

Glossary

Act	The Enterprise Act 2002.
Ad valorem fee	LSE fee that is levied on the aggressive party for both on-book and off-book trades and principally reflects the withdrawal of liquidity . As the trade size increases, the fee increases to reflect the amount of liquidity withdrawn.
Admission	Admission to trading in securities of listed companies .
Agent business	Services provided by an agent on behalf of a principal.
Aggressive orders	Orders that, by contrast with passive orders , subtract liquidity from the order book during continuous trading, when each trade has one aggressive party (the party that hits an order) and one passive party (the party whose order is hit).
AIM	LSE's Alternative Investment Market on which smaller growth companies outside LSE's Main Market are listed. Part of the regulated equities market.
Arbitrage trading	The purchase and selling of securities in order to profit from differentials in the price or expected behaviour. See also statistical arbitrage .
ATS	Alternative Trading System. An electronic order matching engine run by an intermediary (also known as ECNs or MTFs).
Best execution rules	Current rules require trading firms to take reasonable care to ascertain the price which is the best available for the customer in the relevant market at the time for trades of the kind and size concerned; and deal at a price which is no less advantageous, unless it is clearly in the customer interests to do otherwise.
Bid-ask spread	The difference between the bid and offer prices of a security .
Bid price	The price at which a market participant bids to buy securities .
Bilateral trades	Direct broker to broker trades, organized by two brokers between themselves, away from the exchange's order book .
Black box trading	Colloquial term for statistical arbitrage trading .
Blue chip security	A security of (usually) a large, multinational company with a solid record of stable earnings and/or dividend growth and a reputation for high quality management and/or

products.

Bond	A debt security issued by a government or corporation as a means of raising capital which generally entitles the holder to a fixed-rate of interest and requires repayment of the principal at maturity.
Broker	An individual or trading firm that acts as an intermediary between a buyer and seller (or deals on its own account) usually charging a commission. Sometimes referred to also as a sell-side firm.
Buy side	The end-investor, generally institutional or retail, who may trade on the exchange via the sell-side/intermediary/broker .
Capital market	Market where debt securities or equity securities are traded.
CC	Competition Commission.
CCP	Central counterparty —the party that takes on the contractual obligations and counterparty risk of each trade on the order book , becoming the buyer to every seller, and the seller to every buyer.
Clearing	The process of transmitting, reconciling, and, in some cases, confirming payment orders or security-transfer instructions prior to settlement , including the netting of instructions and the establishment of final positions for settlement .
Clearstream	Clearstream International SA and its subsidiaries (see Appendix G) including (amongst others) Clearstream Banking Frankfurt, the CSD in Germany, and Clearstream Banking Luxembourg, an ICSD .
Collateral	Financial or tangible assets pledged by a borrower to secure an obligation. If the borrower defaults, the collateral is used to repay the obligation.
Combined Code	The current benchmark for best practice corporate governance in the UK. The code is appended to the UKLA's Listing Rules.
Commodity	Any bulk good traded on an exchange or in the cash market (eg grain, oats, gold, oil, beef, silver and natural gas).
Counterparty	The market participant with whom a trade is being transacted.
Counterparty risk	Risk of default on payment by a counterparty .

CREST	The electronic share settlement system for UK and Irish securities operated by CRESTCo .
CRESTCo	The CSD for the UK and Ireland; owned by Euroclear .
Cross-border trade	A trade between counterparties located in different countries.
CSD	Central securities depository, a national third party custodian and sole provider of the registry function .
Custodian	An entity, often a bank, that performs custody services for its customers. It may provide various other services, including clearing and settlement , cash management, foreign exchange, and securities lending.
Custody	Safekeeping and administration of securities and financial instruments on behalf of others.
Custody and banking services	Custody and other services, such as processing corporate actions (eg notification to customers of actions announced by the issuer such as dividends, share splits, etc) and the provision of securities finance and other related banking services.
DBAG	Deutsche Börse AG, ultimate parent of Deutsche Börse Group.
Debt security	An instrument that signifies a liability or obligation, in the form of a bond , loan note or mortgage, owed to another person and required to be paid by a specified date.
Derivatives	A financial instrument, the price of which depends on the value of one or more underlying securities , such as equity indices, debt instruments or commodities , and has no direct relationship with the underlying company. Examples of derivatives include futures and options .
DMA	Direct Market Access—technology developments (generally provided by the intermediary) enabling end investors (buy side) to access the market transparently.
DTCC	Depository Trust and Clearing Corporation, the US post-trade services provider.
DTS	LSE's Dutch Trading Service, launched in May 2004. (Also known as Eurosets.)
Dutch Stars	A DBAG initiative to offer trading in Dutch equities in Amsterdam.
ECN	An electronic communication network that attempts to eliminate the role of intermediary in trades execution, eg by internally matching buy and sell orders. See also ATS .

ECT	Explicit costs of trading, ie trading fees or charges for clearing and settlement .
EDX	EDX London Limited, an RIE that is a 76 per cent owned subsidiary of LSE and operates a Scandinavian derivatives and OTC clearing service. (See also Appendix E.)
Electronic trading	Fully automated trading of securities or commodities . (See also floor trading .)
Equity	Equity security , an instrument that signifies an ownership position in a company, and represents a claim on its proportional share in the company's assets and profits.
Eurex	Eurex Zurich AG , a derivatives exchange based in Frankfurt and Zurich and founded by DBAG and SWX . (See also Appendix E.)
Eurex Clearing	Eurex Clearing AG, a clearing house for contracts entered into via (amongst others) Eurex , or FWB .
Eurobond	Originally, a bond issued by a borrower outside its own country that may be denominated in a currency foreign to the borrower or to the purchaser, or both. Eurobonds are cleared and settled in ICSDs .
Euroclear	Euroclear plc, a Brussels-based organization that owns CRESTCo and the Dutch and French CSDs as well as Euroclear Bank , an ICSD .
Euroclear Bank	An ICSD , owned by Euroclear .
Euronext	Euronext NV. Owns and operates exchanges in Amsterdam, Brussels, Paris and Lisbon, and Euronext.liffe .
Euronext.liffe	An RIE owned by Euronext that deals with futures and options . Formerly the London International Financial Futures and Options Exchange.
Exchange	A centralized marketplace where participants buy and sell securities either directly or through intermediaries .
Floor trading	Trading of securities or commodities which, by contrast with electronic trading , is not (fully) automated.
Flotation	The process by which a company is admitted to the UKLA's Official List and to trading on LSE's markets.

FSA	Financial Services Authority. A statutory independent body which regulates the financial services industry in the UK.
FSAP	The EU's Financial Services Action Plan. Includes the Investment Services Directive, the Market Abuse Directive, the Prospectus Directive, the Transparency Directive and MiFID . (See also Appendix C).
FSMA	Financial Services and Markets Act 2000—provides a framework for the regulation and operation of stock exchanges through their authorization by the FSA as RIEs .
Fungible	Capable of interchange or exchange, or identical in specification.
Futures	Standardized contracts to purchase or sell an underlying instrument at an agreed price and date.
FWB	Frankfurter Wertpapierbörse, the Frankfurt Stock Exchange, operated under licence by DBAG .
Home bias	The propensity of companies to float on their domestic market.
Iceberg orders	Large orders of which a proportion (only) is made public at a time.
ICSD	International CSD , ie in Europe either Euroclear Bank or Clearstream Banking Luxembourg.
Implicit costs of trading	A combination of the bid-ask spread , trading profit opportunities and opportunity costs.
Index	A statistical measure – such as the FTSE 100—of the changes in value of a portfolio of stocks.
Instinet	Instinet Europe Limited, an institutional brokerage and electronic trading network.
Interbolsa	Interbolsa SA, a Euronext subsidiary that acts as the Portuguese CSD .
Intermediary	A broker facilitating business for itself and its customers.
Internalization	A form of off-book trading whereby intermediaries with a high volume of buy and sell orders and in-house inventory seek to match as much of this business as possible in house.
IPO	Initial public offer, a flotation whereby shares are offered to the public when a company is first listed.

Issuer	Any company or other legal person or undertaking any class of whose securities has been admitted or is, or is proposed to be, the subject of an application for admission to trading.
Issue	See flotation . May be an IPO or a secondary public offer .
IT	Information technology.
ITG Posit	An intraday electronic equities crossing system which matches buy and sell orders at predetermined times in the day.
LCH.Clearnet	LCH.Clearnet Group Limited, the UK's principal CCP , formed in December 2003 by the merger of the London Clearing House and Euronext -controlled Clearnet SA.
LIBA	London Investment Banking Association.
Limit order	A buy-side order, executed at or below a specified maximum share price, or a sell-side order, executed at or above a specified minimum share price.
Liquidity	The ease with which a security can be traded on the market, usually defined by turnover.
Liquidity provider	A market maker acting on an order book . See also passive orders .
Liquidnet	A US ATS that launched its European platform in November 2002—offers fund managers the ability to negotiate large blocks of equities directly and anonymously with each other, bypassing exchanges and intermediaries . Liquidnet Europe is a member of the LSE and its UK trade executions are reported to LSE .
Listed company	A company whose securities have been admitted to the UKLA's Official List and admitted to trading on LSE's Main Market .
Listing services	Exchange services provided in respect of a flotation , whether an IPO or a secondary public offer .
LSE	London Stock Exchange plc.
Main Market	LSE's principal market for listed companies from the UK and overseas.
Margin netting	An agreed offsetting of positions or obligations by trading partners or participants of their exposure between trade execution and settlement .
Market capitalization	A measure of the value of a company derived by

	<p>multiplying the number of shares in issue by the current share price.</p>
Market impact	Actual or potential effect of trades on share prices.
Market maker	A broker obliged to offer to buy and sell securities in which it is registered as such throughout a mandatory period.
Market price	The price of a security . For shares, there are two prices quoted on LSE : see bid price and offer price .
MiFID	Markets in Financial Instruments Directive 2004/39/EC—see Appendix C.
Member firm	A trading firm which is a member of an exchange and may deal in securities on an exchange's markets on behalf of its clients, or on its own behalf.
MTF	Multilateral Trading Facility. See also ATS .
NASDAQ	National Association of Securities Dealers Automated Quotations—the largest US electronic stock market.
Netting	An agreed offsetting of positions or obligations by trading partners or participants, reducing the number of individual positions. Three or more parties' positions may be netted by a CCP .
Network effects	Effects arising from network externalities—for example, benefits both to individual buyers and individual sellers resulting from trading on the same platform as other buyers and sellers, principally because the presence of larger numbers of both tends to bring liquidity to the market and reduce the market impact of an individual trade .
NSC	Electronic trading platform operated by Euronext .
NYSE	New York Stock Exchange.
Ofex	Ofex plc, a market for small companies operated by Plus Markets Group plc. Ofex is not an RIE .
Off-book trading	All trades carried out away from an exchange's order book , whether reported to the exchange or not. Exchanges generally charge trading firms for trade reporting of off-book trades.
Offer price	The selling price for securities in the market.
OFT	Office of Fair Trading
OMX	OMX AB, Nordic exchanges operator that also owns 24

per cent of **EDX**.

On-book trading	All trades carried out on an exchange's order book .
Option	Derivative conferring on the relevant holder the right to purchase or sell an underlying instrument at an agreed price and date.
Order book	An electronic execution facility operated by an exchange .
OTC	Over the counter – ie bilateral trades .
Passive orders	Orders that, by contrast with aggressive orders , provide liquidity to the order book during continuous trading, when each trade has one aggressive party (the party that hits an order) and one passive party (the party whose order is hit).
Post-trade services	Clearing and settlement and related services, used for all on-book and some off-book trades .
Primary market	The initial offering of equities to investors, whereby capital is raised for the company via a flotation , whether through an IPO or a secondary public offer .
Project Tiger	An aborted Euronext initiative to trade UK equities in London.
Proquote	Proquote Limited—a wholly owned subsidiary of LSE which supplies financial market software and data services (ie as a data vendor).
QCA	The Quoted Companies Alliance, a not-for-profit organization for smaller quoted companies traded on AIM and Ofex .
Quote	An offer to buy or sell a quote-driven security (not on an order book). Quotes are displayed by market makers that are registered as such in the security .
Quote book	An electronic facility operated by an exchange (such as SEAQ) that facilitates the display of buy and sell quotes made by market makers .
RCH	Recognized clearing house—a provider of clearing and/or settlement services, granted such status and regulated by the FSA .
RCPS	Redeemable convertible preference shares.
Registry function	The maintenance of the central register of the owners of a security . This function can only be undertaken by a CSD.

Reuters	Reuters Group Plc and its subsidiaries.
RIE	Recognized Investment Exchange—an investment exchange granted such status and regulated by the FSA .
ROIE	Recognized Overseas Investment Exchange.
RSP	Retail Service Provider—an internalization service for retail trades operated by market makers .
SEAQ	The Stock Exchange Automated Quotations system— LSE 's screen-based order-driven service displaying competing bid and offer prices .
Secondary listing	Refers to the listing of securities on a second exchange .
Secondary market	Marketplace for trading in equities subsequent to their initial offering to investors through an IPO or a secondary public offer .
Secondary public offer	A new issue by a listed company wishing to raise further capital.
Security	An instrument representing ownership (stocks), a debt agreement (bonds) or the rights to ownership (derivatives). A security is essentially a contract that can be assigned a value and traded. Examples include equities, bonds, derivatives and other financial assets.
Sell-side	The largest intermediaries , typically major investment banks.
SETS	LSE 's electronic order book , for the most liquid securities .
SETSm	LSE 's market for trading mid-cap securities .
Settlement	Transfer of a security from seller to purchaser and the transfer of the respective consideration.
Settlement netting	An agreed offsetting of positions or obligations by trading partners or participants, reducing the number of settlement instructions.
SIS x-clear	The Swiss CSD .
SLC	Substantial lessening of competition.
Smart order routing	A system for ensuring that orders are directed to the exchange or ATS which provides the best price or execution for a client order.
SSNIP	Small but significant non-transitory increase in price.

Stamp duty	A government tax levied on the transfer of ownership of certain assets including equities . Intermediaries can, in most circumstances, claim relief from stamp duty.
Statistical arbitrage	An attempt to profit from pricing inefficiencies that are identified through the use of mathematical models—in particular the likelihood that prices will trend toward a historical norm.
SWX	The Swiss stock exchange , owner of virt-x and joint owner of Eurex .
Trade	A contract made on an exchange market under the rules of the exchange .
Tradepoint	Established in 1995 as a for-profit exchange to run an electronic order-driven equities market for UK securities with a fully transparent order book . Relaunched as virt-x in 2000.
Trade reporting	Reporting to the exchange of the basic details of on-book and off-book trades so as to enable the exchange to ensure that trading remains transparent and orderly.
Trading fee	Fee charged by an exchange for any on-book trade .
Trading firm	A broker member of the exchange .
Trading platform	The technology infrastructure that an exchange uses to support its trading services.
Trading service	A configuration of system and market rules that support the trading activity of a market.
TRM	Technology Road Map— LSE's proposed investment in new trading systems technology.
UKLA	The United Kingdom Listing Authority, that is the FSA .
virt-x	virt-x Exchange Limited, an RIE owned by SWX . Provides trading in pan-European blue-chip securities and the major European indices .
Xetra	DBAG's electronic order book .