Glossary of useful terms linked to markets in financial instruments

IN ALPHABETICAL ORDER

Access requirements	Rules governing the decision of an operator of a financial market infrastructure, such as a stock exchange or clearing house, to allow third parties to do business on or through their systems.
Admission to trading	The decision for a financial instrument to be traded in an organised way, notably on the systems of a trading venue.
Algorithm	An algorithm is a set of defined instructions for making a calculation. They can be used to automate decision making, for instance with regards to trading in financial instruments.
Algorithmic trading	Algorithmic trading is trading done using computer programmes applying algorithms, which determine various aspects including price and quantity of orders, and most of the time placing them without human intervention.
Appropriateness test	The requirement for a financial firm to take the necessary steps to ascertain whether a financial product or service is suited to the needs of their client.
Approved Publication Arrangement (APA)	An Approved Publication Arrangement is a system that requires firms executing transactions to publish trade reports through a body that ensures timely and secure consolidation and publication of such data. See section 4 (on data consolidation) of the *Review of the Markets in Financial Instruments Directive*.
Approved Reporting Mechanism (ARM)	An approved reporting mechanism is a platform that reports transactions on behalf of firms. This can also be done via the multi-lateral trading facility or regulated market on which the transaction was performed.
Arbitrage strategy	An arbitrage strategy is one that exploits differences in price that exist due to market inefficiencies, for example, buying an instrument on one market and simultaneously selling a similar instrument on another

	market.
Asset Backed Security (ABS)	An Asset Backed Security is a security whose value and income payments are derived from and collateralized (or "backed") by a specified pool of underlying assets which can be for instance mortgage or credit cards credits.
Automated trading	The use of computer programmes to enter trading orders where the computer algorithm decides on aspects of execution of the order such as the timing, quantity and price of the order. A specific type of automated or algorithmic trading is known as high frequency trading (HFT). HFT is typically not a strategy in itself but the use of very sophisticated technology to implement traditional trading strategies.
Best execution	MiFID (article 21) requires that firms take all reasonable steps to obtain the best possible result for their clients when executing orders. The best possible result should be determined with regard to the following execution factors: price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of an order.
Bid-ask spread	The bid-ask spread is the difference between the price at which a market maker is willing to buy an asset and the price it is willing to sell at.
Bilateral order	An order which is only discussed and disclosed to the counterparties to the trade.
Broker crossing network	A number of investment firms in the EU operate systems that match client order flow internally (for example Citigroup, Credit Suisse, Deutsche Bank, JP Morgan, Morgan Stanley and UBS). Generally, these firms receive orders electronically, utilise algorithms to determine how they should best be executed (given a client‘s objectives) and then pass the business through an internal system that will attempt to find matches. Normally, algorithms slice larger 'parent' orders into smaller 'child' orders before they are sent for matching. Some systems match

	only client orders, while others (depending on client instructions/ permissions) also provide matching between client orders and house orders. Broker crossing networks do not show an order book, and as noted above, simply aim to match orders; due this nature they are sometimes compared to Dark Pools, which have similar characteristics.
Central Counterparty (CCP)	A Central Counterparty is an entity that acts as an intermediary between trading counterparties and absorbs some of the settlement risk. In practice, the seller will sell the security to the central counterparty, which will simultaneously sell it on to the buyer (and vice versa). If one of the trading parties defaults, the central counterparty absorbs the loss.
Churning	Churning is where a broker conducts excessive trading on a client's account in order to increase their commission.
Circuit breaker	A circuit breaker is a mechanism employed by a market in order to temporarily suspend trading in certain conditions, including sudden, deep price falls. One aim of the use of circuit breakers is to prevent mass panic selling and to prevent associated herd behaviours.
Classification of clients	Protection requirements are calibrated in MiFID to three different categories of clients, notably clients, professionals, and eligible counterparties. The high level principle to act honestly, fairly and professionally and the obligation to be fair, clear and not misleading apply irrespective of client categorization.
Clearing	The process of establishing settlement positions, including the calculation of net positions, and the process of checking that securities, cash or both are available for the settlement of obligations. In other words it is the process used for managing the risk of open positions.
Collateral	A guarantee that is used by the collateral provider to secure an obligation to the collateral taker. Collateral usually takes the form of cash or securities. It is also referred to as margin.

Clearing eligible	A financial instrument which is deemed to be sufficiently standardised in order to be cleared by a central counterparty.
Client assets	Client assets are assets (cash, equities, bonds, etc) which belong to the client, but which are held by investment firms for investment purposes.
Commodity derivative	A financial instrument the value of which depends on that of a commodity, such as grains, energy or metals.
Complex product	A financial product the structure of which includes different components, often made of derivatives and the valuation of which will evolve in a non linear fashion. These notably include tailor-made products such as structured products, asset backed securities, and non-standard OTC derivatives.
Non-complex instruments	The MiFID Level 1 Directive (Art. 19(6)) lists specific types of instruments/products that can always be treated as non-complex for investor protection purposes and notably information requirements. Under EU law, the complexity of an instrument is determined by the way it is structured and the ease with which the risk attached tot the product can be understood.
Conflicts of interest	The term conflict of interest is widely used to identify behaviour or circumstances where a party involved in many interests finds that two or more of these interests conflict. Conflicts of interest are normally attributed to imperfections in the financial markets and asymmetric information. Due to the diverse nature of financial markets, there is no general definition of a conflict of interest; however they are typically grouped into Firm/Client, Client/Client and Intra Group Conflicts. MiFID contains provisions for areas where conflicts of interest commonly arise and how they should be dealt with.
Consolidated tape	A consolidated tape is an electronic system which combines sales volume and price data from different exchanges and certain broker-dealers. It consolidates these into a continuous live feed, providing summarised data by security across all markets.

	In the US, all registered exchanges and market centres that trade listed securities send their trades and quotes to a central consolidator. This system provides real-time trade and quote information.
Credit Default Swap (CDS)	A credit default swap is a contract between a buyer and a seller of protection to pay out in the case that another party (not involved in the swap), defaults on its obligations. CDS can be described as a sort of insurance where the purchaser of the CDS owns the debt that the instrument protects; however, it is not necessary for the purchaser to own the underlying debt that is insured.
Cross-market behaviour	Trading strategies which involve placing orders or executing trades in several markets.
Dark pool	Dark pools are trading systems where there is no pre trade transparency of orders in the system (i.e. there is no display of prices or volumes of orders in the system). Dark pools can be split into two types: systems such as crossing networks that cross orders and are not subject to pre-trade transparency requirements, and trading venues such as regulated markets and MTFs that use waivers from pre-trade transparency not to display orders.
Dealer	A dealer is an entity that will buy and sell securities on their own account, acting as principal to transactions.
Derivative	A derivative is a type of financial instrument whose value is based on the change in value of an underlying asset.
Direct market access (DMA)	Participants require access to a market in order to trade on it. Direct market access refers to the practice of a firm who has access to the market allowing another 3rd party firm electronic access to the market via their own systems.
Directive	A directive is a legislative act of the European Union, which requires Member States to achieve a particular result without dictating the means of achieving that result. A Directive therefore needs to be transposed into national law contrary to regulations that have direct applicability.

Dissemination	Dissemination refers to giving out information.
Distortion and misleading behaviour	Distortion and misleading behaviour refers to behaviour that gives a false or misleading impression of either the supply of, or demand for, an investment; or behaviour that otherwise distorts the market in an investment.
Distribution policy	A financial firm's internal guidelines as to how and under which conditions the firm and its personnel provide services for and offer products to its clients.
Electronic order book trading	A system of transacting in financial instruments based on publicly available prices and sizes at which investors are willing to transact. It is distinguished from request for quote trading, where investors contact each other bilaterally in order to establish the prices which they can trade on.
EMIR	European Market Infrastructure Regulation.
Equivalence assessment	The process by which the European Commission gathers information and makes a decision with regards to whether or not the financial market rules and supervision of a third country are as strict and comprehensive as those in Europe.
EU Emission Allowance (EUA)	An allowance to emit one tonne of carbon dioxide equivalent during a specified period, as more specifically defined in Article 3(a) of Directive 2003/87/EC.
ETS	European Union Emission Trading Scheme a 'cap and trade' system: it caps the overall level of emissions allowed but, within that limit, allows participants in the system to buy and sell allowances as they require. These allowances are the common trading 'currency' at the heart of the system. One allowance gives the holder the right to emit one tonne of CO2 or the equivalent amount of another greenhouse gas. The cap on the total number of allowances creates scarcity in the market..

Execution-only service	Investment firms may provide investors with a means to buy and sell certain financial instruments in the market without undergoing any assessment of the appropriateness of the given product - that is, the assessment against knowledge and experience of the investor. These execution-only services are only available when certain conditions are fulfilled, including the involvement of so-called non-complex financial instruments (defined by article 19 paragraph 6 of MiFID).
Fair and orderly markets	A common way of describing a situation in which prices are the result of an equilibrium between supply and demand, so that all available information is reflected in the price, unhindered by market deficiencies or disruptive behaviour.
Financial instrument	A financial instrument is an asset or evidence of the ownership of an asset, or a contractual agreement between two parties to receive or deliver another financial instrument. Instruments considered as financial are listed in MiFID (Annex I)
Fit and proper	Persons who effectively direct the business of an investment firm need to have a good reputation and to have the right level of experience as to ensure the sound and prudent management of the investment firm. This is the so called fit and proper test.
Front running	Front running is where a broker intentionally trades because of and ahead of a client order. For example a broker who buys 100 Company A shares, before executing a client's order for 100,000 Company A shares (with the large client order possibly increasing the share price).
Fundamental data	Information on the supply and demand of goods and services in the real economy.
Hard position limit	A hard position limit is a strict pre-defined limit on the amount of a given instrument that an entity can hold.
Hedging	Hedging is the practice of offsetting an entity's exposure by taking out another opposite position, in order to minimise an unwanted risk. This can also be done by offsetting positions in different instruments and

	markets.
High frequency trading	High frequency trading is a type of electronic trading that is often characterised by holding positions very briefly in order to take advantage of short term opportunities in terms of price rises and falls. High frequency traders use algorithmic trading to conduct their business.
Improper disclosure	Improper disclosure is where an insider improperly discloses inside information to another person.
Inducement	Inducement is a general notion referring to various types of incentives provided to financial intermediaries in exchange for the promotion/ sale of specific products to their clients.
Information asymmetry	An information asymmetry occurs where one party to a trade or transaction has more or better information than another party to that trade or transaction, giving it an advantage in that trade or transaction.
Insider dealing	Insider dealing is when an insider deals, or tries to deal, on the basis of inside information.
Interest rate swap	An interest rate swap is a financial product through which two parties exchange flows; for instance, one party pays a fixed interest rate on a notional amount, while receiving an interest rate that fluctuates with an underlying benchmark from the other party. These swaps can be structured in various different ways negotiated by the counterparties involved.
Intermediary	A person or firm who acts to bring together supply and demand from two other firms or persons. In the context of MiFID, intermediary are investment firms.
Interpositioning	Interpositioning is where a broker adds another intermediary in a trade, even if not required. This increases commissions of the intermediary for which the original broker will generally also gain some form of benefit – e.g. through mutual interpositioning or other benefits. The client ultimately loses out by not receiving best execution.

Investment services	Investment services are legally defined MiFID (article 4 and Annex I), and covers various activities from reception of orders, portfolio management , underwriting or operation of MTFs.
Indication of interest (IOI)	An indication of interest is where a buyer discloses that he wishes to purchase an instrument, often made before an initial public offering. This can also be called an expression of interest. An IOI does not force the party expressing an interest to act on it i.e. to trade on it.
Latency period	The time an order entered into a trading system stays in it before being executed or withdrawn.
Liquidity	Liquidity is a complex concept that is used to qualify the markets and the instruments traded on these markets. It aims at reflecting how easy or difficult it is to buy or sell an asset, usually without affecting the price significantly. Liquidity is a function of both volume and volatility. Liquidity is positively correlated to volume and negatively correlated to volatility. A stock is said to be liquid if an investor can move a high volume in or out of the market without materially moving the price of that stock. If the stock price moves in response to investment or disinvestments, the stock becomes more volatile.
Lit market	A lit market is one where orders are displayed on order books and are therefore pre trade transparent. On the contrary, orders in dark pools or dark orders are not pre trade transparent. This is the case for orders in broker crossing networks.
Lit and Dark orders	A lit order is one which can be seen by other market counterparts. A dark order is one which cannot be seen by other market counterparts. Matching dark orders are automatically executed by the trading venue without each counterpart knowing details of the other.
Manipulating devices	Manipulating devices refers to trading, or placing orders to trade, which employs fictitious devices or any other form of deception or contrivance.

Manipulating transactions	Manipulating transactions is trading, or placing orders to trade, that gives a false or misleading impression of the supply of, or demand for, one or more investments, raising the price of the investment to an abnormal or artificial level.
Market abuse	Market abuse consists, inter alia, of market manipulation and insider dealing, which could arise from distributing false information, distorting prices or improper use of insider information.
Market disorder	General trading phenomenon which results in the market prices differing from those that would result exclusively from supply and demand.
Market efficiency	Market efficiency refers to the extent to which prices in a market fully reflect all the information available to investors. If a market is very efficient, then no investors should have more information than any other investor, and they should not be able to predict the price better than another investor.
Market fragmentation	Market fragmentation refers to the dispersion of business across different trading venues. It is considered to reduce readily access to liquidity.
Market integrity	Market integrity is the fair and safe operation of markets, without misleading information or inside trades, so that investors can have confidence and be sufficiently protected.
Market Maker	A market maker is a firm that will buy and sell a particular security on a regular and continuous basis by posting or executing orders at a publicly quoted price. They ensure that an investor can always trade the particular security and in doing so enhance liquidity in that security.
Market operator	A firm responsible for setting up and maintaining a trading venue such a regulated market or a multi lateral trading facility.
Multilateral Trading Facility (MTF)	MiFID introduced the concept of Multilateral Trading Facilities (MTFs) to replace Alternative Trading Systems (ATSs) (which had been established prior to MiFID but were not subject to specific European legislation). An MTF is a system, or "venue", which brings together multiple third-party buying and selling interests in financial instruments

	in a way that results in a contract, MTFs can be operated by investment firms or market operators and are subject to broadly the same overarching regulatory requirements as regulated markets (e.g. fair and orderly trading) and the same detailed transparency requirements as regulated markets; in this sense they are more like a traditional regulated market than a broker crossing network or a systematic internaliser. There are currently 139 MTFs authorised in Europe[1] offering trading on a diverse range of products. The most prominent MTFs are equity platforms, such as Chi-X and BATS Europe however there are a large number of smaller specialist MTFs providing trading in specific instruments examples include GFI's Creditmatch, Forexmatch, Marketwatch and Energywatch MTFs.
Misuse of information	Misuse of information is behaviour based on information that is not generally available but would affect an investor's decision about the terms on which to deal.
Opaque market	See dark pool.
Order matching	Order matching is the process by which offer and demand for the same security at the same price and size are brought together, which takes place in venues such as broker crossing networks, where the orders of one party are matched to the bids of another, allowing them to conclude transactions at mid point, therefore saving on the bid offer spread.
Order resting period	The time an order waits on a trading system before it is executed. Similar to latency period.
Over the Counter (OTC)	Over the counter, or OTC, trading is a method of trading that does not take place on an organised venue such as a regulated market or an MTF. It can take various shapes from bilateral trading to via permanent structures (such as systematic internalisers and broker networks).

[1] CESR MiFID database, http://mifiddatabase.cesr.eu/

Organised trading facility (OTF)	Any facility or system operated by an investment firm or a market operator that on an organised basis brings together third party buying and selling interests or orders relating to financial instruments It excludes facilities or systems that are already regulated as a regulated market, MTF or a systematic internaliser. Examples of organised trading facilities would include broker crossing systems and inter-dealer broker systems bringing together third-party interests and orders by way of voice and/or hybrid voice/electronic execution.
Placing	Placing refers to the process of underwriting and selling an offer of shares.
Position limit	A position limit is a pre-defined limit on the amount of a given instrument that an entity can hold.
Position management	Position management refers to monitoring the positions held by different entities and ensuring that the position limits are adhered to.
Position reporting	A requirement on financial firms to regularly display their exposure to a certain market. Under MiFID, it relates to the aggregated reporting by the operators of platforms on which commodity derivatives are traded of the positions that types of traders have taken on that platform.
Post-trade transparency	Post trade transparency refers to the obligation to publish a trade report every time a transaction of a share has been concluded. This provides information that enables users to compare trading results across trading venues and check for best execution.
Pre-trade transparency	Pre-trade transparency refers to the obligation to publish (in real-time) current orders and quotes (i.e. prices and amounts for selling and buying interest) relating to shares. This provides users with information about current trading opportunities. Therefore, it facilitates price formation and assists firms to provide best execution to their clients.
Pre-trade transparency waiver	A pre-trade transparency waiver is specified in MiFID (article 29) as a way for the competent authorities to waive the obligation for operators of Regulated Markets and Multilateral Trading Facilities (MTFs) regarding pre-trade transparency requirements for shares in respect of

	certain market models, types of orders and sizes of orders.
Price discovery	Price discovery refers to the mechanism of price formation on a market, based on the activity of buyers and sellers actually agreeing on prices for transactions. Price discovery is affected by factors such as: supply and demand, liquidity, information availability and so on.
Primary Market Operation	Primary Market Operations are transactions related to the issuance of new securities. They differ from secondary market operations which deal with the trading of securities already issued and admitted to trading.
Post trading	The generic term used to denote all processes which take place from the moment that a transaction is concluded to the moment the legal transfer of ownership occurs. This includes clearing, settlement, and other financial firm back-office activities.
Prospectus	A prospectus is a document that describes a financial security for potential buyers. A prospectus provides investors with information about the security or offers concerned such as a description of the company's business and financial statements, a list of material properties and any other material information. In the context of an individual securities offering, such as an initial public offering, a prospectus is distributed by underwriters or brokerages to potential investors. (see Prospectus Directive)
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council, which lays down rules for information to be made publicly available when offering financial instruments to the public.
Pump And Dump	Pump and dump is where persons who already hold a long position in an instrument aim to increase its value by spreading false, misleading or exaggerated information about it. The position is then sold at the higher price and a profit is made.
Reasonable commercial basis	The obligation on a financial firm to do business with other market participants willing to pay a prevailing market fee, and not to impose

	unnecessary conditions on them.
Regulated Market	A regulated market is a multilateral system, defined by MiFID (article 4), which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments in a way that results in a contract. Examples: the traditional stock exchanges such as the Frankfurt and London Stock Exchanges.
Regulatory arbitrage	Regulatory arbitrage is exploiting differences in the regulatory situation in different jurisdictions or markets in order to make a profit.
REMIT	The proposed Regulation on Energy Market Integrity and Transparency, laying down rules on the trading in wholesale energy products and information pertaining to those products that needs to be disclosed.
Repository (Trade)	A mechanism that gathers together information on financial contracts, storing the essential characteristics of those contracts for future reference.
Retail investor/client	A person investing his own money on a non-professional basis. Retail client is defined by MiFID as a non professional client and is one of the three categories of investors set by this Directive, besides professional clients and eligible counterparties.
Risk premium	The risk premium is the smallest return that investors would accept above the amount that a 'risk-free' asset would return. A risk-free asset is a theoretical asset that would never default. So the risk premium is the amount that an investor wants to be paid for taking risk.
Sanction	A penalty, either administrative or criminal, imposed as punishment.
Secondary listing	A secondary listing is the listing of an issuer's shares on an exchange other than its primary exchange.
Settlement	The completion of a transaction or of processing with the aim of discharging participants' obligations through the transfer of money and/or securities.
Short And Distort	Short and distort is the opposite of Pump and Dump and is where a

	person short-sells an instrument and then spreads negative rumours in an attempt to drive down the instrument's price and realized a profit.
Single rulebook	The single rulebook is the concept of a single set of rules for all Member States of the Union so that there is no possibility of regulatory arbitrage between the different markets.
Spoofing and Layering	Spoofing is a form of order book manipulation and involves putting apparent trades on order books to create a misleading impression of the stock price or liquidity. Layering is a form of spoofing by which a trader enters several orders to improve the price of a trade in the opposite direction. For example an abuser will: • submit multiple orders at different prices on one side of the order book slightly away from the touch; • then submit an order to the other side of the order book (which reflected the true intention to trade); and • following the execution of the latter order, rapidly removing the multiple initial orders from the book. By submitting the false orders the abuser gives the market a misleading impression which may encourage them to trade with the intended order.
Spot market	A market on which goods are bought and sold for immediate delivery.
Spread	This can refer to the bid ask spread (see separate entry).
Standardised derivative	A standardised derivative is one with regular features based on a standard contract.
Structured bond	A structured bond's value is linked to an underlying index or instrument, so that the bond would pay a coupon in the same way as an ordinary bond, but the actual value of the bond to be repaid would depend on the underlying performance that it is linked to.

Structured deposit	A structured deposit's return may be linked to some index or underlying instrument, so that the amount repaid is dependent on this underlying performance.
Structured UCITS (see UCITS)	UCITS which provide investors, at certain predetermined dates, with algorithm-based dividends that are linked, for example, to the performance of certain products or the evolution of a product index or reference portfolio.
Swap Execution Facility (SEF)	A swap execution facility is a US trading venue similar but not identical to an exchange, whereby many different buyers and sellers can make bids and offers on swaps. The SEF must also publish relevant data.
Syndication	Syndication is a process through which a group of banks are providing a loan to a debtor, usually with the division of risk and financing across the different banks which are part of the process (syndicate).
Systematic Internalisers (SI)	Introduced by MiFID in 2007 Systematic Internalisers (SIs) are institutions large enough to match client orders internally, or against their own books (unlike a broker crossing network, which may route orders between a number of institutions). They are defined in MiFID as an investment firm which, "on an organised, frequent and systematic basis, deals on own account by executing client orders outside a regulated market or an MTF". A firm does not need specific authorisation from its competent authority to carry out systematic internalisation; however similar to MTFs and RMs, they are required to conform to some transparency requirements, such as providing public quotes. Only a few (generally large) firms have set up SIs and, currently, there are 12 registered.
Systemic failure	A systemic failure refers either to the failure of a whole market or market segment, or the failure of a significant entity that could cause a large number of failures as a result.

Tied agent	A company or sales person who can only promote the service of one particular provider (generally their direct employer).
Trade repository	A centralised registry that maintains an electronic database of information on open OTC derivative contracts.
Trading Venue	A trading venue is an official venue where securities are exchanged; it includes MTFs and regulated markets.
Transaction reporting	Investment firms are required to report to competent authorities all trades in all financial instruments admitted to trading on a regulated market, regardless of whether the trade takes place on that market or not. It covers all transactions on these instruments, including OTC trades. Transaction reporting is not public, and contains more details about the transaction than pre and post trade transparency.
Transparency	The disclosure of information related to prices quoted (pre trade transparency) or transactions (post trade transparency) relevant to market participants for identifying trading opportunities and checking best execution and to regulators for monitoring the behaviour of market participants.
Transparency Directive	Directive 2004/109/EC of the European Parliament and of the Council which lays down rules for the publication of financial information and major holdings.
Undertakings for Collective Investment in Transferable Securities Directives (UCITS)	Undertakings for Collective Investment in Transferable Securities Directives, a standardised and regulated type of asset pooling, subject to harmonised EU rules and typically devised for and marketed to retail investors.
Underwriting	Underwriting can refer to the process of checks that a lender carries out before granting a loan, or issuing an insurance policy. It can also refer to the process of taking responsibility for selling an allotment of a public offering.
Vertical integration model	A business model in which all steps of a production process are carried out by a single firm, for instance trading, clearing, and settlement

	services.
Volatility	Volatility refers to the change in value of an instrument in a period of time. This includes rises and falls in value or the general fluctuation of prices or markets. It is usually expressed as a percentage.