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# THE SECURITIES INDUSTRY GLOSSARY

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# THE SECURITIES INDUSTRY GLOSSARY

Second Edition



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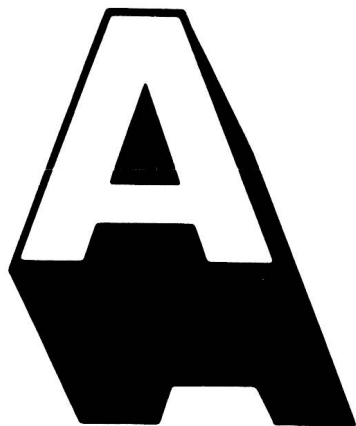
# Introduction

The language of securities is perhaps the most colorful of all the professions. What is a white knight? A red herring? How does a greenshoe differ from green-mail? How do you blue-sky an issue? What do you find on the pink sheets?

These and well over 2000 other securities related terms are defined in this book. These are the very terms used by securities professionals “on the street” and found every day in the financial news.

Both industry practitioners—entrant and veteran alike—and investors will benefit from having *The Securities Industry Glossary* on their desks. In it you will find the meanings of words having to do with:

- \* Stocks—common and preferred
- \* Bonds—corporates, municipals, governments
- \* Mortgage-backed securities
- \* Options
- \* Futures
- \* The over-the-counter market
- \* The exchanges
- \* Operations
- \* Compliance
- \* And much more.



### **ABC Agreement**

A contract by which an individual purchases a seat on an exchange through funds advanced by a partnership (or corporation). The agreement stipulates, among other things, whether the seat will be (a) retained by the individual and another bought for the company; (b) sold and the proceeds remitted to the firm; or (c) transferred to the firm for a nominal consideration should the individual leave the firm or die.

### **Account Executive (AE)**

A brokerage firm employee who advises clients and handles orders for them. The AE must be registered with the National Association of Securities Dealers (NASD) before taking orders from clients. Also known as registered representative (RR) or stockbroker.

### **Accounting Spread**

The annual net spread between assets and liabilities calculated using pro forma income results.

### **Account Statement**

A statement sent periodically (at least quarterly) to clients, showing the status of their accounts with a broker/dealer. Most broker/dealers send monthly accounts

summarizing all transactions during the previous period, as well as an accounting of credits, debits, and long and short positions.

**Accounting Equation**

A formula used in totalling balance sheets:

Total Assets = Total Liabilities + Shareholder's Equity.

The formula may be restated in terms of shareholder's equity or in terms of total liabilities as follows:

Total Assets – Total Liabilities = Shareholder's Equity or

Total Assets – Shareholder's Equity = Total Liabilities.

**Accounts Payable**

A current liability showing the amounts due others within a period of one year when such liability resulted from the purchase or manufacturing of inventory.

**Accounts Receivable**

Any money due a business for merchandise or securities that it has sold or for services it has rendered. This is a key determinant in analyzing a company's liquidity.

**Accretion**

The accumulation of accrued coupon payments as added principal.

**Accrued Expenses**

A liability, either current or long-term, showing the estimated amounts due others for services rendered or goods received.

**Accrued Interest**

The amount of interest due the seller, from the buyer, upon settlement of a bond trade.

Prorated interest due since the last interest payment date.

**Accumulated Depletion (Depreciation)**

See Allowance for Depletion.

**Accumulation Area**

In technical analysis, a lateral move in the market price of a security, indicating that buyers are willing to purchase at the current price.

### **Accumulation Unit**

A share of a variable annuity fund, the value of which is calculated to be the value of the entire fund divided by the number of accumulation units. The term is generally used during the accumulation phase of the annuity.

*See* Annuity Unit.

### **Acid Test Ratio**

The value of cash, cash equivalents, and accounts receivable (the quick assets) divided by current liabilities. A measurement of corporate liquidity. Also known as quick asset ratio or liquidity ratio.

### **Acting Jointly or in Concert**

A term used by all the exchanges trading options in defining certain position and exercise limits. No person, or group of people "acting jointly or in concert," may exceed those limits set by regulation, in order to avoid any group controlling a market.

### **Activating Sale**

*See* Electing Sale.

### **Active Bonds (The "Free" Crowd)**

A category of debt securities that the NYSE Floor Department expects to trade frequently and that are consequently handled "freely" in the trading ring in much the same manner as stocks.

*See* Inactive Bonds.

### **Active Box**

A physical location where securities are held awaiting action on them.

### **Adjustable Rate Mortgage (ARM)**

A mortgage agreement whose interest rate may be adjusted to keep pace with a fluctuating market. Also referred to as a Variable Rate Mortgage or Floating Rate Mortgage.

### **Adjusted Debit Balance**

The net money borrowed by a brokerage customer in a margin account as a result of both settled and unsettled transactions. It includes SMA.

### **Adjustment Bonds**

*See* Income (Adjustment) Bonds.



**ADR**

See American Depository Receipt (ADR).

**Administrator**

A court-appointed person or institution charged with the maintenance and distribution of the assets and liabilities of a deceased, used when the deceased did *not* leave a will.

See Executor/Executrix.

**Advance-Decline Theory**

A market theory that uses the relative number of advances versus declines in relation to total issues traded to make buying and/or selling decisions. Formula =  $A - D/V$ .

**Advertising Practices**

In accordance with Section 1 of the NASD Rules of Fair Practice, any communication designed for public consumption—including sales literature, market letters, and recruiting materials—must not contain false or misleading statements of any material facts. All such communications must be reasonable and accurate as well as initialed or signed by a registered principal of the advertising firm and filed for three years. It must also be reviewed by the NASD Executive Office in Washington, D.C. within five days after its initial usage.

**AE**

See Account Executive.

**AE Credits**

This is a soft dollar amount credited to an Account Executive in payment of his order. The trader determines the amount to be paid which is based on the amortized amount of the trade. The hard dollars received by the AE will be a percentage of that amount.

**Affiliated Members**

Clearing corporations of other stock exchanges that have signed agreements with the Stock Clearing Corporation of the NYSE to be bound by the bylaws and rules of the exchange and to make payments and deliveries as prescribed.

**Affiliated Person**

Anyone in a position to influence decisions made in a corporation, including officers, directors, principal stockholders, and members of their immediate families. Their shares are often referred to as “control stock.”

**Aftermarket**

A market for a security either over the counter or on an exchange after an initial public offering has been made.

See Free-Riding; Hot Issue; Stabilization; Withholding.

**Against the Box**

See Short Against the Box.

**Aged Fail**

An incomplete contract between two broker/dealers. A contract becomes “aged fail” if it remains unsettled after 30 days from the time that delivery and payment should have been completed.

**Agency Transaction**

See As Agent.

**Agent**

See As Agent.

**Agreement Among Underwriters**

An agreement among members of an underwriting syndicate specifying the syndicate manager, his duties, and his privileges, among other things.

See Underwriter’s Retention; Underwriting Agreement.

**All Equity**

Interim financing in which the money is provided entirely by the owners. Sometimes the purpose is to refinance or sell the project when its economic value as a going operation has been established.

**Allied Member**

Broker-partnership: a general partner who does not own a seat on the stock exchange.

Broker-corporation: a voting stockholder employee of the firm who does not own a seat on the stock exchange and either (a) owns 5 percent or more of its voting stock, (b) serves as director on its board, or (c) has been designated as a principal executive officer by the firm.

See Allied Members.

**Allied Members**

Either (1) all general partners who are not members of the exchange; or (2) voting stockholder employees of a member corporation who (a) own 5 percent or

more of the voting stock; (b) are directors of the board; or (c) have been designated by the corporation as principal executive officers. Allied members must pass a written examination and be bound by the NYSE Constitution and Rules.

See Allied Member.

### **Allocations**

The process of specifying pools to satisfy the demands of TBA contracts in such a way as to maximize the spread between the purchase price and sales price of the pools.

### **All-or-None (AON) Offering**

A “best-efforts” offering of newly issued securities in which the corporation instructs the investment banker to cancel the entire offering (sold and unsold) if all of it cannot be distributed.

### **All-or-None Order**

An order to buy or sell more than one round lot of stock at one time and at a designated price or better. It must not be executed until both conditions can be satisfied simultaneously.

### **Allowance for Depletion**

(Also called Accumulated Depletion.) The portion of the cost of acquiring and putting into production a natural asset (e.g., oil wells, gold mines) that has been written off against income (expensed). A balance sheet account showing the amount of the cost of a natural wasting asset that has been charged against income. For example:

Gold mine, at cost	\$100,000
Less: Allowance for Depletion	25,000
Net Book Value	<u>\$ 75,000</u>

### **Allowance for Depreciation**

(Also called Accumulated Depreciation.) That portion of the cost of acquiring and putting into production buildings and equipment that have been written off against income (expensed). A balance sheet account showing the amount of an asset's cost that has been charged against income since its acquisition. For example:

Machinery, at cost	\$10,000
Less: Allowance for Depreciation	3,000
Net Book Value	<u>\$ 7,000</u>

**Alpha**

See Differential Return.

**Alternative (Either/Or) Order**

An order to do either of two alternatives such as either buy at a limit or buy stop for the same security. Execution of one part of the order automatically cancels the other.

See One Cancels the Other.

**American Depository Receipt (ADR)**

A receipt showing evidence that shares of a foreign corporation are held on deposit or are under the control of a U.S. banking institution. Used to facilitate transactions and expedite transfer of beneficial ownership for a foreign security in the United States.

**American Stock Exchange Clearing Corporation**

A wholly owned subsidiary of the American Stock Exchange charged with the responsibility of assisting member firms to settle trades. The corporation has contracted with the Securities Industry Automation Corporation to perform all its duties except the rule-making function.

**American Stock Market Value Index**

A market index for all common stocks listed on the ASE, prepared daily and grouped by geographic locale and industrial category.

**American Stock Exchange Price Change Index**

An "unweighted" market index for all common stocks listed on the ASE, prepared hourly.

**AMEX**

An acronym for American Stock Exchange, Inc.

**AMEX Rule 411**

The American Stock Exchange's version of the "know your customer" rule of the NYSE.

See Rule 405.

**AMFOD**

An acronym for Association of Member Firm Option Departments, a division of the SIA dedicated to improving the option market.

**Amortization**

A generic term including depreciation, depletion, and write-offs of intangibles, prepaid expenses, and deferred charges.

**Amortized Amount**

The outstanding principal or loan amount of the mortgages in a pool. To obtain the amount, multiply the original face value by the current factor value as announced by the issuer, GNMA or other agencies of the government.

**"And Interest"**

A bond transaction in which the buyer pays the seller a contract price plus interest accrued since the corporation's last interest payment.

**Annual Audit**

SEC Rule 17a-5 requires that every broker/dealer be audited at least annually by a firm of Certified Public Accountants.

**Annual Report**

A formal statement issued yearly by a corporation to its shareowners. It shows assets, liabilities, equity, revenues, expenses, and so forth. It is a reflection of the corporation's condition at the close of the business year, and the results of operations for that year.

**Annuity**

A contract between an insurance company and an individual whereby the insurance company agrees to make periodic payment to the individual, for a certain period or for the life of the individual.

**Annuity Unit**

A term used to describe accumulation units of a variable annuity once distribution has begun.

**Annunciator Board**

A paging system on the New York Stock Exchange by which telephone clerks summon brokers using numbers with colored markers attached.

**AON Offering**

See All-or-Non (AON) Offering.

**AON Order**

See All-or-None (AON) Order.

**Approved Person**

A person who has control of but who is not an employee of a member firm. An approved person must agree to be bound by the constitution and the rules of the exchange. He/she must also be approved by the board of governors of the exchange. A good example of an approved person is a member of the board of directors of a member corporation who is not an employee of that corporation.

**Arbitrage**

The simultaneous purchase and sale of the same or equal securities in such a way as to take advantage of price differences prevailing in separate markets, with relatively low risk. In equities, the profit is "net price"; in fixed income trading, it is "net interest rate spread."

See Bona Fide Arbitrage; Risk Arbitrage.

**Arbitrage Bonds**

All bonds found in violation of federal arbitrage regulations as deemed by the Internal Revenue Service. If the IRS deems a bond an arbitrage bond, then the interest becomes taxable and must therefore be included in each bondholder's gross income for federal tax purposes. Refer to IRS Regs. 1.103-13 through 1.103-15.

**Arbitrageur**

One who engages in arbitrage.

**Arrearage**

Undeclared and/or unpaid dividends due holders of cumulative preferred stock.

**ARM**

See Adjustable Rate Mortgage.

**As Agent**

The role of a broker/dealer firm when it acts as an intermediary, or broker, between its customer and another customer, a market maker, or a contrabroker. For this service the firm receives a stated commission or fee. This is an "agency transaction."

See As Principal.

**As Principal**

The role of a broker/dealer firm when it buys and sells for its own account. In a typical transaction, it buys from a market maker or contrabroker and sells to a

customer at a fair and reasonable markup; if it buys from a customer and sells to the market maker at a higher price, the trade is called a mark-down.

*See As Agent.*

### **Ascending Tops**

In technical analysis, a chart pattern of a security's price in which each peak is higher than the one preceding. The upward movement usually means that the upward trend is likely to continue and would therefore be considered bullish.

### **Ascending Triangle**

A chart pattern in technical analysis in which the lows move progressively higher, while the highs encounter resistance at one price level.

### **Ask-Bid System**

A system used to place a market order. A market order is one the investor wants executed immediately at the best prevailing price. The market order to buy requires a purchase at the lowest offering (asked) price, and a market order to sell requires a sale at the highest (bid) price. The bid price is what the dealer is willing to pay for the stock, while the ask price is the price at which the dealer will sell to individual investors. The difference between the bid and ask prices is the spread.

*See Bid-and-Quotations.*

### **Asset Management**

Investment strategy involving the capability for originating loans or investments, evaluating collateral value, and the borrower's ability to repay, as well as the servicing of loans.

### **Asset Management Account**

An account at a bank, savings and loan institution, or brokerage house that can combine banking services like checking accounts, credit cards, and debit cards with brokerage features, such as buying and selling securities on margin. One monthly statement combines all financial transactions.

### **Assets**

Everything of value that a company owns or has due: cash, buildings, and machinery (fixed assets); and patents and good will (intangible assets).

*See Equity; Liabilities.*

### **Assign**

*See Early Exercise; Exercise.*

**Assignment Form (Notice)**

A form used for the transfer of ownership by a registered security owner. Usually, on the reverse side of a registered security certificate is a form where the registered owner may assign new ownership, but a separate piece of paper may also be used.

Form used by the Options Clearing Corporation to notify a member firm that an option has been exercised against a client who wrote a security option.

**Assignment of Mortgage**

An assignment—or notice of transfer or equivalent instrument—that reflects the sale of the mortgage property to certificated holders. This assignment may be in blanket form where permitted by law.

**Associate Members of Stock Clearing Corporation**

Organizations whose clearance operations are handled by the Stock Clearing Corporation but who do not belong to the NYSE.

**Associated Person**

As defined by the SEC, a partner, officer, director, salesperson, trader, manager, or any employee of a broker/dealer organization.

**Associate Specialists**

Assistants to regular specialists who do not solicit orders or stabilize markets as principals. They may act as agents but only in the presence and under the supervision of a regular or relief specialist.

**Association of Member Firm Option Departments (AMFOD)**

A division of the Securities Industry Association dedicated to improving the option market.

**At-the-Close Order**

An order to be executed, at the market, at the close, or as near as practicable to the close of trading for the day.

**At-the-Market**

A price representing what a buyer would pay and what a seller would take in an arm's-length transaction assuming normal competitive forces;

an order to buy or sell immediately at the currently available price.

*See* Market Order.



**At-the-Money**

A term used to describe a security option where the strike price and market price are the same.

**At-the-Opening (Opening Only) Order**

An order to buy or sell at a limited price on the initial transaction of the day for a given security; if unsuccessful, it is automatically cancelled.

**Auction Marketplace**

A term used to describe an organized exchange where transactions are held in the open and any exchange member present may join in.

**Autex System**

System that uses electronic screens to allow broker/dealers and other subscribers to communicate about blocks of stock. Any transactions can then be executed on a securities exchange or in the over-the-counter market.

**Authorized Stock**

The maximum number of shares that the state secretary permits a corporation to issue.

**Automatic Exercise**

To protect the holder of an expiring in-the-money option, the Options Clearing Corporation automatically exercises the option for the holder. Only the owner can instruct to do otherwise.

**Automatic Reinvestment of Distributions**

A feature of voluntary and contractual accumulation mutual fund plans by which dividends and/or capital gains are automatically reinvested in additional shares or in fractions of a share.

**Automatic Withdrawal**

A privilege of participants in a voluntary accumulation or completed contractual mutual fund plan by which the custodial bank disburses to the planholder a specified sum of money each month or quarter. If mutual fund distributions are insufficient to meet this demand for money, an appropriate number of shares will be redeemed.

**Average**

A stock market indicator based on the sum of market values for a selected sample of stocks, divided either by the number of issues or by a divisor that allows