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**A SELECTED VOCABULARY
OF
FINANCIAL TERMS**

WATERLOW PUBLISHERS LIMITED

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(First Edition)

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VOCABULARY:

A list or collection of words used in a language, science, book, etc. usually arranged in alphabetical order, and explained: a word-book.

ACCEPTANCE CREDIT

A credit which stipulates for the drawing of term bills which will be accepted by the issuing bank or by the customer. The acceptance credit was used as a device to evade the 'corset' controls (q.v.) when those were in use. A customer wishing for accommodation was persuaded to draw a bill on the bank, which then accepted it, and discounted it. The customer thus received the required assistance, and the bank was left with a fine bank bill (q.v.) having an attraction for finance houses and large companies because it was eligible as a reserve asset (q.v.)

By selling the bill in this market, therefore, the discounting bank reduced its interest-bearing liabilities and so improved its position as regards the 'corset' controls, while the companies' holdings of bank acceptances were excluded from the statistics of the money stock.

When the corset restrictions were lifted, in June 1980, there was thought to be some £2,500 m. held by British companies in bills, a figure which distorted the money supply statistics for several months while they worked their way through the period of credit and were eventually paid.

ACCOMMODATION BILL

A bill of exchange to which a person adds his name to oblige or accommodate another person, without receiving any consideration for so doing, i.e. as a surety or guarantor.

ACCOUNT

A reckoning, counting, computation; a statement of receipts and expenditure showing the balance; a register of debts and credits. In commerce, a statement showing the amount owing for goods, services, etc.; on the Stock Exchange, a period of two successive weeks during which dealings are put together for settlement on account day; in banking, the current, deposit, foreign currency, loan, savings or other account maintained by a bank for a customer.

ADJUSTABLE PEG

A flexible system of fixing exchange rates where a rate is allowed to vary within certain narrowly defined limits.

ADVANCEMENT

A payment made by a trustee out of trust funds to a beneficiary for some long-term provision for his betterment, such as an investment which will help him build up his career; a payment made by a testator during his lifetime of a sum of money to a beneficiary under his will.

See also HOTCHPOT

AGIO

The difference in value between one kind of currency and another; money-changing; the charge for changing notes into cash, or one kind of money for another; the difference in value between metallic money and its paper equivalent; the difference, usually expressed as a percentage,

between nominal or par value, and a higher price.

AGRICULTURAL MORTGAGE CORPORATION (A.M.C.)

This corporation was formed in 1928 to provide facilities whereby farmers could obtain long-term loans at reasonably favourable rates, secured by first mortgages on their farms, (now) for the purpose of buying their farm, carrying out capital improvements, repaying money borrowed from other sources, or providing working capital.

Two basic loans are offered;—

- (1) 5-10 year straight loans at interest only, with capital to be repaid at the end of the agreed period.
- (2) Long-term loans for periods of 10-40 years which include provision for repayment of capital during the life of the loan.

In either case the loan must not exceed two-thirds of the value of the mortgaged property as certified at the time when the loan is made. Borrowers can elect to repay all loans on a fixed or variable rate basis or by a combination of both. Only farmers can borrow. If a tenant farmer is granted a loan, therefore, it must be for the purchase of the farm.

Various methods of repayment may be selected:—

- (a) by equal instalments of capital plus interest half-yearly on the reducing balance.
- (b) by the annuity method of half-yearly payments comprising interest plus an instalment of capital.
- (c) by the endowment assurance method, comprising half-yearly payment of interest only, plus endowment assurance premiums, or
- (d) for long-term borrowers only, the option of taking half under (a) and the other half under (b) or (c).

ALL-MONEYS DEBENTURE

A mortgage debenture containing both fixed and floating charges securing any sums owing to the lender by the company at any time on any account.

ALLONGE

A slip of paper attached to a bill of exchange for the purpose of receiving endorsements when the back of the bill is already full of endorsements so that there is no room on the bill for any more. An allonge becomes an integral part of the bill to which it is attached. The first endorsement on the allonge is written partly on the allonge and partly on the bill.

ALLOTMENT LETTER

A letter sent to an applicant for an issue of shares, stock or bonds on offer to the public, informing him of the amount or number allotted to him and specifying the instalments of the balance of payment together with the dates on which they should be made. The letter is usually in the form of a certificate which is renounceable up to a certain date. The shareholder may accept or renounce his allocation by signing an appropriate

form printed on the back of the certificate. If he renounces he may do so in favour of another person, who should sign the form of acceptance, or he may sell his rights through a broker. After the given date the certificate becomes the evidence of title to the holding in the usual manner.

ARRANGEMENT FEE

A fee charged by a bank over and above the interest payable on any accommodation taken. It first made its appearance in connection with bridging loans (q.v.), where the time of the facility, often 3/4 months, did not allow of very much profit for the bank concerned when one took into account the labour of setting it up, the interview time and the administration and supervision.

One of the large clearers is now attempting to extend this system to overdrafts. Once an overdraft limit, or any other limit, is arranged, the bank has to set aside that sum in case the facility is used (not all of them are). Big companies have overdraft facilities at a number of banks which give them a reserve fund to draw on if necessary and, in some cases, to facilitate 'round-tripping' (q.v.). This setting-aside effectively prevents the banks from investing the money elsewhere and earning interest on it.

The new charge is called a 'commission'. It is said to be imposed in order to cover a 'review' of the facility. All facilities in this bank will now be reviewed quarterly and a commission of £5 will be charged each time to cover the work involved.

Often banks leave these matters to the discretion of their managers, sometimes charging a reduced arrangement fee on renewal of a borrowing limit. Others make no charge at all.

ASIAN DOLLAR MARKET

The Eurocurrency markets of Singapore, Hong Kong and Tokyo.

ASSENT

(1) The agreement of the holder of stocks or bonds to some change in the conditions or terms of issue, in particular where the original obligations of a foreign government have not been honoured on a bond issue, and the holder has been offered new and less favourable terms of payment. (2) A document executed by the personal representative of a deceased person, which vests the legal estate in the devisee (q.v.). It must be in writing, must be signed by the personal representative, and must name the person in whose favour it is expressed to be. This person may be the personal representative himself, but an assent is still necessary to constitute him the beneficial owner. The only time when no assent is necessary is when the land is to be sold, following the death of the previous owner. Then the personal representative may execute a conveyance direct to the purchaser.

ASSET DEFICIENCY

When the market value of assets is low, so that the assets are currently worth less than they cost, or less than money borrowed to buy

them; when debts cannot be fully paid in a bankruptcy or liquidation.

ASSURED TENANCY

A new category of tenancy introduced by the Housing Act, 1980, to be granted by an 'approved body' and applying to newly-built dwellings let at agreed rents outside the Rent Acts, but subject to Part II of the Landlord and Tenant Act of 1954.

The effect is that when a tenancy ends, the tenant can apply for a new one, a request which can be resisted by the landlord only on one of the statutory grounds. Any new tenancy is to command a market rent.

An 'approved body' is one so designated by a ministerial order. The purpose of the Act was to encourage the provision of new private housing for renting by offering more attractive terms to selected landlords, for example, insurance companies, building societies and pension funds.

AT BEST

A condition to deal at the lowest possible price when instructing stockbrokers to purchase stock or shares, or at the highest possible price in the case of a selling order.

ATTACHMENT

(1) of persons – a writ by which a person is arrested (or 'attached') under an order of committal. It is used in cases where a person has disobeyed an order of the court. In such cases the court may order him to be attached, but he can avoid this by obeying the order, which may be for the payment of a debt.

(2) of property – a writ by which money or goods belonging to a debtor may be seized or apprehended: the seizure of money or goods to secure a debt or demand. This is a remedy open to a judgment creditor (q.v.)

ATTENDANCE ALLOWANCE

An allowance paid to staff over a period, in addition to their salaries or wages, in consideration of their having been punctual to work and having had no days off during that period.

AUTOMATED REAL TIME INVESTMENTS EXCHANGE (ARIEL)

ARIEL is a private company, formed in 1974 and owned by the members of the Accepting Houses Committee, which operates a computer-based system for matching buyers and sellers of stock or shares, whereby buyer and seller deal directly with each other and form the price by negotiation.

ARIEL was intended to bypass the Stock Exchange and its costs altogether, but this target has never been achieved, and ARIEL is not making a profit.

AUTOMATED TELLER MACHINE (A.T.M.)

A machine which takes the place of a cashier. In some banks 24

hours-a-day service at unprotected sites are offered by a through-the-wall automated teller system, using personalized plastic cards. **See CASH DISPENSERS.**

AVERAGE SETTLEMENT DAY *See* **FACTORING**

BACK BOND

A deed by which a party holding a title acknowledges that he holds it in trust for a certain purpose: a bond of indemnity given to a surety.

BACK TO BACK LOAN

Although exchange control in U.K. is not now imposed, the same is not yet true of all countries overseas, and the back-to-back loan, which is a form of medium to long term financing in a foreign currency, is still useful as a method of currency management. It is an accommodation designed to avoid exchange risks, sometimes arranged within a multinational enterprise, which can give rise on occasion to tax benefits, e.g. a Dutch company might need sterling for an outward investment in U.K.; a British company might need guilders for a similar operation in Holland. Each company funds the others' enterprise in its own country.

While tax and exchange control problems (if any) can usually be surmounted, an interest rate differential often poses difficult questions.

BACKWARDATION

A consideration paid by a seller of shares or stock on the Stock Exchange for the right to postpone delivery for a time: on the London Metal Exchange, the amount by which the price of cash metal exceeds that for forward delivery.

BALLOON

A term in the business of leasing where an asset which has an estimated residual value at the end of the term is the subject of the leasing agreement. The lessee has a choice of having his rentals based on the original cost of the asset, say, a car, with certain tax and interest adjustments, and will receive a rebate of rentals at the end of the lease to reflect the greater part of the actual sum realised by the sale of the car.

Alternatively, the residual value of the car (known as the 'buy back', and often underwritten by the dealer) can be estimated at the start of the leasing contract which in this case will allow for the value and will require one final rental payment which is larger than the normal instalment because it is related to the amount of the residual value rebate. This final payment is known as the 'balloon'.

BANKING ACT 1979, THE See SUPERVISION OF BANKS**BANK RATE**

The advertised minimum rate at which the Bank of England was prepared to discount approved bills of exchange. Bank rate was used by the central government as a means of controlling the money demand and checking the growth of inflation until 1972, when it was superseded by minimum lending rate (q.v.)

BANKRUPTCY NOTICE

A creditor who has sued a debtor in a court and has received a judg-

ment in his favour, may then cause a bankruptcy notice to be issued against the debtor, stating the amount of the debt and calling upon him to pay within ten days. If the debtor does not comply (and if he has not entered a counter-claim for at least the amount stated in the notice) within the allotted time, he has committed an act of bankruptcy, on which a petition for his bankruptcy may be based.

BARGAIN

An agreement between two persons concerning a sale; an advantageous purchase; the thing bought or sold; any Stock Exchange transaction in securities.

BARTER

The exchange of goods for goods: to give (anything but money) in exchange for some other commodity. It is a characteristic of a primitive community, but today barter is accepted on an international scale to facilitate trading with countries of the Eastern bloc who are short of hard convertible currencies and take plant and machinery from Britain, France and West Germany to pay back later in kind. Romania, Bulgaria, Hungary, Czechoslovakia and East Germany all deal with the West by means of barter. It is expected to account for up to 50 per cent of Poland's trade with the West in the 1980's, and Russia expects that nearly 40 per cent of her trade with America will have been generated through barter in the same period. Barter is also called compensation trading or counter-purchase.

BASE RATE

The basic lending rate of a bank or financial institution, on which its lending rates and deposit interest rates are founded. Each bank is free to fix its own base rate as it thinks best, but in practice none varies by very much from the Bank of England minimum lending rate. In a recent development the direct link between base rate and seven-day deposit rate has been broken, and deposit rate is now fixed independently.

BEAR

A speculator on the Stock Exchange who anticipates a fall in the value of a certain security and therefore sells stock which he does not possess in the hope of buying it back more cheaply at a later date, thus making a profit.

BEARER BOND

A bond which is payable to bearer and one in respect of which no register of owners is kept by the company concerned. It has attached to it a series of coupons, which are individually torn off at the right time and sent forward to the company as evidence of the bond holder's right to receive the interest. A bearer bond is a negotiable instrument – that is, title passes by simple delivery coupled with an intention to transfer. The transferee must take in good faith and for value and without notice of

any defect in the title of the transferor.

Bearer securities were restricted by provisions of the Exchange Control Act 1947 which confirmed earlier legislation dating back to the war period when all such securities had to be lodged with authorized depositaries. All control requirements for foreign exchange operations were, however, lifted in the last months of 1979, since when the title 'authorized depositary' has become of historic interest only.

BEATING THE INDEX

An investment term denoting the progress of a portfolio. If in a time of general decline in share prices the fall in an individual portfolio is less than average then the portfolio manager has 'beaten the index': similarly when in a time of generally rising share prices the increase in the portfolio value is greater than the average.

BED AND BREAKFAST DEAL

The practice of selling stock which has fallen in value on one evening, and buying it back on the next morning, for the purpose of establishing a tax loss to offset against capital profits.

There are two cases where this device might be employed. The first is where, as the year end approaches, it is evident that there are going to be quite large gains in an investor's portfolio, on which he will have to pay capital gains tax. To reduce these gains he can sell shares which are showing a loss, buy them back the next morning, and so obtain a loss to set off. The second is where the market as a whole has fallen, so reducing the value of the entire portfolio. Here a great number of sales can be made, perhaps the whole portfolio, to provide losses to set against gains at some future deal when prices have recovered.

BETTERMENT

Improvement; enhanced value of property, as a result of local improvements; tax formerly levied by the Land Commission on the development value of land under the Land Commission Act, 1967. However, the levy is no longer charged, but is replaced in appropriate cases by Capital Gains Tax.

BID

To offer a price; the offer of a price, especially at sales by auction. On the Stock Exchange the term means the price made either by the market to a member of the public or by an intending purchaser to the market at which he is prepared to buy shares. It is also used to describe the amount of money offered per share in the case of a take-over bid.

BLACK BOURSE, BLACK ECONOMY

An illegal exchange market, tax evasions, company 'perks' and frauds of various kinds. As examples of the 'hidden' transactions not recorded in official statistics of the economy the U.K. Central Statistical Office lists 'expense account living' for personal benefit, fringe benefits

such as enjoying undervalued goods and services, undeclared earnings from a second job (moon-lighting) and shoplifting and other frauds connected with transactions in the visible economy.

BLUE CHIP

The shares with the higher status as investment, particularly in the industrial markets. **See also MIDDLE MARKET**

BREACH OF TRUST

The act of a trustee who does not observe the conditions laid down in the deed or will under which he is appointed, such as the investment of trust monies in an improper manner. More generally, the term signifies any failure by a person to observe certain standards of behaviour which are expected of him, where the person reposing the trust wrongly (as it turned out) supposed that such standards would be duly observed.

BREAK-UP VALUE

The value of a company's assets when it is viewed as a 'gone concern'; the value of an ordinary share calculated by dividing the value of all the company's assets applicable to the ordinary shareholders by the number of shares issued; the value at current stock exchange prices of the holdings of an investment or unit trust.

BRETTON WOODS CONFERENCE

A meeting under the auspices of the United Nations at Bretton Woods, New Hampshire, U.S.A. in 1944, to set up some degree of co-operation in the matter of international trade and payments and to devise a satisfactory international monetary system to be put into operation after the second world war. The particular objectives sought were stable exchange rates and free convertibility of currencies for the development of multilateral trade. Both the British and the American Treasuries had prepared plans for attaining these ends and a compromise solution was adopted which contained elements of both. Two important results of this conference were the establishment of the International Monetary Fund (q.v.), and of the International Bank for Reconstruction and Development (q.v.) (The World Bank).

The Bretton Woods system worked well for more than 20 years, but then a number of factors combined to destroy it. These were, the failure of the U.S. to maintain the value of the dollar, a relative decline in its economic performance and its overall dominance, both giving rise to persistent and deep-seated imbalances in the system, and massive outflows of dollars from the U.S. as it settled its enormously increased trade balances (causing a substantial increase in world inflation from 1971 onwards). In that year it became clear that fixed exchange rates could no longer be maintained and floating rates (q.v.) became general. **See also EUROPEAN MONETARY SYSTEM**

BRIDGING ADVANCE

A short-term advance to a customer pending the receipt of funds from another source. Very frequently this is in connection with a change of house: the customer is selling one house and buying another. The money for the house being bought is often required before the money comes in for the house being sold and the banker is asked to 'bridge the gap'.

Because the interest earned by such a short loan is hardly sufficient to cover the cost to the bank of setting up the advance, most banks charge additionally an arrangement fee.

BULL

A speculator on the Stock Exchange who anticipates a rise in the value of a certain security and therefore buys such stock, not intending to pay for the purchase, but hoping to sell it later, at a profit, before the date for settlement.

BUY BACK See BALLOON**BUYER CREDIT**

The name given to a transaction whereby a foreign buyer pays the exporter as soon as he receives the goods and borrows from a bank in order to do so.

CABINET BID

On the Stock Exchange Options Market 'cabinet bids' have been designed to aid the investor in his fight to stave off unnecessary taxation. Instead of allowing an 'out-of-the-money' option (see **OPTIONS TRADING**) to expire the cabinet bid system allows the holder to sell off his contract at 1p so that he may gain a contract note which will assist him vis-à-vis the Inland Revenue.

CALL

A demand by a company to shareholders for payment of an instalment, or the balance due on shares. This may refer to the period of flotation of a company, when the shareholders are usually asked to pay a certain portion of the capital on allotment and the remainder on call, or to any other time when a company, in need of more capital, calls up some or all of the uncalled capital on nil-paid or partly-paid shares.

CALLABLE FIXTURE

Money at call or short notice forms the principal source of funds for the discount houses, whose representatives call at the various Head Offices once each day to borrow or to arrange for repayment if the money is 'called'. It is an arrangement which suits both parties, the banks because this form of lending has reserve asset status, is undoubted, is invariably secured and can be recovered at very short notice; the discount houses because they can employ the funds in the financing of a 'book' of bills and short bonds, assets which they can use as security for their borrowings.

The system of call money provides the banks with a means of balancing day-to-day shortages or surpluses, and is an integral part of the Bank of England's control over the amount of money in the banking system as a whole.

An extension of this form of lending in recent years has been the so-called 'callable fixture'. This is money which is lent for a specified period of a few days to three months at a fixed rate of interest, but it may be called back at any time if the bank needs the funds.

CALL MONEY

Money lent to bill brokers by bankers and others at interest, on the terms that it is repayable 'at call' or on demand. The bankers are very happy to lend in this way to members of the discount market any surplus funds which they may have because such advances are fully secured and are practically certain to be repaid.

CAPITAL GAINS TAX

Originally a tax to penalise any profits made from buying and reselling stock and shares and land within twelve months, it is not now confined to land and stocks and shares, nor to a twelve month period (except in the case of gilt-edged securities). These short-term gains are treated as unearned income and are assessable to income tax, being based on the