposits from reaching parliament. It was not until the 1945 Banking Act that special deposits were introduced.

That act also confirmed the increased powers of the Commonwealth Bank and divided its functions into those of a central bank and a commercial bank, paving the way for the later (1959) creation of the separate Reserve Bank of Australia. The royal commission had significant effects on the banking sector. It was more than 40 years before another full-scale inquiry into the industry (the Campbell Inquiry) was made. See **Campbell Report, Reserve Bank of Australia.**

royalties what authors hope to earn when they write, inventors when they invent, governments and landowners when oil is found on their property. Royalties are payments to owners, funded by those who benefit from the use of the products of inventiveness, authorship or ownership.

RRT *abbrev.* **resources rent tax.**

RTGS *abbrev.* **real-time gross settlement.**

RUF *abbrev.* **revolving underwriting facility.**

rule of 78 a method of calculating how much interest has been earned by a lender at any stage during the repayment of a loan on which a fixed rate of interest has been agreed in advance. The rule is applied to consumer finance where loans are repaid in instalments. The `78' derives from the twelve monthly parts of a one-year loan — the sum of those parts is 78 (12 + 11 + 10 + 9 etc). The lender earns 12/78ths of total interest in the first month, 11/78ths in the second month, and so on. The effect of the rule is distorted in the longer-term consumer loans common today. People who decide to pay out a loan early in its course are often surprised to discover how little impression their instalment payments have made on the principal. The rule of 78 helps explain why this is so.

run a rapid rise in a share price or, in a different context, a rush to withdraw funds from an institution, as in `rumours of big losses caused a run on deposits in XYZ bank'.

runner in futures trading, the person who connects between the booth moll and the floor trader, passing on and taking orders and fetching coffee. See **booth moll.**

running yield the interest rate on an investment expressed as a percentage of the capital invested. It takes no account of the capital accrual.

S

SAFE *abbrev.* **synthetic agreement for foreign exchange.**

safe harbour a framework established by a regulatory body, such as the Australian Securities Commission, setting out circumstances under which certain business activities may be carried out with minimal regulatory requirements.

sale and leaseback a form of off-balance-sheet financing in which instead of borrowing on the security of, say, its property, a company sells the property to a lending institution (often an insurance company) and at the same time takes out a long-term lease on the property. This frees money for alternative uses and does not affect the company's gearing as the transaction is `off-balance-sheet'. The property ceases to be an asset and the lease payment is an expenditure in the profit-and-loss account but not a liability in the balance sheet. Gearing may even improve if the property is sold for more than book value. See **off-balance-sheet financing.**

sales taxa form of `indirect taxation' levied by the Australian government since 1930 on the wholesale value of a commodity. Sales tax is imposed as an *ad valorem* tax; it is expressed as a percentage of the value of the goods taxed. The wholesale customer pays the tax when the goods are bought and passes it on as part of the retail price so that its effect, for the ultimate consumer, is similar to that of a purchase tax. Sales tax is applied to a range of items, including whitegoods and motor vehicles, but many commodities, including foodstuffs, are exempt. See **ad valorem, purchase tax, value-added tax.**

same-day funds immediate value transactions. See **bank-**

cheque funds, exchange settlement account, real-time gross settlement.

Samuelson, Paul see **economists.**

Samurai bonds yen-denominated bonds issued in Japan by a foreign borrower. The bonds are registered with Japan's Ministry of Finance.

S&P 500 *abbrev.* **Standard & Poor's 500.**

savings banks banks whose main role was to gather deposits from the public and lend to home-buyers. Savings banks in Australia were established in the 1950s and 1960s; first was the Commonwealth Bank and the major trading banks followed. Savings banks operated under the Banking (Savings Bank) Regulations, which give them the security of Reserve Bank protection as set out in the Banking Act. In 1988 the distinction between savings and trading banks was removed, recognising that increasing deregulation of banking had eroded the distinction between banks and their savings bank subsidiaries.

savings-and-loan association a US financial institution which mainly lends funds to home-buyers — similar to building societies in Australia and the UK. The savings-and-loan associations, established in the 1850s and operating under successive state and federal regulations and supervised and insured by federal agencies, became large deposit-taking institutions for small savers, borrowing short to lend long. They had to raise their rates during the 1970s to attract deposits and margins were squeezed as mortgages were at fixed rates. The S&Ls were also constrained at that time by Regulation Q, which enforced interest-rate ceilings. The S&Ls came under pressure again in the 1980s as they had to offer higher and higher rates to win deposits while still carrying fixed-rate loans. Deregulation and competition also pushed them beyond their traditional area and into riskier activities such as commercial property lending. The S&Ls experienced severe difficulties in the late 1980s and early 1990s, with their numbers halved through failures and mergers. The major S&Ls are healthy institutions and in general the industry has returned to its core business of lending for residential property. See **money market mutual funds, Regulation Q.**

Say's law `supply creates its own demand', a notion which emerged in the wake of the Industrial Revolution and embodies the ideas of the French economist Jean-Baptiste Say (1767-1832).

scalping speculative buying and selling of shares and securities to make a quick profit. The commercial practice has extended to theatre queues and football matches: those who get in early buy tickets and sell them at a profit to desperate latecomers.

scarcity value the economic factor that decrees hen's teeth, rocking-horse manure — any item that is hard to find and whose supply is hard to increase — will become more in demand and greater in value as human nature runs its course.

scheme of arrangement a reorganising of a company's capital structure or its debts which is binding on creditors and shareholders. There are two types: a creditors' scheme and a members' or shareholders' scheme. A *creditors' scheme* is generally used by companies in financial difficulties. Creditors may agree to defer payments in the hope of a better eventual return than they would receive if the company were liquidated. A *members' scheme* is used to effect corporate reorganisations, including mergers, although it cannot be used to avoid the takeover provisions of the Corporations Law.

A scheme of arrangement is carried out in three steps:

1. the court is approached to order a meeting of creditors or shareholders directly affected;
2. the scheme must be approved by a vote of more than 50 per cent of the creditors or members present and voting who represent 75 per cent of the total debts or nominal value of the shares of those present and voting at the meeting; and
3. the scheme is referred back to the court for confirmation.

Schumpeter, Joseph see **economists.**

SCOUTs *abbrev.* **shared currency options under tender.**

screw rule a useful method of remembering that in a foreign-exchange transaction, you always get the smaller amount and give up the larger. For example, in a two-way $A/$US quote of 74.04/11, an exporter would give away 74.11 US cents to generate one Australian dollar, whereas an importer would receive 74.04 US cents for each $A. When travelling overseas and changing foreign currency at a bank, the same applies — you would get 74.04 US cents for each $A, but give away 74.11 US cents to get back one $A.

scrip a document showing entitlement to a parcel of shares; an abbreviation of `subscriptions'. A scrip certificate was formerly a provisional certificate issued against payment for shares but now has become synonymous with share certificate. See **share certificate.**

scrip issue a bonus issue of shares to existing shareholders, made in proportion to their shareholdings. See **bonus issue.**

scrubber odd lots of securities such as bills of exchange or promissory notes — the money market equivalent of a `broken' parcel of shares which does not comply with the conventions for tradeable volumes.

SDR *abbrev.* **special drawing rights.**

SEAQ *abbrev.* **Stock Exchange Automated Quotations.**

seasonal adjustment the revision of numbers (statistics) to compensate for fluctuations resulting from regular external influences. Seasonally adjusted statistics are used to help identify movements in economic variables which are due to cycles or trends. Some important statistical series with much seasonal variation are employment, money supply and retail sales.

seat membership of an exchange. The term is no longer used in the Australian stockmarket, which has abolished the distinction between `members' and `non-members' in broking firms; companies and individuals now become stock exchange members when they buy into a broking firm. The concept of a `seat' as an entitlement to trade on the floor still exists in some exchanges — for instance, commodity exchanges in the US where seats can be bought and sold by individuals.

SEATS *abbrev.* **Stock Exchange Automated Trading System.**

SEC *abbrev.* **Securities and Exchange Commission.**

second board a separate stock exchange listing of small companies with relatively few shareholders and low capitalisation. The former Perth Stock Exchange was the first to open a second board in 1984, largely for new, high-technology companies. The Australian Stock Exchange had a second board from 1986 to 1992, when it closed because of low activity. See **main board.**

second mortgagea security over an asset, say, a house, that already has a mortgage on it. The interest rate on a second mortgage will be higher than on the first because the second lender has less security (a claim would have to wait until the first mortgagee is fully repaid, and there might be little value remaining). Mortgages can be for purposes other than house purchases although they are most commonly associated with home finance.

second rank shares of industrial companies which fall short of being tagged `blue-chip' but which are nevertheless regarded as financially sound.

secondary market one where existing securities are traded, as against the primary market where they are issued. See **primary market.**

secured creditor someone who has rights not only against the debtor personally but against specific assets of the debtor which the creditor may be able to sell if that is necessary to recover the amount of the debt.

securities in the context of financial markets, written undertakings securing repayment of money. They are typically negotiable instruments such as bonds, bills of exchange, promissory notes or share certificates which establish ownership and payment rights between parties. The word `securities' has come to mean any interest-bearing piece of paper traded in financial markets. Securities in the sense of `marketable securities' may be unsecured (that is, simply debt obligations) and so a holder may not have security in the generally accepted sense. See **security.**

Securities and Exchange Commission the US watchdog over the country's securities industry, established in 1943. *Abbrev.* **SEC.**

securities industry legislation legislation on the securities industry was introduced in Australia in 1970 and by 1971 had been adopted in New South Wales, Queensland, Victoria and Western Australia. The regulation of the industry had become a subject of concern during the mining boom; the collapse of the boom prompted the appointment of a Select Committee on Securities and Exchanges, known as the Rae Committee. The first securities legislation to apply more or less uniformly throughout Australia was the State Securities Industry Act 1975 which superseded the 1970-71 state acts. The commonwealth and the six states in 1978 arrived at a Formal Agreement which laid down the basis for the establishment of the national policymaker, the National Companies and Securities Commission, and its state-based agencies, the Corporate Affairs Commissions. The Securities Industry Act 1980 set down the basis of conduct and practice in trading securities and was expressed in the Securities Industry Codes of the states. These codes came into force in July 1981. The arrangements were again superseded with the introduction of the Corporations Law in 1991 and the creation of the Australian Securities Commission to replace the NCSC and the Corporate Affairs Commissions. See **Australian Securities Commission, Corporations Law.**

Securities Institute of Australia a professional association established in 1966 to improve education in the securities industries (share, bond and money markets) by providing recognised courses in all aspects of securities markets. The institute added a further dimension when it merged in 1975 with the Australian Society of Security Analysts. The institute lists its aims as follows:

- to improve and develop the standards of the securities industry, including educational qualifications;
- to secure professional standing for members of the institute;
- to conduct courses, conferences and meetings of members;
- to represent the members' views in matters relating to the securities industry;
- to disseminate information relating to the securities industry by circulating the Journal of the Australian Society of Security Analysts (*JASSA*) and other appropriate publications.

In 1995 the institute was restructured into two entities, Securities Institute of Australia and Securities Institute Education, reflecting the growth and success of its educational services. *Abbrev.* **SIA.**

securities lending a borrowing-lending process that does not require any movement of cash; the lender of the stock is paid a fee by the borrower who provides the lender with `sub-stock' (substitution stock). Securities lending is popular with institutions which prefer to lend their stock rather than sell it under a repo arrangement, which is a buy-sell with cash changing hands.

securitisation converting an asset such as a loan into a marketable commodity by turning it into securities. The most popular form of securitisation involves mortgages which are pooled and sold, often in unitised form, enabling the lender to reliquefy the asset. Any asset that generates an income stream can be securitised — eg, mortgages, car loans, credit-card receivables. See **asset-backed securities, Fannie Mae, Ginnie Mae.**

security in the legal sense, a right against a particular asset belonging to another; for example, a lender holding bills of exchange belonging to a borrower as security on a loan between the two parties. A creditor without security has rights only against the debtor, not against any specific property. See **collateral, lien, mortgage, securities.**

seed money funds provided to start up a new business or enterprise, often associated with venture capital financing, either in the form of a loan or an equity investment in the infant operation. See **venture capital.**

self-regulatory organisation an organisation operating in the financial markets which undertakes to enforce regulations on its members, such as minimum financial and reporting requirements, within a framework of regulation set out by a regulatory body such as the Australian Securities Commission or, in the US, the Commodity Futures Trading Commission. *Abbrev.* **SRO.**

sellers over the situation in the futures market where a trade has taken place at a given price but there are still sellers left in the market. See **buyers over.**

sellers' market where demand outpaces supply so that there are more buyers than there are goods for sale. Anyone selling is therefore in a position to demand the best price. See **buyers' market.**

semi-government securities stock issued by a state government entity such as an electricity authority or a water board. Because of a slightly higher credit risk, they are likely to offer a rate of return higher than that of commonwealth bonds of similar amount and maturity. Semi-government securities raise funds through public subscription and by private placements. *Abbrev.* **semis.** See **central borrowing authority.**

senior debt debt ranked ahead of other debt. It has priority if debt has to be redeemed in cases of liquidation.

Sep futures market shorthand for September.

separate trading of registered interest and principal of securities a zero-coupon bond issued directly by the US treasury, selling the interest and principal payments separately on selected government securities. *Abbrev.* **STRIP.** See **CATS, TIGR, zero-coupon bonds.**

series of options a group of options with the same exercise date, same strike price and of the same type, ie, put or call.

SESDAQ *abbrev.* **Stock Exchange of Singapore Dealing and Automated Quotation system**

set-off when default arises, the right of the non-defaulting party to reduce its debt to the defaulter by the amount owed to it.

settlement date the date on which money and securities change hands following a market transaction.

settlement price the official closing price, established by the exchange at the close of each trading day and used by the clearing house as the basis for marking to market futures or over-the-counter contracts; or the price at which a transaction is settled. Also *delivery price.*

settlement risk the risk that a counterparty might not pay on time or as expected. Settlement risk is an incentive for netting. Also *delivery risk.* See **cross-currency settlement risk, netting.**

7-day funds money fixed for seven days after which time it becomes 24-hour call funds (if not withdrawn). See **24-hour call funds.**

SFECH *abbrev.* **Sydney Futures Exchange Clearing House.**

shade a trader who `shades a rate' is narrowing the spread between the buy/sell quotes on a currency, possibly altering one side of the quote in favour of a good client.

shakeout a sudden shift in activity or prices that forces speculators to sell their holdings or forces less successful participants in an industry out of business.

share part of the ownership of a company. A person who buys a portion of a company's capital becomes a shareholder in that company's assets and as such receives a share of the company's profits in the form of an annual dividend. Lucky or astute investors may also reap a capital gain as the market value of the shares increases. Shares come in different forms:

- *ordinary shares* No special rights (except voting rights) are attached to these, and the bulk of a company's capital is issued this way.
- *preference shares* These have priority over ordinary shares in entitlements to dividend payments and in claims to the assets of a company if it is wound up.
- *cumulative preferences shares* The holder of these shares is entitled to a fixed annual dividend, and if this is not produced one year, the amount due is carried forward and paid the following year. This entitlement ranks ahead of ordinary shareholders' divi-

- dends. (Sometimes these are redeemable, in which case they are similar to loan securities.)
- *participating preference shares* The holder receives a stated dividend each year and is entitled to share in any profits remaining after ordinary shareholders have had their bite.

share capital the equity of a company contributed by shareholders. See **authorised capital, issued capital.**

share certificate the document issued by a company to a shareholder showing the number of shares held, the amount paid and the name in which they are registered.

share futures see **Individual Share Futures.**

share price index futures futures contracts based on a recognised stock index — in Australia, the Australian Stock Exchange All-Ordinaries index. The unit of the contract is the index multiplied by 100 and given a dollar value (for example, if the index is 1800, the underlying value of the contract is $180 000. Share price index futures are often used by investors wishing to hedge against a fall in the overall level of the stockmarket. *Abbrev.* **SPI.** See **All-Ordinaries index, futures contract.**

share register the record showing the holdings of a company's shareholders.

sharebroker see **stockbroker.**

shared currency option under tender insurance against the foreign-exchange risk associated with tendering for contracts involving different currencies. The party awarding the contract buys a currency option, and the cost of the premium is allocated among the tenderers in the same currency. When the tender is awarded the successful bidder receives the benefits of the option for which each tendering party has paid a part of the cost. *Abbrev.* **SCOUT.**

shareholders' funds what belongs to the shareholders of a company: issued capital and retained profits. Such money is not generally paid to the shareholders unless the company is wound up. Then they have to fight it out with creditors and other interested parties (such as those holding preference shares) in carving up what is left.

shareholders' interest the net amount of a company's funds that belongs to its shareholders. The shareholders' ratio is calculated by dividing shareholders' funds by total assets of the company.

shareholders' scheme see **scheme of arrangement.**

shelf company a company which has been created but has ceased trading. Its memorandum and articles can be bought `off the shelf'.

shipping conference an association of shipping owners who have grouped together to coordinate freight charges.

shogun bonds a bond issue made publicly in Japan, not denominated in yen. The first such issue was made in August 1985 by the World Bank. The bonds could be denominated in, say, $US or other foreign currencies, but would be distributed in Japan to raise funds for a foreign company.

short see **short position.**

short covering buying securities such as bills or a commodity such as foreign exchange to cover a `short' (sold) position in those securities or that commodity.

short dated (swaps) swaps, usually of one currency for another, which span periods of less than one week. See **overnight, spot/next, swap, tom/next.**

short hedge a position taken to protect against a fall in prices.

short position an excess of sales over purchases (a net liability position and the opposite of long position). In, say, the futures market, a trader with a short position has more contracts sold than bought. In the money market a trader can be said to have a short position, which would imply that the securities held, such as bills of exchange, have a relatively brief maturity, for example less than six months — which could be described as having `gone long on shorts'. A currency trader might say `I've gone short US' meaning `I have sold US dollars'. See **long position, overbought, oversold, short covering, short term.**

short selling selling a security or commodity that you do not yet own, believing it will fall in price and can be bought later at a lower price producing a profit for you when you deliver it to the purchaser.

short term generally, a loan, deposit or security that has less than six months and certainly less than one year to run. Some laws (such as the **NSW** financial institutions duty legislation) define short term as not exceeding 185 days. See **short-term money market.**

short the basis buying futures as a hedge against a commitment to sell in the cash or spot market.

short-dated the category of securities such as bonds, bills or notes which have less than one year to maturity — although the definition is fairly arbitrary.

shortfall the difference between the amount expected and the amount achieved. A borrower issues securities to the market, intending to raise $1 million but sells only $900 000 worth, creating a shortfall of $100 000. If the issue is underwritten, the underwriter will make up the shortfall. See **underwriter.**

short-term money market the sector of the financial market which caters for the borrowing and lending of money for short periods, usually less than six months and nearly always less than twelve months, and trading in short-dated securities. The short-term money market includes the cash market (overnight and seven-day money), trading in 90-day and 180-day bills of exchange, negotiable certificates of deposit, promissory notes and treasury notes, and the fixed-interest market which focuses on government and semi-government bonds. Players in the short-term money market include banks, investment and merchant banks, finance companies, stock-brokers and a range of financial institutions. *Abbrev.* **STMM.**

short-term note issuance facility a technique which followed development of the revolving underwriting facility (RUF), providing for notes to be placed by a tender panel instead of by a sole agent as with the RUF. *Abbrev.* **SNIF.** See **revolving underwriting facility.**

short-term underwriting facility the short-term version of a RUF, whereby members of an underwriting syndicate have a short-term (less than one year) commitment to underwrite eurodollar securities on behalf of an issuer. *Abbrev.* **STUF.**

SIA *abbrev.* **Securities Institute of Australia.**

SIBOR *abbrev.* **Singapore Inter Bank Offered Rate.**

sideways markets, prices and interest rates are said to have moved sideways if they have shifted only within a narrow range.

Silver Thursday the Thursday in March 1980 when the American brothers Nelson Bunker Hunt and Herbert Hunt, seeking to corner the silver markets, were unable to meet a margin call on their futures contracts. The brothers were two of the fourteen children of the Texas oil magnate H.L. Hunt, who was the richest man in the United States when he died in 1974. Bunker and Herbert started investing in silver as a hedge against inflation and by 1980 it was estimated that they held one-third of the world's supply of the metal. When silver prices slid, the Hunt brothers failed to meet huge margin calls on their futures contracts, sparking a panic on commodity and futures exchanges. A consortium of US banks provided a $US 1.1 billion line of credit to enable the brothers to pay their debts. The Hunts lost hundreds of millions of dollars through their speculation in silver but the family fortunes withstood the setback. See **cornering the market.**

SIMEX *abbrev.* **Singapore International Monetary Exchange.**

simple interest interest calculated on the principal amount only of a loan for each period on which interest is paid, as against compound interest where interest is added to the existing balance so that the subsequent interest calculation is made on principal plus interest. For example, $10 000 invested at 10 per cent simple interest per annum would earn $82 in each month for the term of the loan. With compound interest, the second month's interest would be calculated on $10 082 and so on. See **compound interest, flat rate of interest, principal.**

simply transformed manufactures a statistical term for goods which are taken only one or two steps beyond the raw material stage. Iron ore may be made into special grades of sheet steel (a simply transformed manufacture). This material may be exported for manufacture into high-value-added items such as electronic devices (elaborately transformed manufactures). *Abbrev.* **STM.** See **elaborately transformed manufactures.**

simulated deposits/loans facilities provided by financial institutions to clients who want an asset or liability in a foreign currency to offset an existing position. The bank or merchant bank provides a foreign currency deposit facility to give a client an asset in the same currency as an existing liability so that on maturity there is an offset. One advantage of this method is that, while the client obtains a foreign-currency borrowing, it effectively avoids the need to pay withholding tax as no non-resident lender is involved.

Singapore Inter Bank Offered Rate the rate charged in the Singapore interbank market; similar to LIBOR in the euromarkets and useful when European markets are closed because of the time difference. Funds are onlent to customers at a margin relative to (usually above) SIBOR. The rate is relevant for a number of Australian transactions funded out of Singapore. *Abbrev.* **SIBOR.** See **London Inter Bank Offered Rate.**

Singapore International Monetary Exchange Singapore's futures exchange, established in 1984 as a commodity exchange, trading initially in gold and eurodollars. *Abbrev.* **SIMEX.**

single-currency swap see **interest-rate swap.**

sinking fund a fund maintained by regular payments or contributions which will eventually pay off an amount owed. The first sinking fund was set up by Sir Robert Walpole in the UK in 1716 to pay off the national debt. The fund was mismanaged and the concept of a sinking fund lost much of its credibility. Sinking funds have regained status as a useful method of making provisions to pay off a large (especially) public debt. Their successful operation depends on two main factors: the regular investment of a given amount of money which reduces the debt and the accumulated interest which also contributes to that purpose. A sinking fund is an important component in leveraged leasing as the fund is notionally accumulated and invested to pay deferred tax. See **leveraged leasing.**

SIS *abbrev.* **Superannuation Industry (Supervision) Act.**

skinned cheated, screwed, as in `I've been skinned a few points'.

sleeper an attractive share whose appeal has yet to be recognised. Recognition of its potential pushes up its price.

slump more or less a depression; an extreme form of recession, the worst in history being in the 1930s, characterised by a sharp and worldwide decline in economic activity. See **depression, recession.**

Smith, Adam see **economists.**

Smithsonian Agreement a decision taken in December 1971 by the Group of Ten countries to devalue the $US against gold and against most other currencies. The G10 countries met at the Smithsonian Institute in Washington when it became clear that the Bretton Woods system of fixed exchange rates was not working effectively. Devaluation of the $US brought only short-lived improvements and within a matter of months a number of major currencies decided to abandon fixed exchange rates in favour of floating. Sterling floated in 1972. The $A took considerably longer to follow the trend and was launched into a float in December 1983. See **Bretton Woods, float, Group of Ten.**

Smokestack America the industrial mid-west of the United States, encompassing established heavy industries such as steel and motor vehicle production.

smoothing the practice of retaining part of the profits of a good year and using it to boost the apparent returns in a bad year. The technique is commonly used by superannuation funds, in crediting members with investment returns, to provide a more consistent crediting rate.

snake the matrix of rates under the European Joint Float which existed from April 1972 until the creation of the European Monetary System in 1978. Members of the snake were West Germany, the Netherlands, Belgium, Luxembourg, Denmark and Norway. See **European Monetary System.**

SNIF *abbrev.* **short-term note issuance facility.**

SOC *abbrev.* **stop-on-close order.**

Society for Worldwide Interbank Financial Telecommunications a consortium of more than 2200 member banks, based in Brussels but operating a worldwide system for the rapid transfer of money and messages among financial markets. The system, established in 1973 to eliminate cumbersome paper flows, is owned and directed by the member banks. *Abbrev.* **SWIFT.**

socioeconomic stratum what determines that some people are rich and famous while others — from the other side of the tracks — struggle anonymously to make ends meet. Although stratifying people according to their means and perceived importance in society is frowned on by some as encouraging notions of `class', socioeconomic groupings, which cover the social as well as the economic aspects of life, do provide useful measures of the way an economy functions.

Soffex *abbrev.* **Swiss Options and Financial Futures Exchange.**

soft currency one which is not in demand in world markets and which would not be used as a `reserve currency'. Examples are the

Philippines peso, the Mexican peso and the Hong Kong dollar. Such currencies are not in demand in the way that big-league currencies are, such as the deutschmark, $US, Swiss franc and so on. See **hard currency, reserve currency.**

soft landing an easing in the pace of growth from excessively rapid to more sustainable levels (often referred to as the long-term potential growth rate). A soft landing implies moderate economic and employment growth, with the unemployment rate steadying. See **hard landing, recession.**

soft loan money lent on favourable terms which the borrower could not get in the commercial market. The lender could be a government or government organisation making a subsidised loan to encourage a particular activity. Employees of some financial institutions could be said to be receiving soft loans if their salary packages include low-cost home finance.

solicitors' funds fixed-interest money made available by solicitors (acting as brokers) from investment funds supplied by clients. The loans are usually for short periods such as one to three years, during which time the borrower pays interest only on the money; the principal amount of the debt is not reduced. The borrower could use this type of loan as bridging finance pending a bank or building society loan. Solicitors' funds are often regarded as emergency money but are a convenient alternative if for some reason the borrower does not qualify for a loan from a bank or building society. They are also used extensively during real-estate booms, when a quick purchase-and-sale can yield sufficient capital gain to cover the cost of the borrowed funds and leave a good profit. Solicitors' funds are different from solicitors' trust accounts, which hold money in trust for clients. See **trust fund.**

South Sea Bubble an often-used example of how reckless business enthusiasm can lead to boom-and-bust. The South Sea Company was formed in 1711 in the UK and launched ambitious plans for developing trade with South America and the Pacific. Its schemes included paying off the UK national debt, and even the British king and the parliament got involved in the company. Shares in the South Sea Company soared in price, then suddenly collapsed. The bubble burst and left a legacy of caution in the UK about forming new companies that lasted about a century.

sovereign risk the extra dimension of risk involved in international, as distinct from domestic, transactions. Sovereign risk is an aspect of the credit proposal that is additional to the usual commercial risks such as credit, foreign exchange and transport risks, and is outside the individual borrower's control; it can override the borrower's willingness and ability to repay financial obligations, even though the borrower may be a government. Sovereign risk implies the possibility that conditions will develop in a country which inhibit repayment of funds due from that country, such as exchange controls, strikes or declarations of war. An international lender should (but does not always) compensate for perceived sovereign risk by adjusting the interest rate charged. International banks impose lending limits on their business with foreign countries, although that is not foolproof. Also *country risk.* See **rescheduling.**

SPAN *abbrev.* **Standard Portfolio Analysis of Risk.**

special drawing rights international reserve assets used since 1969 by the International Monetary Fund countries to settle transactions between themselves and to help balance international liquidity. SDRs, an important feature of the international monetary system, are regulated by the IMF, which allocates them to each country according to a scale of quotas. *Abbrev.* **SDR.** See **International Monetary Fund.**

Special Service Providers cooperatively owned industry bodies which are supervised by the Australian Financial Institutions Commission. They provide their members with a range of services, including treasury, settlement and funds management. *Abbrev.* **SSP.** See **Australian Financial Institutions Commission, building society, credit union.**

specie gold and silver used to back paper money, or money in the form of precious metal (usually gold or silver) which was considered superior to coins in base metal or paper money. The end of the gold standard meant an end to the formal link between money supply and specie. See **gold standard.**

speculative grade a bond or note rated no higher than BB by Standard & Poor's or no higher than Bal by Moody's Investors Service. See **investment grade.**

speculator a trader in any market who uses the market purely to make a profit, who may not have any direct interest in the commodity traded. The speculator often takes big risks, but does so deliberately in the hope of reaping a big gain.

SPI *abbrev.* **share-price index futures contract.**

SPIN *abbrev.* **Standard & Poor's 500 Index Subordinated Notes.**

split trust a unit trust offering a combination of units producing either income or capital growth, with investors usually able to switch between the two.

spot in foreign-exchange and gold markets, spot trading is today's trade, deliverable two days hence. See **spot month.**

spot deferred rolling funding arrangements offered by gold banks to gold-producers, structured with no fixed term but able to stay in place for five years with the rate periodically renegotiated.

spot market the part of the market calling for spot settlement of transactions. The precise meaning of `spot' will depend on local custom for a commodity, security or currency. In Australian, US and UK foreign-exchange markets, `spot' means delivery two working days hence. See **forward market.**

spot month the closest listed contract in futures trading, and usually the most active.

spot/next a term applied to a currency transaction for spot value against that of the next working day (ie, three working days hence, assuming `spot' is two-day value).

spot price/rate the price or rate for spot settlement of a transaction.

spot-against-forward foreign-exchange shorthand for a trader's spot position against his or her forward position, involving the purchase of a currency or commodity against a forward commitment. Banks (and companies) can offset an imbalance in their forward books by holding a corresponding spot amount of the relevant currency or commodity. See **spot, spot market, spot/next, spot price/rate.**

spread the difference between the buying and selling rate (also the margin above a benchmark rate such as LIBOR). Banks quote a spread on their buying and selling rates, which means that when you buy your yen for a trip to Japan you find you get a different number of yen for your $A than you get on the way back when you change your yen back into dollars, even if the exchange rate has remained unchanged. Spreads in rates can widen if dealers are uncertain about currency movements or if a money-changer (*bureau de change*) is out to make a large profit. Investors hoping to profit from the narrowing or widening of the spread between different options use one or more of the various option spread strategies. See **combination, intermonth spread, negative interest, option spread, screw rule, straddle.**

spread option an option strategy to lock in an interest-rate spread. See **option spread.**

spread order an order to buy or sell a series of options in a specified spread. The order is carried out only if the floor trader can secure the spread that has been requested.

spreadsheet a worksheet, consisting of columns and rows, which has been used more extensively in financial modelling with the development of computer technology and software. Useful in analysing `what-if' strategies, as variables can be changed and the computer automatically recalculates the results.

spreadtion see **spread option.**

square balanced. A trader is square if purchases and sales, borrowings and loans, all match. The trader has no `open' position or mismatched maturity, and no need to deal further to even the book.

squawk box loudspeaker system used in foreign-exchange and fixed-interest trading between brokers and dealers.

squeeze most commonly used in futures to indicate that pressure is being applied to the market — as when the deliverable supply of a commodity is insufficient to cover open futures positions, with the result that holders of sold futures contracts must bid up the price of futures to close out their contracts. This is a *bull squeeze,* where supply is not enough to cover open positions; the opposite would be a *bear squeeze* (which rarely occurs), where sellers want to deliver, which pushes prices down.

SRD *abbrev.* **statutory reserve deposit.**

SRO *abbrev.* **self-regulatory organisation.**

SSAs *abbrev.* **State Supervisory Authorities.**

stag someone who makes a quick killing on the stockmarket by subscribing to a new issue and selling the shares for more than par value as soon as trading opens.

STAGs *abbrev.* **sterling transferable accruing government securities.**

stale bull a disgruntled stockmarket animal; a former optimist who has run out of steam, become disenchanted with an investment and sells rather than holding out longer in the hope of more profit. The very action of selling can push prices down, seeming to justify the stale bull's loss of confidence.

stamp duty a duty imposed at state level on certain legal instruments and commercial transactions. The application of stamp duties varies from state to state. See **financial institutions duty.**

standard deviation in statistics, a measure of the spread of data; the degree to which observations differ from the mean.

Standard & Poor's an influential US corporate credit-rating bureau. See **Dunn & Bradstreet, Moody's Investors Service.**

Standard & Poor's 500 a US stockmarket measure, based on the performance of 500 widely held shares, calculated by the ratings agency Standard & Poor's. Futures and options on the Standard & Poor's 500 are traded on the Chicago Mercantile Exchange and options on the Chicago Board Options Exchange. *Abbrev.* **S&P 500.**

Standard & Poor's 500 Index Subordinated Notes created by Salomon Brothers Inc and traded on the New York Stock Exchange, these notes incorporate the features of debt, equity and options. They offer the investor the chance to make a four-year loan to Salomons, with no payments until the loan matures but with repayment of principal on maturity plus interest that is tied to the performance of Standard & Poor's 500 stock index. *Abbrev.* **SPIN.**

Standard Portfolio Analysis of Risk developed in 1988 by the Chicago Mercantile Exchange, this has become the most widely used margining system in the international futures industry, used in all registered exchanges and clearing houses in the US and many in Asia and Europe. The system has been adopted by the Sydney Futures Exchange Clearing House. SPAN takes a portfolio-style approach to margining futures and options, assessing what the risk on a portfolio will be, given changes in futures prices and option volatilities. In making its calculations, SPAN subjects the portfolio to sixteen different risk scenarios where futures prices and volatilities are modified to varying degrees. The resulting highest margin liability is then used as the basis for determining initial margin levels. *Abbrev.* **SPAN.**

State Supervisory Authorities see **Australian Financial Institutions Commission.**

statement in a commercial context, a statement may be:

- a financial statement such as a profit-and-loss account or a balance sheet;
- a bank statement showing transactions in the customer's account and the debit/credit balance;
- a statement of account, for example from a department store, itemising what has been spent and showing the amount due.

See **statement of affairs.**

Statement of Accord an agreement on economic policy first made between the Australian Labor Party and the Australian Council of Trade Unions in February 1983, setting out policies on prices and incomes. The Accord provided for continual consultation between the government and the trade union movement and laid the basis for the establishment of the Economic Planning Advisory Council. The Accord has been credited with bringing a period of relative industrial peace to Australia, although as both sides sought advantages it underwent several reincarnations as Accord Mark 2, Mark 3 etc. See **Economic Planning Advisory Council.**

statement of affairs a list of assets and liabilities, similar to a balance sheet, of an insolvent company or individual whose business may be wound up. The statement of affairs would be prepared for the benefit of creditors who need an estimate of the worth of the company or individual.

statistics the collection, analysis and interpretation of figures; the word can also mean the numbers themselves. Australia's official statistics collector is the Australian Bureau of Statistics in Canberra. Benjamin Disraeli expressed the feelings of many when he said: `There are three kinds of lies: lies, damned lies and statistics.' Even more colourfully, Andrew Lang said on the same subject: `He uses statistics as a drunken man uses lamp-posts — for support rather than illumination.'

statutory lien see **lien.**

statutory reserve deposit a percentage of its deposits that a bank was required to lodge in an account with the Reserve Bank of Australia. Statutory reserve deposits were in place from 1960 to 1988 when funds in these accounts were transferred to *non-callable deposits,* also lodged with the Reserve Bank. *Abbrev.* **SRD.** See **non-callable deposits, prime assets ratio.**

step-down floater a security designed to provide a generous spread over LIBOR during the initial years of its life but offering a decreasing yield over time.
step-down swap an interest-rate swap with a drop in the fixed-rate payment over the life of the swap; or a type of amortising swap with successive reductions in the notional principal amount.
step-up cap a cap that includes an incremental strike price at each rollover.
step-up recovery FRNs floating-rate bonds with interest calculated using a formula based on a theoretical ten-year US treasury bond. *Abbrev.* **SURFs.**
step-up swap an interest-rate swap with an increase in the fixed rate at some point in the swap's life, or an accreting swap with successive increases in the notional principal amount.
sterilised intervention central bank intervention in foreign-exchange markets where the impact on domestic liquidity (interest rates) is offset. For example, a central bank might sell (a rising) domestic currency — which boosts domestic liquidity — and buy foreign currency, but simultaneously sell government securities, draining funds out of the system — which offsets the liquidity effects of its foreign-exchange activity. See **non-sterilised intervention.**
sterling transferable accruing government securities a UK copy of the US's TIGRs and CATs, these are euro-sterling zero-coupon government bonds backed by gilts. *Abbrev.* **STAGS.** See **ZEBRAS.**
STMM *abbrev.* **short-term money market.**
stochastic process developing in accordance with a model built on probability; a mathematical process tracking the occurrence of a random phenomenon, often used to describe changes in the price of a security. Calculating stochastic processes is often the basis of a model for valuing options.
stock interchangeable with equities, shares and bonds. It can also mean a company's inventory of goods.
stock exchange the marketplace for trading equities (shares), government bonds and other fixed-interest securities. Stock exchanges date back to seventeenth-century Europe, where traders met in coffee houses to transact business. Modern exchanges evolved from those early meeting places. The exchanges are widely

referred to as bourses, after the French for `purse'. Stock-exchange activity in Australia began in 1828 and was boosted by the Victorian gold rush of the 1850s, when exchanges were established in Bendigo and Ballarat. By the end of the nineteenth century exchanges had been set up in Sydney, Melbourne, Hobart, Brisbane, Adelaide and Perth. In April 1987 the capital-city exchanges were amalgamated into the Australian Stock Exchange (ASX). The network of exchanges is linked electronically with the Sydney-based ASX. See **Australian Stock Exchange Limited, bourse.**

stock index futures see **share-price index futures.**

Stock Exchange Automated Quotations the London Stock Exchange's price information system for international securities — the exchange's version of **NASDAQ.** *Abbrev.* **SEAQ.**

Stock Exchange Automated Trading System the computer-assisted trading system developed by the Australian Stock Exchange. *Abbrev.* **SEATS.**

Stock Exchange of Singapore Dealing and Automated Quotations system launched in February 1987, this is a screen-based trading system operating as a second securities market in Singapore. Companies can be quoted on the exchange's main board or on this system. *Abbrev.* **SESDAQ.**

stockbroker a person whose business is buying and selling shares and securities on behalf of others (clients), earning a commission (brokerage) on the trades. Stockbrokers advise clients which shares best suit their investment requirements, and most broking firms operate extensive research departments which constantly analyse company performances and market trends. Changes to stock exchange regulations in 1984 changed the nature of stockbroking in Australia: negotiated instead of fixed commissions were introduced and broking firms were given freedom to become incorporated companies. The changes — a virtual deregulation of the broking industry — led to a drawn-out shakeup, with firms being merged, acquired or extinguished. A number of banks and merchant banks teamed with or bought broking firms; in some cases these were short-lived alliances and many banks disengaged themselves from stockbroking as part of their retreat to core banking activities in the early 1990s. Also *sharebroker.* See **incorporated, partnership.**

stop order see **stop-loss order.**

stop-loss order a client's instruction to a broker to sell if the stock falls to a particular price. A sharp fall in prices can trigger stop-loss orders and exaggerate an embryonic trend. This effect is much magnified by high-speed electronic trading, which enables market prices to become extremely volatile. Stop-loss orders are used more in Australian futures and options trading than in the share market. They are common in the US, particularly in the context of margin accounts.

stop-on-close order a futures market order left resting in the market so that if the stop-loss is activated within the last five minutes of trading the order is executed at market. *Abbrev.* **SOC.**

straddle a volatility-based options trade whose purpose is to allow profits to be made by traders who believe that a market will either remain in its prevailing price range (leading to a short straddle) or else move outside that range (indicating a bought straddle). In a bought (long) straddle, a trader simultaneously buys a put and a call option with the same strike price and same expiry date. A short straddle is where those options are sold. See **spread.**

straight-date run a forward-rate agreement (FRA) written on 12 March for value on 12 June qualifies as a straight-date run, ie, the days of the month match. If 12 June fell on a weekend then the end date would be the Monday or nearest business day and would still qualify as a straight-date run. See **odd run.**

strangle see **combination option.**

strapper an inexperienced dealer (the money market's equivalent of the racehorse trainer's stableboy), whose duties would be confined to keeping a record of transactions and helping with settlements.

stress testing marking a portfolio of derivatives (options, futures contracts, swaps) to market and then analysing the impact on its value of large price movements. The method predicts the effect on the portfolio of unfavourable shifts in interest rates and exchange rates.

strike price the price at which an option on a particular futures contract may be exercised. The strike price is set when a trader enters into an option contract and it must be the prevailing price of the commodity in the futures delivery month to which the option relates. Also *exercise price.* See **option trading.**

STRIP *abbrev.* **separate trading of registered interest and principle of securities.**

strip hedge a series of risk-management positions using forward or option contracts whose expiry dates suit the risk being hedged.

stripped bond a bond whose coupon has been separated from the bond certificate, enabling the bondholder to defer income. See **separate trading of registered interest and principal of securities, zero coupon bonds.**

structural deficitsee **deficit.**

structured security see **bear floater, inverse floater, reverse floater.**

STUF *abbrev.* **short-term underwriting facility.**

suasion see **moral suasion.**

subordinated loan a type of loan which ranks behind other debts should a company be wound up. Typical providers of subordinated loans are major shareholders or a parent company. An outside party providing funds through a subordinated loan would want compensation for the loan's status, for example through a higher interest rate. (A loan's status, whether subordinated, secured or unsecured, is spelled out in the contract between borrower and lender.) Investment banks and finance companies in Australia have used subordinated loans to boost their potential borrowing base, to demonstrate parent company back-up or to lift their credit rating. From the recipient's point of view, a subordinated loan offers advantages similar to increased capital, but with greater flexibility in that the subordinated loan can be repaid fairly easily. See **Tier 2 capital.**

subpoena an instruction issued by a court to a person to appear in court or before an examiner or referee as a witness, either to give evidence or to present documents specified in the subpoena and give evidence about these documents. From the Latin *sub poena,* under penalty.

subscriber someone who agrees to buy shares or other securities such as bonds.

subscription payment for shares or other securities.

subscription warrant see **warrant.**

subsidiary a company under the parentage of another company which controls its board. Unlike a branch, a subsidiary company is its own entity and pays its own tax. Subsidiary status is formally defined in section 46 of the Corporations Law.

subsidy government or other support of an industry, or section of the community or company or individual, often to encourage productivity or compensate the disadvantaged. An industry subsidy can result in consumers paying less for a product than it cost to produce. It can also help local industry remain competitive with imported goods, or help exporters compete in foreign markets.

substantial shareholder a shareholder whose shares total more than 10 per cent of a company's issued capital. Substantial shareholders must advise the stock exchange of any purchase or sale that changes their holding.

sunrise industries high-technology manufacturing industries featuring automated and computerised processes. On these industries, it is said, the economic sun is rising.

sunset clause a provision, inserted in a set of regulations, for the expiry of specified arrangements should certain conditions prevail.

superannuation a pension or payment to a person retiring from full-time work on reaching a legislated age. The term also refers to the accumulating contributions by employers and employees to a superannuation fund. See **annuity, allocated pension, approved deposit fund, eligible termination payments, highest average salary, rollover fund, superannuation bonds, Superannuation Guarantee levy, Superannuation Industry (Supervision) Act.**

superannuation bonds similar to life insurance bonds in concept but with a different tax structure and subject to superannuation rules. **See insurance bonds.**

Superannuation Guarantee levy a minimum level of superannuation contribution which employers have to make on behalf of most employees. Initially set between 3 and 5 per cent of the employee's wage, depending on payroll size, the levy was to increase to 9 per cent by 2002 and to be supplemented by a smaller compulsory contribution by the employee.

Superannuation Industry (Supervision) Act the key piece of legislation governing superannuation funds, it underpins the authority of the Insurance and Superannuation Commission and defines the responsibilities of trustees. *See* **Insurance and Superannuation Commission.** *Abbrev.* **SIS.**

supply and demand the law of economics that formalises the commonsense notion that the price of any item is determined by how much of it is available and how many people want it. The First Law of Demand says that when the price of a commodity rises, the amount demanded falls, and *vice versa.* On the other hand, when the price rises, more of that commodity generally is supplied. It is a fundamental theorem in economics that these interactions of supply and demand determine the price at which exchanges are made. A `special' price is the `market-clearing' price, which is the price level at which the amount that people demand is equal to the amount supplied. Changes that affect people's demands and supplies also affect the market-clearing price. For example if, whatever the price, less of a commodity is available, or if more is demanded, its market-clearing price will rise. Subsidies and taxes also can affect the market-clearing price and the amounts that are supplied and demanded. A commodity tax, say, means that the price received by sellers is below the price paid by buyers. Less is produced and sold than without the tax. In this way, subsidies and tax can distort market processes.

supply-side economics the economic approach that focuses on encouraging production instead of controlling demand. Supporters of supply-side economics favour tax cuts because these (they believe) will stimulate production and investment by wealthy individuals so that all society benefits in the long run. The approach challenges Keynes's 1930s position that the important objective is the management of demand. Supply-side economics also challenges the monetarist view that the most effective way to regulate demand is to control the growth in the money supply. Supply-side supporters say that government moves to boost private-sector demand through deficit spending are a source of instability. Supply-side ideas gained ground because they seemed an attractive answer to the problem of inflation. They were also politically attractive as a rationale for cutting tax rates for those on high incomes. Critics of supply-siders say they exaggerate the incentives that might be produced by tax cuts, as do critics of the Laffer curve. See **Keynes, John Maynard,** in economists, Laffer curve, monetarism.

SURFs *abbrev.* **step-up recovery FRNs.**

surrender value what the life office will pay if you choose to cash in your policy before its expiry date.

sushi bonds foreign-currency bonds issued by a Japanese company, aimed at Japanese investors, often insurance companies, who are under restrictions regarding their purchases of foreign bonds — they can claim a sushi bond is not a foreign bond as it is issued by a Japanese company.

suspension a temporary halt in trading in a company's shares. The suspension can be at the instigation of either the company or the stock exchange, pending an announcement by the company or a decision by the exchange.

swap assignmenta situation where a client transacts a swap with one party and then assigns the swap to another counterparty, thus stepping aside from the deal, receiving or paying a net sum from the difference in the value of the deal. Also *swap novation.*

swap buyout the reversal of an existing swap, with the difference in market value of the swap paid out, thus eliminating the credit exposure and continuing the contractual obligation.

swap novation see **swap assignment.**

swap rate the fixed-rate payment on a swap.

swap-driven issue a bond or note launched simultaneously with an agreement to a swap transaction.

swaps the exchange of one entitlement for another. They can be interest-rate swaps (the larger category) or cross-currency swaps. With interest-rate swaps two parties swap their form of borrowings (they do not exchange principal amounts) because the interest-rate structure of each suits the other better; for example, a borrower with fixed-rate funds could swap with another for floating-rate payments. Interest-rate swaps are used either to achieve lower borrowing costs or to gain entry to fixed-rate markets that would otherwise be inaccessible or too expensive. Interest-rate swaps can also be used to back up a view of interest rates, eg, a borrower may swap from fixed to floating rates if he or she believes that rates are likely to fall. See **amortising swap, annuity swap, asset-based swap, basis swap, blended interest-rate swap, callable swap, cocktail swap, commodity swap, currency swap, deferred payment swap, discount swap, dual-coupon swap, dual-currency swap, fixed-fixed currency swap, fixed-floating rate swap, in-arrears swap, non-**

par swap, puttable swap, rate differential swap, rollercoaster swap, step-down swap, step-up swap, unmatched swap, zero-coupon swap.

swaption see **interest-rate swap option.**

sweetener a condition added to a share issue or offering of securities that enhances its appeal to investors; for example, notes that are issued with the option of converting into equity at a later date.

SWIFT *abbrev.* **Society for Worldwide Interbank Financial Telecommunications.**

Swiss Options and Financial Futures Exchange Switzerland's electronic financial futures and options exchange which began trading in 1988. *Abbrev.* **Soffex.**

swissy foreign-exchange dealers' shorthand for Swiss francs.

switching simultaneous selling and buying of securities which differ in maturity or coupon or type, to improve the investment return.

Sycom *abbrev.* **Sydney Computerised Overnight Market.**

Sydney Computerised Overnight Market an after-hours screen-trading system introduced by the Sydney Futures Exchange in November 1989 to enable contracts to be traded outside trading-floor hours. Much activity originates in New York and London. *Abbrev.* **Sycom.**

Sydney Futures Exchange established in 1960 as the Sydney Greasy Wool Futures Exchange. The exchange was renamed in 1972 to reflect its diversification from wool. A cattle futures contract was introduced in 1975, followed by gold in 1978. The SFE became the first futures exchange outside the US to offer financial futures when, in 1979, it launched a 90-day bank bill futures contract. This was followed by the introduction of currency futures in 1980 and a share-price index futures contract in 1983. A ten-year government bond futures contract was launched in 1984, exchange-traded options began trading in 1985 and three-year bond futures arrived in 1988. Options are available on bank bills, government bonds and share price index futures. In 1991 the SFE acquired the business of the New Zealand Futures and Options Exchange. In 1994 the SFE launched Individual Shares Futures and by mid-1995 listed ten share futures contracts. In 1994 the exchange also announced a link with the New York Mercantile Exchange (Nymex) through which SFE members can trade Nymex's energy products including the West Texas Intermediate crude oil contract. See **futures contract, futures markets, International Commodities Clearing House, local, London International Financial Futures Exchange, Sydney Computerised Overnight Market, Sydney Futures Exchange Clearing House.**

Sydney Futures Exchange Clearing House the clearing-house system developed by the SFE which began operating in December 1991. SFECH replaced the arrangement between the SFE and ICCH. *Abbrev.* **SFECH.** See **ICCH.**

syndication pooling of resources by financial institutions in a financing project to spread the risk. Individual return from the investment is proportionate to the degree of risk or amount of funds that each has put up or underwritten.

synthetic option a product that is created using forwards or futures to allow a company to control its losses on, say, interest rates or currencies, while still retaining the potential to make gains. A synthetic option uses a mix of forwards or futures and options to create a different option profile, for example buying futures and buying puts, which gives the same result as buying a call outright but hopefully locks in a margin.

synthetic agreement for foreign exchange a forward-rate agreement in foreign currency which operates like a hedge contract for a specific period. *Abbrev.* **SAFE.**

systemic risk the risk of an event affecting the whole financial system. It arises from the threat of a chain reaction or domino effect if, say, a major institution fails, triggering the widespread calling-in of interlinked liabilities.

T

T+5 trade date plus five days — a financial markets regime, common throughout the world, specifying that transactions must be settled no later than the fifth business day after the date of the trade. Computerisation of markets and the advent of `paperless' trades is expected to bring the widespread adoption of a T+3 regime.

T/T *abbrev.* **telegraphic transfer.**

TABs *abbrev.* **Treasury Adjustable-Rate Bonds.**

tailgating a broker placing an order on his or her own account on the tails of a customer's order, hoping to take advantage of the effect of the customer's transaction on the market. Illegal. See **deal trading.**

take a bath trade badly. Usually used to describe a substantial loss that results from speculation.

takeover the acquisition of a controlling interest in a company by another company through the purchase of its shares. The acquired company's identity is often absorbed into that of the company taking it over. Because of the predatory connotations of the word `takeover', those in the business often prefer to talk of `mergers and acquisitions', suggesting a joining of two willing partners (although this is not always the case and realists speak plainly of `hostile takeovers'). Takeovers can be effected through a formal takeover offer, an on-market offer or various less common means.

The *formal takeover offer* is the most common. Before the offer is made, a Part A Statement is given to the target company. The Part A outlines information such as the terms of the offer, how it is to be financed, the intentions of the offeror and any other information which is material for shareholders in deciding whether or not to accept the offer. The offer, together with the Part A Statement, is subsequently sent to shareholders of the target company. The company receiving the Part A Statement then arranges for a Part B Statement, incorporating information on itself and the directors' recommendation on the offer, to be provided to its own shareholders and to the offeror company. The offer must be open for at least one month and the same price must be offered to all shareholders. An *on-market offer* involves a stockbroking firm undertaking to buy, on behalf of the offeror and at a specified price, all shares of the target (offeree) company offered in the market for a period of at least one month. This offer requires a Part C Statement and a Part D Statement, similar to the Part A and B statements required for a takeover offer, and also falls under ASC supervision. See **merger and acquisition, hostile takeover, offeree, offeror, on-market.**

taking a view forming an opinion on market trends, such as the direction of interest rates or inflation, and acting on it.

tap stocks securities constantly available (`on tap'), usually at a known price. Before the introduction of the bond tender system in 1982, commonwealth bonds were available for purchase each day from the Reserve Bank at a predetermined price. See **tender.**

targeted shares securities issued by a company, usually a conglomerate, with the return linked directly to a specific operating unit. Dividends reflect the financial performance of the `targeted' division rather than that of the overall group to which the division belongs.

tariff a schedule of charges levied on imports, either to raise revenue or to protect local industry and supposedly increase employment. Tariffs interfere with the flows of international trade and a number of efforts have been made to persuade countries to reduce tariff levels. See **Asia Pacific Economic Cooperation, General Agreement on Tariffs and Trade, North American Free Trade Association.**

taxation the compulsory transfer, usually of money, from the private sector to the government, for public purposes. Taxation is one of the three main sources of government revenue. The government raises the funds it needs to finance its expenses and payments through taxation, charges and borrowings. The notion that workers pay the government through their taxes is embalmed in the oftheard indignant phrase `a third of the time I'm working for the government' — a common observation among taxpayers. Australia operates a progressive tax system where the amount the government extracts from your salary will depend on the amount you earn; tax is levied at rates which increase with income so that lower income earners pay a smaller proportion of their wages in taxes than do those on higher salaries. Governments would liken the tax system to the Robin Hood legend — taking from the haves to provide for the have-nots — but taxpayers tend to regard the taxman more in the light of a Ned Kelly.

Tax on personal income in Australia dates back to 1884, when it was introduced in South Australia. Other states followed and the commonwealth started taxing in 1915. Between 1915 and 1942 income tax was levied by both state and federal governments. Control of personal tax shifted to the commonwealth during the Second World War, and stayed there by agreement of the states which take their share by way of grants. Tax is collected by various methods. Tax levies are:

- *PAYE* or pay-as-you-earn tax, which is deducted in instalments at source by an employer from employees' wages and salaries. PAYE was introduced in Australia in 1942, in the US in 1943 and in the UK in 1944;
- *provisional* tax which is an estimate of the amount payable on income for the current year by self-employed people such as dentists and doctors and small-business people who do not make PAYE instalment payments. A wage or salary earner can be liable for provisional tax if he or she receives additional income through interest payments, investments, royalties or moonlighting or when insufficient PAYE deductions have been made;
- *payroll* tax is levied on business in proportion to the amount paid in wages and salaries. Payroll tax was introduced in 1941 as a federal government tax, initially as a way to fund child endowment payments, but this link was removed in the early 1950s. Payroll tax was transferred from commonwealth to state control in 1971 and has become a major source of state revenue.

Other forms of tax are *company tax* (instalment system), *prescribed payments system* (PPS) and *reportable payments system* (confined to payments in the clothing and fishing industry). The classification *indirect tax* is widely used to describe levies such as sales tax, purchase tax, customs and excise. See **indirect taxation, withholding tax.**

tax avoidance the use of lawful means to minimise a tax bill. In contrast to tax evasion, avoidance legally exploits loopholes in tax legislation, interpreting the letter rather than the spirit of the law, to reduce tax liability. See **tax evasion.**

tax evasion illegal attempts to avoid paying tax, for example by not accurately reporting all income, overstating deductions or, in extreme cases, leaving the country. See **black economy, tax avoidance.**

tax haven a jurisdiction which attracts business through low tax rates. Well known examples are Monaco, the Cayman Islands, Switzerland, Liechtenstein and the Bahamas. Companies like to have their `brass plates' in such places even though their business is carried out elsewhere. The cost of living in some of these idyllic spots would deter all but the wealthiest. Companies do not have to live there, though — establishing a holding company in a tax haven would be enough for the transfer of money. The use of tax havens as tax shelters has been repressed by the introduction of the Controlled Foreign Company regime which applied from 1 July 1990. Tax havens have also been set up by governments keen to win foreign business and to develop a major financial centre in their country. In these cases, banks, including foreign banks, have been allowed to operate with more favourable tax rates, but often as `offshore banking units' outside the domestic financial system. Also *tax shelter.* See **offshore banking unit.**

tax loss where total expenses are more than total income for taxation purposes. People often try to create tax losses in an attempt to minimise their tax bill. A business can incur a loss for tax purposes but a profit for accounting purposes; hence a tax loss can be distinguished from an actual loss, for example, in the case of someone letting a house, making a tax loss but still doing well out of the exercise because of a capital gain. Intricate tax loss schemes have been devised by nimble accountants for those who have accumulated too much taxable income.

tax minimisationa polite term for the objective involved in tax avoidance. The goal remains to pay the government as little as possible in taxes while remaining within the law.

tax promoter someone who markets schemes for tax avoidance or tax evasion. See **bottom-of-the-harbour.**

tax shelter see **tax haven.**

tax-effect accounting a method of bringing income tax expenses into account during the period in which the expenses are incurred, rather than the period in which the income tax is payable.

tax-loss selling trading securities from a portfolio at rates which deliberately create a loss which is useful for minimising tax. Also tax-loss switching. See **tax loss.**

technical analysis see **charting.**

technical correction the reversal of a market trend in which the prices (of shares or bonds) have moved too far too fast in one direction. Also *technical reaction.* See **technical rally.**

technical rally a sudden improvement in prices after a lull or fall; a downward movement in interest rates after a period of rising rates. See **technical correction.**

technical reaction see **technical correction.**

teigaku certificate the commonest form of savings instrument offered by Japan's postal banking service. It offers compound interest, paid semi-annually, to the small saver. Compound interest is unusual in Japan so this is a popular investment. The minimum maturity is six months, then withdrawals can be made at any time. Funds can be left for up to ten years.

telegraphic transfer used to transfer funds between financial institutions, for example, for the rapid settlement of a foreign-exchange transaction. *Abbrev.* **T/T.** See **SWIFT.**

ten tola bar a gold bar weighing 3.75 ounces, widely used in the Asian markets.

tender a type of auction, with written bids sought for the purchase of a commodity, often bonds or other securities. Commonwealth government bonds have been sold through periodic tenders since July 1982, with those wishing to buy submitting their bids at the allotted date and time to the Reserve Bank. Treasury notes have been sold through regular (usually weekly) tenders since December 1979.

term certain annuity an annuity with payment terms and conditions set down at the outset and not open to change.

term deposit money placed for a fixed period at a stated rate of interest which will apply for the duration of the deposit. See **fixed deposit.**

term insurance a life policy under which the benefit is payable only if the life insured ends before the specified age or date. In most cases, if the person insured outlives the term of the policy he or she gets no payout; so term insurance can be said to be similar to taking out an insurance policy against burglary and not being robbed. It is the cheapest form of life insurance because it provides death cover only, has no investment content and does not attract bonuses. See **endowment, whole-of-life policy.**

term to maturitythe number of days, months or years until a loan, bill of exchange, bond, insurance policy or other security becomes due for repayment.

testator a male person who has made a will.

testatrixa female person who has made a will.

Texas hedge a faulty strategy that increases the risk; what looked like a hedge (protection) turns out instead to increase the exposure.

theta the rate at which the price of an option changes as time passes (time decay). Represented by the Greek symbol (θ).

thin market a market characterised by low activity, lacking in depth or volume, so that large transactions can cause large movements in price. A thin market for a particular security can indicate a lack of demand for or supply of that security; a generally thin market indicates holiday times, the silly season or dealers sitting on the sidelines because of uncertainty or lack of interest.

third currencies currencies in transactions which do not include the local currency; for example, in Australia this could apply to trading $US for yen.

Third World underdeveloped countries. The term was first used in 1947 by the French geographer René Dumont, although many of the countries it was intended to describe have since become industrialised. First World countries are the advanced industrialised nations, the Second World consists of poor but promising economies such as those of eastern Europe and the Third World is those which need the aid of the others if they are to achieve any economic growth. Some `basket-case' economies have necessitated the introduction of a `Fourth World' category, implying desperate poverty.

30/20 regulation a former requirement that life insurance companies and superannuation funds hold no less than 30 per cent of their assets in public securities, with at least 20 per cent of total assets in commonwealth securities, in return for tax concessions. The rule was intended to entice, or force, loan funds into public use. Following the Campbell and Martin reviews of the Australian financial system, the regulation was removed in September 1984.

thrift institution a US savings institution which attracts individuals' savings and lends them for housing. The two main categories are savings-and-loan associations and mutual savings banks. Thrift institutions suffered when interest rates rocketed and money-market funds could pay far higher interest rates than the thrifts could afford (since their mortgages were largely provided on the basis of fixed interest rates).

TIBOR *abbrev.* **Tokyo Inter Bank Offered Rate.** See **HIBOR, LIBOR.**

tick movement the minimum price movement in a futures contract, as defined by each contract's regulations. For example, a bank-bill price movement from 83.02 to 83.03 would be a `one-tick movement'.

Tier 1, Tier 2 see **capital adequacy.**

TIFFE *abbrev.* **Tokyo International Financial Futures Exchange.**

tight money cash in short supply. Interest rates will rise, making money more expensive. See **easy money.**

TIGR *abbrev.* **treasury investment growth receipt.**

Tijuana spread a futures play in which a trader takes a huge position in the market and buys a ticket to Tijuana — then uses it if the position proves a loser.

time decay the loss of an option's value as it approaches its expiry date.

time spread see **interdelivery spread, option spread.**

time value in the context of options trading, the difference between an option premium and the intrinsic value of an option (the amount by which the option is in the money). Time value is affected by implied market volatility as well as the time remaining before the option expires. Also *extrinsic value.*

time-sharing two or more companies or individuals sharing the use of, say, a mainframe computer or a holiday home.

title the right to ownership of property, or the documents constituting evidence of that ownership. See **Old System title, Torrens title.**

TN *abbrev.* **treasury note.**

Tocom *abbrev.* **Tokyo Commodity Exchange.**

Tokyo Commodity Exchange formed in 1984 by the amalgamation of the Tokyo Gold Exchange, Tokyo Rubber Exchange and Tokyo Textile Commodities Exchange. The exchange trades a range of commodities including gold futures. *Abbrev.* **Tocom.**

Tokyo International Financial Futures Exchange Tokyo's financial futures exchange which began trading in June 1989, offering futures contracts based on three-month euroyen, eurodollars and yen/$US exchange rate, and options on the euroyen contract. *Abbrev.* **TIFFE.**

Tokyo Stock Exchange Japan's largest and oldest stock exchange, which began operating in 1949. The second-largest exchange in Japan is in Osaka and others are Kyoto, Hiroshima, Nagoya, Sapporo, Niigata and Fukuoka. *Abbrev.* **TSE.**

tola unit of weight for gold, usually available in the form of ten tola bars. One tola equals 0.375 ounces

tom foreign-exchange dealers' shorthand for `tomorrow'.

tom/next foreign-exchange market shorthand for tomorrow/next day. It refers to a form of short-date swap, mainly used to try to maximise return on funds. For example, a trader with a surplus of, say, $US has a choice of lending the $US or selling them for $A, investing the $A and buying back the $US next day. If the $A interest rates are higher, it could be more profitable to swap the $US for $A and invest the $A than simply to lend the $US. Thus the trader would (today) sell the $US and buy the $A for settlement tomorrow (tom) and at the same time would buy back the $US and sell $A for settlement the next day (next). The tom/next swap is frequently used in the Australian currency hedge market to try to minimise exposures peculiar to the settlement process of that market. See **hedge market, hedge settlement rate, short-date swap, spot/next.**

tombstone a widely used colloquialism describing an advertisement in a financial newspaper or magazine recording details of a loan or financing arrangement and listing the participants. Tombstones appear after the event and are often edged in black — hence the name.

Topix Tokyo Stock Price Index, replacing the earlier Nikkei index, it consists of the 1000 shares in the Tokyo Stock Exchange's first section.

topping up making up the difference between what you have and what you need, using bridging finance, a personal loan or some other source of extra funds.

toppy traders' jargon to describe a market that has reached a level that equals either a previous or anticipated high, so that the next move forecast is downward — that is, the market is expected to top out or decline. See **bottomish.**

Torrens title the modern simplified system of showing title to land through one document recorded at a central registry. The Torrens system was introduced in South Australia in 1858 by the state's first premier, Sir Robert Torrens. It has since been adopted throughout Australia and is used widely overseas. The Torrens system contrasts with the `Old System' in eliminating the need to store piles of documents. A duplicate certificate of title is held by the owner or registered proprietor (or the mortgagee) and the original remains in the register. In the absence of fraud, being registered as proprietor normally is conclusive evidence of title. See **Old System title.**

TPC *abbrev.* **Trade Practices Commission.**

trade bill (of exchange) the traditional form of the bill of exchange, based on a specific transaction. Accommodation bills evolved out of trade bills. See **bill of exchange.**

trade deficit a shortfall in the trading account of the balance of payments. See **balance of payments.**

trade finance credit provided to overseas buyers, also known as export finance. Such finance is available as:

- supplier credit, under which an exporter allows credit terms to an overseas buyer and then arranges funds to cover these terms from a local financial institution; and
- buyer credit, under which a local financial institution provides

- funds direct to an overseas buyer or other approved borrower so that an exporter can be paid immediately goods are shipped.

Trade Practices Act 1974regulations designed to protect consumers and business; practices such as collusion, monopolies, exclusive dealing, price discrimination, false representation and misleading advertising are declared illegal. Specific exemptions from the act are possible. See **restrictive trade practices, Trade Practices Commission.**

Trade Practices Commission the body responsible for administering the Trade Practices Act through three main functions:

- investigating possible breaches of the act and enforcing its provisions;
- authorising certain exemptions from the act; and
- keeping the public informed of the operations of the act.

The TPC has wide powers to obtain information about activities that could be contravening the act; it can also grant approvals for restrictive practices if it considers the practices may benefit the public interest. Late in 1995 the TPC merged with the Prices Surveillance Authority to form the Australian Competition and Consumer Commission. *Abbrev.* **TPC.**

trade-weighted index an index of the average value of the $A compared with currencies of Australia's major trading partners. The weight given to each currency reflects the level of trade between Australia and the country concerned. Before the floating of the $A in 1983, the trade-weighted index of the $A was the basis for setting the exchange rate each day. The Reserve Bank of Australia publishes the index three times daily (9am, noon and 4pm) as a measure of the average movement of the $A against the currencies of Australia's trading partners. Most other countries publish an index of the average value of their currency. The most significant currencies in the Australian basket are the $US, yen and sterling. *Abbrev.* **TWI.**

trading on the right-hand side a foreign-exchange term indicating that the market sees a currency trading at a higher level than the officially determined midrate; in the case of a floating exchange rate, it describes a currency which is under buying pressure and therefore likely to rise. See **left-hand side.**

tranche a `slice' or portion (from the French), particularly of a loan facility or share issue.

transfer payments government expenditure, such as grants or social security, which is not payment in return for productive services.

transfer pricing a strategy which can be employed by multinational companies to manipulate their financial statements, for example by making sales to another company within the group at artificial prices to take advantage of different taxation regimes. The practice is specifically dealt with under Australian tax laws.

transferable revolving underwriting facility a technique that evolves from a revolving underwriting facility (RUF) and is an alternative to a syndicated bank loan. Banks underwrite the credit but they do not hold the asset which is negotiable and transferable. The underwriting is also transferable. *Abbrev.* **TRUF.** See **revolving underwriting facility.**

treasuries shorthand for US government securities. Treasury bonds are long-term securities issued for more than 10 years and treasury notes are medium-term securities issued for periods of more than one year but less than 10. The shorter-term US government securities are treasury bills, known as T-bills, which are issued for one year or less.

treasury the division of a company with responsibility for fundraising, foreign-currency management, accounting and taxation. The function of the treasury division and the corporate treasurer vary considerably from company to company.

Treasury Adjustable-Rate Bonds floating-rate notes, issued by the commonwealth of Australia since late 1994 as a flexible alternative to existing commonwealth government securities. The coupon rate on the bonds is periodically reset in line with movements in the bank-bill swap rate. *Abbrev.* **TABs.**

treasury bills short-term commonwealth government securities issued by the federal government to the Reserve Bank of Australia to cover short-term funding needs within the government family. Issue of these bills ceased in June 1986. Treasury bills in Australia were the forerunner of present-day treasury notes. The US and UK have treasury bills which are short-term government obligations equivalent to Australia's treasury notes. In the US, treasury notes are longer-term securities. See **treasury notes.**

treasury bonds medium to long-term securities issued through periodic tenders at yields determined by bidders (buyers). Also commonwealth bonds. See **bonds, tender.**

Treasury, Department of the federal government department responsible for the government's revenue and expenditure. It looks after commonwealth fundraising, domestically and overseas, and manages the government's outstanding debt. Treasury advises the federal treasurer, and through him the government, on policies affecting the economy, monetary policy, financial and taxation matters, and prepares the annual budget. The Department of Treasury was created at the time of federation through the Commonwealth of Australia Constitution Act 1901. A separate commonwealth government department, the Department of Finance, looks after day-to-day outlays.

treasury investment growth receipt a breed of zero-coupon US Treasury bond. *Abbrev.* **TIGR.** See **zero-coupon bond.**

treasury notes commonwealth government short-term securities, issued through the Reserve Bank as agent for the commonwealth, for periods of five, thirteen and twenty-six weeks, at a discount from face value. The notes are highly negotiable and are aimed at professional short-term money market investors rather than the ordinary individual. Details of treasury note tenders are generally announced each Monday, with the tender held on the next day and results announced that afternoon. Successful bidders have from Wednesday until the following Tuesday to settle on the notes bought. *Abbrev.* **TN.**

Treaty of Rome see **European Economic Community.**

trickle down economists who support the trickle-down theory believe that a healthy and prosperous business sector is good for the economic growth of the wider community, on the grounds that business wellbeing will spread (trickle) into the other sectors of the economy, giving them a boost. Also, at the level of the individual, incentives such as tax cuts which are introduced to encourage effort at the upper end of the scale will flow through to the lower end. See **multiplier.**

triple bypass a US loan facility with the option of pricing funds relative to bankers' acceptances, the US prime rate or the appropriate eurodollar rate.

triple witching hour US market jargon for the close of trading on the Friday at the end of every quarter when stock options, futures options and futures contracts simultaneously expire. Volumes and volatility rise as traders and speculators close out their positions. Triple witching hour nervousness peaked in the mid-1980s; since then a combination of market changes and greater information flows have reduced its impact. See **program trading.**

troy ounce the traditional unit of weight for precious metals and gems. In the troy system of weights, which is no longer in use elsewhere, the troy pound (0.37 kg) consists of 12 ounces, each of 120 carats. See **carat.**

TRUF *abbrev.* **transferable revolving underwriting facility.**

truncation (of cheques) the process in which cheque details are captured by the payee bank (or its clearing agent) and electronically presented in an agreed format to the drawee bank (the bank on which it was drawn) for payment. Unlike the more common form of presentment where a cheque is physically presented to the drawee bank, a truncated cheque is stored by the payee bank.

trust in the legal and commercial sense, money or property vested with an independent third party (the trustee) to administer on behalf of others (the beneficiaries of the trust). See **trust deed, trust fund, trustee, unit trust.**

trust account an account to accommodate funds entrusted by clients to lawyers, accountants and other professionals such as stockbrokers. In stockbroking, the account must be maintained by a broker to hold funds received from clients for share purchases. Funds are held in the trust account until the broker has to pay out to a seller. The purpose of the trust account is to protect clients' funds against potential defalcation (misappropriation of funds). See **defalcation.**

trust deed a document conveying title to trust property to the trustee and setting out the purpose for which a trust has been formed, the rights and obligations of the trustee, of the trust's manager and of the trust's beneficiaries. The trust deed lays down the rules within which the trust must operate, dictates its investment guidelines and describes how benefits will accrue to the beneficiaries (such as unitholders) under the trust. See **trust, trustee, unit trust.**

trust fund money held on behalf of investors or depositors, to be used in their interests at the discretion of the trustee. Legal requirements and the trust deed limit how trust funds may be invested. Trust funds can also refer to the solicitors' funds which serve as a secure repository for clients' money in periods when the money is not accessible to the client, such as while a will awaits probate. Trust funds of this kind are protected by insurance against mishaps and by a fidelity fund administered by the Law Society of Australia. See **defalcation, fidelity fund, solicitors' funds, trust deed, trustee.**

trustee an appointee who monitors a trust's activities on behalf of the beneficiaries. It is the job of the trustee to ensure that the trust operates within the provisions of its trust deed and complies with legal requirements. The trustee is also responsible for the trust's bank accounts and the safe custody of securities held by the trust. The trustee maintains ownership of the trust's assets on behalf of the beneficiaries (unitholders, in the case of a unit trust), and ensures that these assets are separately held and classified.

trustee status a status conferred on qualified investments named under the various State Trustee Acts in Australia. Commonwealth, semi-government and local government securities are generally treated as acceptable trustee investments, although eligibility differs between states.

TSE *abbrev.* **Tokyo Stock Exchange.**

tunnel see **collar.**

turn the difference (profit) between the buying and selling prices of a parcel of securities or currencies. Traders talk of `making a turn on the deal'.

turnover usually, total sales for a given period (for example, annual turnover of $10 million). The term is also used for the changing of goods (stock) as they are sold and replaced. In financial markets, turnover means the number of times something (usually assets such as trading stock) is replaced by assets of the same class as a result of the company's trading throughout the period. Share and futures brokers talk of `turnover on the exchange' when referring to the volume of shares of futures contracts that change hands.

TV stocks the series of bonds which appear on trading screens (hence TV). These are the current actively traded stocks.

24-hour call money money for which 24 hours' notice must be given by the borrower or the lender of an intention to repay or recall the funds or renegotiate the interest rate, after an initial seven-day period.

Twenty Leaders index see **All-Ordinaries index.**

TWI *abbrev.* **trade-weighted index.**

twin deficits theory the contention that there is a strong link between a current account deficit and a government budget deficit, in the sense that a large budget deficit leads to a large current account deficit. This led to a strong hope, in the late 1980s when the budget moved into surplus, that the current account deficit would also reduce. However, as with all economic theories, the twin deficits theory does not correlate as well in the real world as in the textbook, largely because of the many other influences at work in the real world. For example, in the late 1980s, while the government was operating with a surplus, there was in fact a surge in the current account deficit. This was largely because of the private investment and housing boom, which sucked in imports and increased Australia's reliance on foreign funds to pay for them, factors which outweighed the impact of the absence of federal government borrowing.

two-way price/quote a price which includes a bid and an offer (buy and sell) rate. For example, bond prices and exchange rates are always quoted as two-way prices.

U

ultra vires outside legal authority or beyond the scope of an organisation. In the legendary Hammersmith & Fulham swaps case the UK House of Lords deemed swaps activity *ultra vires* (outside the powers) of the local councils involved. See **Hammersmith & Fulham.**

unappropriated profits see **undistributed profits.**

unbundle to pick apart formerly composite services or risks so that the components can be considered separately. Derivatives enable the risks associated with financial transactions to be unbundled, eg, one derivative can be used to manage currency risk and another to manage the interest-rate risk of the one transaction. Also, the services of a bank, broker or financial institution are described as unbundled when no single service is priced so cheaply that it is subsidised by another. Each service is marketed and priced on its own merit, to be independently viable. See **cross-subsidisation.**

uncertainty principle theory formulated by the German physicist Werner Karl Heisenberg (Nobel Prize 1932 and originator of quantum theory) to explain the existence of a limit to the precision with which the position and motion of a thing can be measured. This imprecision results from the fact that the very application of a measuring instrument — say, a light shone on a particle — will disturb the particle under scrutiny. Heisenberg's uncertainty principle has been said to work in finance as well as physics: merely thinking about an investment will cause its value to rise or fall — depending on whether you already own it or not.

uncertificated shareholding a form of shareholding made possible by the computerisation of company share registers and stock exchange trading. Share certificates are replaced by the periodic issue of holding statements, similar to bank statements. The advantages of uncertificated holdings lie in the speed and security of the FAST and CHESS systems. Most Australian listed companies offer uncertificated holdings. **See CHESS, FAST.**

uncleared funds funds that have been credited to a beneficiary's account but which are not yet available for withdrawal. See **cleared funds, clearing, clearing house.**

uncovered writer see **naked option.**

UNCTAD *abbrev.* **United Nations Conference on Trade and Development.**

under reference a deal which cannot be finalised until it has been referred to the organisation which placed the order. The organisation's name should not be mentioned until the reference has been completed.

undercapitalisation a situation where not enough money is supplied by the owners of a business to support its activities and enable expansion. In an extreme case, particularly if it is vulnerable to competition, an undercapitalised enterprise may not be able to continue in business.

underlying in market-speak, the truncated form of *`underlying item';* the asset, instrument, index or reference rate whose price movement determines the value of a derivative.

underlying rate of inflation see **inflation.**

undervalued currency a currency which is quoted or traded below what is perceived as its true market value, given its country's balance of payments position, economy, interest rates and so on. An undervalued currency will be in demand as traders and speculators believe it will rise and therefore will buy it to make a profit; enough of such buying and expectations become self-fulfilling as demand pushes the currency higher. Exporters' and importers' views on currencies would influence how they manage cashflows. An exporter would bring foreign-exchange receipts into the country if the domestic currency were considered undervalued and therefore likely to rise; an importer would delay payments in the hope that the undervalued domestic currency would rise, thereby reducing the cost of imports.

underwater describes a position so deeply out of the money that the trader would need a snorkel to get out of it. See **out of the money.**

underwater roll where the holder of a position has a mark-to-market loss at the time of a rollover, enabling the loss to be deferred. This can often be a sound commercial risk for one party or the other. See **historical rate roll, rollover.**

underwriter a broker or investment bank, or a number of them forming a syndicate, which guarantees that an issue of securities will be taken up. The underwriter arranges to sell the securities for the client to the public or to other institutions (for a fee) and pays for any `leftovers' that are not bought. The client (borrower) is assured of raising the full amount of money sought.

undigested securities traders talk of a market having `indigestion' when there are more securities on offer than buyers are willing to take at the price asked. The surplus paper is undigested, ie, not in the hands of willing buyers or end-holders.

undistributed profits profits that have not been distributed to shareholders as dividends but which are retained and used in the company's business. They form part of the shareholders' funds of a company. Also *accumulated profits, retained earnings, retained profits, unappropriated profits.*

unfranked dividends dividends paid out of company profits which have not been subject to full Australian tax, or which were derived before 1 July 1986. Such dividends are taxable in the hands of shareholders at their marginal rate. See **franked dividends, dividend imputation.**

unit cost the cost of producing one item, derived by dividing total costs by the quantity of production. The concept, while simple, is an important tool in performance analysis and business pricing.

unit labour cost an indicator of cost pressures in the labour market. The ratio of average labour costs divided by productivity (output per worker per hour worked). The cost of labour in producing one item (unit) of production is a factor influencing price levels. The concept of unit labour costs is used in macroeconomic modelling of the wage-price sector (for example in the national income forecasting model). Unit labour cost can be measured in nominal or real terms.

unit trust an investment product which enables small investors to pool their funds and earn a greater return than if each investor had acted individually. The investors hold units which may fluctuate in value depending on the market performance of the underlying assets. The three components of a unit trust are:

- the trustee (custodian)
- the management company
- the unitholders

The success of a unit trust depends on the expertise and experience of the management company which makes the trust's investments. Unit trusts operate under a trust deed between the management company and a trustee company which holds the trust's assets and distributes income to unitholders. Popular forms of unit trust are *cash management trusts, equity trusts* and *property trusts.* See **mutual fund, trustee, trust deed.**

United Nations Conference on Trade and Development an arm of the United Nations established in 1964 to improve standards of living and international trading conditions for developing countries. It plays a role in international agreements to stabilise commodity prices. *Abbrev.* **UNCTAD.**

unlimited company see **company.**

unlisted security a security that is not registered with a stock exchange and therefore cannot be traded through the exchange.

unmatched swap a swap agreement not matched by an asset or liability of either party, for example a swap undertaken as part of a swap dealer's warehousing activities.

unsecured loan a loan to a company or individual who provides no collateral, so that the lender is entirely dependent on the borrower's capacity and willingness to repay. In the event of a default, the lender has a claim on the borrower's assets but has to go through a legal process to exercise it.

unsecured notes notes issued by finance companies, usually for periods ranging from three months to three years, offering higher rates of interest than a debenture of the same maturity but lacking the security of a debenture.

unwinding reversing or closing out a position in, say, a swap. See **swap buyout.**

upfront at the beginning. Upfront fees are charges payable in advance to, say, a lender or a provider of a service.

upside potential the amount by which a share or security might rise in value. The reverse of **downside risk.**

Uruguay Round the name given to the series of trade talks between 1987 and 1994 among the 116 member nations of the General Agreement on Tariffs and Trade (GATT). The negotiations (which began in Uruguay) achieved many of the major objectives including the introduction of rules covering trade in services, the cross-border protection of intellectual property, liberalised trade in farm products and a general reduction in tariffs. See **General Agreement on Tariffs and Trade, World Trade Organisation.**

usury the charging of extortionate rates of interest. Originally the word meant any lending for profit (interest) but over the centuries it has acquired its particular connotation. In early European civilisations canon law forbade, on biblical grounds (for example, Ex. 22:25, Lev. 25:36, Deut. 23:19), the practice of charging interest on money. In the Middle Ages in Europe, usury — in the sense of charging interest on loans — was wrong in the eyes of the law and the church. The rising tide of commercial activity from the sixteenth century gradually eroded the weight of church influence in favour of commercial expediency. Many ways were devised to evade the anti-usury laws: for instance, bills of exchange escaped through the claim that the discount or interest represented payment for work done. As commercial activity increased, the usury debate switched focus from the principle involved to arguments about the `legal' rate. By the late eighteenth century, the charging of interest had become acceptable in western economies. The prohibition of bank interest remains a tenet of Islamic fundamentalism, a constraint which has led in some countries to inventive ways of restructuring facilities such as housing loans.

utility a synonym, in economists' jargon, for `satisfaction'. It is argued that it is impossible to measure the amount of utility obtained by a person consuming a good or service or to compare it with the satisfaction obtained by somebody else consuming the same good or service. Nevertheless, an individual can tell us which of two bundles of goods and services he or she prefers (that is, which gives him or her the greater satisfaction) and this is usually sufficient for economic analysis. See **marginal utility.**

V

value date the date on which payment is to be made to settle a transaction. A spot transaction organised on a Wednesday (in Australia) would typically have a value date of Friday. See **spot.**

value at risk the expected loss from an adverse market movement over a specified period, estimated using a probability analysis. Using value at risk, a treasury dealer can reduce the complex elements of derivatives to a single concept. Value at risk should cover changes in all major elements of market risk. Also *earnings at risk.*

value-added tax an indirect consumption tax which is levied on goods at every stage of manufacture and handling. VAT was first suggested in Germany in 1918, introduced in Argentina in 1935 and part-introduced in France in 1948. The European Economic Community adopted VAT in 1962. It was introduced in the UK in 1973 and replaced purchase tax and selective employment tax. VAT is generally considered an alternative to forms of direct tax such as turnover tax, sales tax or excise. *Abbrev.* **VAT.** See **goods and services tax.**

value today same-day value.

value tomorrow value next business day.

vanilla product a straightforward financial instrument, such as a standard fixed-interest product with no sophisticated add-ons. Also *straight product.* See **bells and whistles.**

variable deposit requirement a monetary control rule introduced by the Australian government in 1972, under which a proportion of funds borrowed from overseas was lodged with the

Reserve Bank in Australian dollars as an interest-free deposit. The requirement was suspended in June 1977. *Abbrev.* **VDR.**

variable-rate mortgage a home loan structured with an interest rate that varies in line with money-market rates or a benchmark rate chosen by the lending institution. *Abbrev.* **VRM.** Also *adjustable-rate mortgage* or *ARM.*

variable volume option an option written over more than one asset. If an aluminium producer wants to cover currency risk and the price of aluminium he or she may buy a currency option (call option if an exporter, put if an importer) linked to the aluminium price. The face value of the currency hedge is determined by the price of the second variable (the aluminium price) so if the aluminium price moves the currency cover has to be adjusted; if the currency moves, the aluminium delta is unchanged because the hedge is still covering the same face value amount of aluminium. This strategy involves correlation risk. See **correlation risk, delta, delta hedging.**

variation margin see **margin call.**

VDR *abbrev.* **variable deposit requirement.**

vega the rate at which the price of an option changes in relation to a small change in the volatility of the underlying asset or instrument.

velocity of circulation the speed at which money changes hands more than once. It is regarded as an important economic measure, although it is observable only after the event. If everyone hangs on to money, velocity of circulation slows, indicating a decline in business activity. In the Great Depression of the 1930s, velocity of circulation fell as commercial activity dwindled. If people are spending rapidly, velocity of circulation rises as a reflection of the increased activity. Velocity is affected by people's enthusiasm for saving and investment, the total amount of money available plus new money, and interest rates. The formal monetarist argument assumes that it is constant in the short run. Some measures of velocity may be influenced by shifts of funds between bank and non-bank sectors. See **depression, quantity theory of money.**

venture capital in many countries, investment in private equity with the aim of reaping capital gains, with investments ranging from start-ups to pre-public listing including leveraged and management buyouts. In Australia, the term is usually associated with providing capital for the development of new technology; it is essentially money invested in comparatively risky and often innovative enterprises in the hope that new products will generate high returns. The overseas concept of venture capital is defined in Australia as development capital. See **risk capital.**

Vernon Report (Committee of Economic Inquiry) a report published in 1965 following an inquiry into Australia's postwar development and ways to further encourage growth. Chairman of the inquiry was Sir James Vernon, general manager of CSR Ltd. The main recommendation of the report — that an independent group of economic policy advisers be established — was summarily dismissed by the prime minister, Sir Robert Menzies, in what was seen as yet another victory to the treasury mandarins in their fight to remain dominant in policy analysis. The Vernon Report is a valuable compendium of information about its era, and gave rise to the **National Economic Summit** and the **Economic Planning Advisory Commission.**

vertical spread see **option spread.**

vest to confer on a person a right of authority or possession of property. In superannuation terminology, vesting refers to a superannuation fund member's entitlement to a benefit. Parts of the benefit, such as compulsory employer contributions and the member's own voluntary contributions, are said to be immediately fully vested; that is, the member has full ownership of them from the time they are paid into the fund. In some funds, additional contributions made voluntarily by the employer may be only partially vested at first, with the member's percentage entitlement to the amounts increasing progressively over a number of years as a way of rewarding long-term, loyal employees.

virgin bond see **back bond.**

virgin market a population, usually in an emerging economy, which has not been exposed to consumer products. The first exporter to break into a virgin market has the potential to capture every customer. The entry of Coca-Cola to China in the late 1970s is used as an example of exploiting a virgin market. See **mature market**

visible trade the stuff you can see and touch: tangible exports and imports such as cars, wine, shoes, as distinct from `invisibles' such as shipping and education.

volatility erratic, mercurial change. A volatile market experiences unpredictable price fluctuations. In the context of the bond market, volatility describes the change in the price of a bond in relation to a given change in its yield to maturity. *Implied volatility* is the only component of the Black-Scholes option-pricing model which is not known at the outset. When an option has been traded the formula can be re-arranged to find the implied volatility at which the pricing model will calculate the traded price to be `fair value'. *Historic volatility* is the annualised standard deviation of the relative rates of return of the daily closing prices for a security over a particular period.

voluntary liquidation a situation where shareholders agree to dissolve a company, as distinct from a situation where the creditors put the company into liquidation.

vostro account the counterpart to nostro account; vostro (Latin, `yours') describes the record of an account held by a bank as correspondent on behalf of an overseas bank. See **correspondent bank, nostro account.**

VRM *abbrev.* **variable rate mortgage.**

W

wage indexation the adjustment of wages to compensate for inflation. It can be full, where wages are automatically increased by a percentage equal to the inflation rate, or partial, or it can be *plateau indexation* where, for example, the bottom 20 per cent of wage-earners are indexed and the higher-paid workers receive a fixed monetary increase. Plateau indexation gives a greater percentage increase to lower income earners than to others. Wage indexation has existed for decades under different names such as `cost-of-living adjustments'. It was introduced formally in Australia in 1975, reduced to partial indexation in 1976 and put to rest in 1981. It was revived in 1983 as the basis of the Labor government's Prices and Incomes Accord. The extent of indexation was reduced during the 1980s so that by the early 1990s the setting of pay rates by enterprise bargaining had become the centrepiece of the Accord. See **Accord, enterprise agreement, productivity.**

wage-price spiral the notion that if prices are rising and employees demand higher wages, production costs rise and flow on into even higher prices, followed by renewed wage demands. The idea was pervasive under the wage-fixing system but in the 1990s has increasingly been replaced by concepts such as productivity and unit labour costs. See **inflation, productivity, unit labour costs.**

Wall Street New York's financial centre in Manhattan. The name is often used as a label for the New York stockmarket in general. The New York Stock Exchange was founded in 1792. The crash of 1929 gave Wall Street its place in finance history. See **depression.**

Walras, Marie Esprit Leon see **economists.**

warehousing taking on board a swap as principal until the right counterparty is found. In the sharemarket: warehousing can be part of organising a takeover. The aggressor has limits beyond which it is not possible to go publicly but a friendly company can store stock on the aggressor's behalf, allowing build-up of a strategic position. In the money market: warehousing can mean holding stock awaiting sale, possibly on behalf of another. Warehousing is also swaps market-makers' jargon for running a book of unmatched swaps rather than trying to pair each deal.

warrant an option issued in the form of a security, usually written for a longer term. A warrant has the same function as an option: it provides the right to buy a specific amount of the underlying securities or shares, but is itself tradeable. Warrants are available in a range of types: a *debt warrant* is exercisable into a debt security, such as a bond or a note; an *equity warrant* is a warrant exercisable into an equity (share); a *killer warrant,* when exercised, automatically calls for the redemption of the security for which it was originally issued; a *naked warrant* is a debt warrant issued alone without a host (underlying) bond or security; and a *wedding warrant* is a structure of debt warrant attached to a host bond that protects the issuer from the potential doubling up of debt should the warrant be exercised. The warrants can only be exercised during the early part of their life into virgin bonds by tendering them along with the original callable bond. Also *harmless warrant.*

warranty an undertaking that some aspect, for example the quality of goods sold, is as stated by the person giving the warranty. In a narrower sense, it is an assurance of agreement regarding goods under a contract of sale. Breach of warranty gives a purchaser the right to claim damages but does not invalidate a contract of sale. For example, a faulty battery in a new motor car would give rise to a claim for breach of warranty, but not for breach of an essential term of the contract of sale, so the buyer would not be entitled to cancel the purchase. See **guarantee.**

washing deals a foreign-exchange term used to describe a transaction where a lender is `full' with a client (has commitments with that client up to the maximum permitted by his or her organisation) but is offered a further deal too good to turn away. The lender persuades another bank, or his or her company's bank, to `wash' the deal through; the credit risk is in reality with the bank, as the bank takes the loan on its books. Organisations in foreign-exchange dealings have limits on their dealing capacity with individual clients in the same way that money-market companies have lists of `approved' borrowers, each with individual limits imposed by the lending company's board. See **full.**

We'll run the numbers through and get back to you traders' bluff—buying time to put off an inevitable decision. They really mean they need a few hours to work out the figures, or that they are not enthusiastic about the proposal and hope you will take it elsewhere.

wealth tax a general term for taxes levied on selected aspects of wealth, for example land taxes (levied on capital value), inheritance tax, capital gains tax. Governments often find it politically convenient to introduce such taxes, or to raise their rates, because it appeals to envy in the community and satisfies the notion that `wealth' should be taxed. The adoption of a capital gains tax in Australia in 1985 introduced an element of wealth tax. See **capital gains tax, death duties.**

West Texas Intermediate a type of oil, used as a benchmark in oil pricing and the underlying commodity of Nymex's successful oil futures. *Abbrev.* **WTI.**

whipsaw a sudden movement in price rapidly followed by an equally sudden reversal.

white knight market jargon for the saviour in a takeover play. The white knight usually buys a strategic shareholding, preventing an unfriendly predator from acquiring control of the target company. See **greenmail, takeover.**

whole-of-life policy a life assurance policy on which the assurance company pays out the insured amount plus any bonuses on the death of the policyholder. The beneficiaries named in the policy or in the deceased's will receive the benefits of the policy. See **assurance, insurance.**

wholesale banking borrowing and lending in big licks. Individuals are small fry, relying on `piggy banks' at the retail end of the business. Major corporations, banks, merchant banks and money-market operators are the wholesalers of the financial world. See **retail banking.**

wholesale price index the measure of price changes in the wholesale market during the production processes before goods get to the consumer. The wholesale index generally leads movements in the consumer price index by two or three months. See **consumer price index.**

widget generic term to describe any manufactured item, usually as a hypothetical example.

widow-and-orphan shares shares in a stable company that offer an attractive dividend and are regarded as secure long-term investments.

will a document setting out how an individual wants his or her wealth and property to be distributed after death.

windfall profit an unexpected benefit, often resulting from an event beyond the control of the recipient.

window-dressing arranging financial details, such as deposits, loans and portfolios, to give the best possible impression for balance-sheet purposes.

window guidance see **moral suasion.**

window open a term indicating it is attractive to borrow or lend, or enter into a swap or other transaction that depends on rates being at a particular level. It means there is an opportunity for arbitrage. See **arbitrage.**

withholding tax a tax on dividends and interest sent abroad to non-residents. *Dividend withholding tax* was introduced in 1959 and *interest withholding tax* in 1968, both taxing earnings paid to foreign lenders or investors. Withholding tax is deducted when the payment is sent overseas. Unless overseas lenders are prepared to absorb the withholding tax, it is in reality an increased cost for Australian borrowers using overseas sources of funds. Borrowing overseas using widely distributed publicly issued bearer securities is one method which legitimately avoids withholding tax.

Employment in Australia is subject to a different form of withholding tax, introduced in 1983 to be levied on contract workers and subcontractors. This *prescribed payments system* (PPS), also referred to as the *black tax,* is designed to prevent cash payments from avoiding both payroll and personal income tax.

wood duck an unsuspecting counterparty in a trade who is likely to unwittingly provide higher-than-anticipated profits for the alert professional operator.

working breakfast a practice well established in the United

States where getting some work done before the working day begins may be regarded as evidence of commitment to the job. Because they tend to take place in busy hotel restaurants, working breakfasts also serve to show off the importance of one's corporate contacts. In Australia, too, the working breakfast is associated with a serious and austere business style, as is the working lunch, in which sandwiches and mineral water are barely permitted to interrupt the schedule of meetings. Some, including dietitians and highly organised executives, see no merit in, or need for, combining work and meals. See **lunch.**

working capital what a business needs to pay for its day-to-day activities; the excess of current assets over current liabilities.

working capital ratio see **current ratio.**

World Bank the popular name for the Washington-based International Bank for Reconstruction and Development, which was established at Bretton Woods in 1944 and opened its doors in 1946. Its original objective was to help fund postwar reconstruction in Europe and foster steady and balanced growth in international trade. The bank now also lends to poor countries.

World Trade Organisation the body overseeing and administering the international trade pact under which more than 100 nations promise to observe tariff levels. The World Trade Organisation came into operation on 1 January 1995 to replace the General Agreement on Tariffs and Trade (GATT), which had been the forum for tariff negotiations and dispute resolution since 1947. Two new sets of commitments were added to the revised General Agreement: a General Agreement on Trade in Services (GATS), which covers industries ranging from consultancies to construction, tourism and telecommunications, and an agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), aimed at preventing abuse of patents, trademarks and copyright on books, films, music and computer programs. The advent of the World Trade Organisation marked the culmination of the seven-year Uruguay Round of GATT negotiations which brought a dramatic liberalisation of access throughout world markets for agricultural, industrial and manufactured goods. Australia, as a signatory to the organisation, emerged with significant potential gains for its exports to the US, Japan, the European Union and Canada. *Abbrev.* **WTO.** See **GATT, most-favoured nation, Uruguay Round.**

writ a document issued by a court; usually applied to the document which begins a court action, although there are many forms of writ. The word means no more than a document signed by or on behalf of a court. See writ of execution.

writ of execution a court direction to a court officer to ensure a judgment is carried out.

write down to reduce the recorded (book) value of an asset or liability to take into account, for example, depreciation or a fall in market prices.

write off to eliminate the book value of an asset or liability. This would happen if a company or individual were to find it impossible to recover a debt. The amount of the debt would be `written off' and recorded as a loss or expense in the accounts.

writer (of options) the seller of the options; the party who grants the purchaser of the option the right to buy or sell the underlying commodity at the agreed price.

WTI *abbrev.* **West Texas Intermediate.**

X

XB *abbrev.* **ex-bonus.**

XBR *abbrev.* **ex-bonus and rights.**

XD *abbrev.* **ex-dividend.**

XF *abbrev.* **ex-offer.**

XI *abbrev.* **ex-interest.**

XR *abbrev.* **ex-rights.**

Y

Yankee Aussie bonds denominated in $A, issued in the US bond market to US investors.

Yankee bonds bonds denominated in $US, issued in the US by a foreign borrower.

Yankee kiwi bonds denominated in $NZ, issued in the US bond market, to US investors.

YCAN *abbrev.* **yield-curve adjustable note.**

yield the annual return on an investment (bill of exchange, property, shares) expressed as a percentage. Yield differs from discount in its application to security purchases; yield is the actual rate of return expressed as a percentage per annum of the net outlay or net proceeds of an investment, not of its face value. See **discount, yield curve, yield to redemption.**

yield curve a graph showing the relationship between the yield to maturity and the term to maturity of a group of similar securities. A yield curve can be:

- *normal/positive/upward-sloping,* which reflects higher interest rates for longer-term investments;
- *downward/negative/inverse/inverted,* reflecting short rates higher than longer-term rates;
- *flat/horizontal,* suggesting little change in interest rates;
- *hump-backed,* indicating liquid conditions immediately followed by temporary tightness then a gradual decline in longer-term interest rates. Also *term structure of interest rates.*

yield gap a yield curve graph of the margin between bonds and equities, comparing the performance of the two over a given period.

yield to redemption the actual rate of return on the security from its date of purchase until it matures, taking into account the interest payments and the investor's capital gain or loss.

yield-curve adjustable note a form of floating-rate note (FRN) that is fitted to the yield curve so that its return increases when the interest rates move in a predetermined direction. In the `bull' version the return would increase if rates fall and in the `bear' version they would increase if rates rise. *Abbrev.* **YCAN.** See **floating-rate note, yield curve.**

yield-curve swapa floating-for-floating-rate swap with the rates for the two interest streams at different points on the yield curve. Both payments are reset at the same intervals.

yuppie young urban professional; a somewhat *passé* expression describing a bright young person working in the city, speeding up the career ladder, earning a high income and spending it ostentatiously.

Z

zaitek Japanese term for the financial markets activity of the treasurers of Japanese companies; the arbitrage and innovation behind new techniques such as futures, options and swaps which are used in various combinations to provide the cheapest possible funding and the highest possible return on investments. In the 1980s some companies made more money from zaitek than from their core business. Also *financial engineering, zaitech, zaiteku.*

ZEBRAS *abbrev.* **zero-coupon euro-sterling bearer or registered accruing securities.**

zero sum game an outcome in which any advantage gained by one side is matched by a disadvantage on the other. Futures trading is an example of a zero sum game because for every purchase there is a sale, for every profit a loss.

zero-coupon euro-sterling bearer or registered accruing securities a member of the UK menagerie of securities, similar to **STAGS.** *Abbrev.* **ZEBRAS.**

zero-cost collar a type of collar where a borrower arranges with his or her bank to buy a cap and sell a floor (*vice versa* in the case of an investor) so that the cost of the cap is completely offset by the income received from the floor. The borrower selects either the cap or the floor strike price and the bank calculates the other strike at which a zero cost is achieved. See **collar.**

zero-coupon bonds bonds issued without a coupon; no periodic interest payments are made rather, the bond is sold at a deep discount from face value. The difference between the purchase price and the face value (which the holder receives on maturity of the bond) is the capital gain, and the return earned on the investment. The bonds offered the chance to defer tax, however, the tax treatment changed in December 1984, after which tax could not be deferred but had to be paid annually on interest accrued. Zero-coupon bonds were issued in Australia under various names such as *DIGGERS* (discounted investment government-guaranteed earnings return) and *DINGOS* (discounted investment in negotiable government obligations) and in the US as *CATS* and *TIGRS*. See **deep discount bonds, stripped bonds.**

zero-coupon swap an interest-rate swap with the fixed-rate payment based on a zero-coupon bond. If the counterparty agrees, payment by the holder of the zero can be made in a single fixed sum at maturity while payments on the other leg can follow a conventional swap periodic payments schedule. The payment mismatch raises the credit risk for one counterparty.

Derivatives Decoded

Edna Carew

Sensational news reports have detailed the role of derivative instruments in financial disasters involving major public authorities and blue-ribbon international companies — Orange County, Metallgesellschaft, Procter & Gamble and Barings bank. Calls for controls on the use of derivatives have followed these incidents. But derivatives are here to stay — a vital part of the workings of global financial markets, essential tools for the management of risk and an integral part of today's high-tech trading.

Derivatives Decoded describes in plain English the origins, development, uses, risks and benefits of these new financial instruments. It cuts through the confusion to cover:

- **derivatives used to manage interest-rate and currency risk**
- **derivatives used in commodities markets**
- **derivatives used in equity markets**
- **risk management and control strategies**
- **the legal uncertainties and regulatory concerns**

The book includes:

- **an up-to-the-minute glossary of terms**
- **instructive case studies, including a synopsis of the Barings PLC collapse**
- **the latest innovations of the Sydney Futures Exchange and the Australian Stock Exchange**

Derivatives Decoded is another ground-breaking book from Edna Carew who has built a reputation for an unparalleled ability to describe complex financial concepts in language everyone can understand.

1 86373 905 X

Everyone's Guide to Superannuation

Edna Carew and John Hoffmann

Sweeping changes to the nation's superannuation system have transformed the retirement outlook for everyone. Every Australian in receipt of a wage or salary now contributes to his or her own future by way of investing in superannuation funds. This means that we all have a relatively painless way of creating substantial savings for use after retirement from the workforce — when those savings will be most useful.

But, to many people, superannuation remains a worrying mystery. This book, by finance writers widely applauded for their ability to explain complex financial ideas simply and accurately, will enable you to understand the opportunities superannuation presents — opportunities to create a better financial future.

1 86448 031 9