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## ***Glossary of Securities Terms***

(gleaned from Securities Glossary, Financial Education Center, 2002, and numerous other sources)

**Accredited Investor:** According to Regulation D, can be defined as any one of the following: 1) a bank, insurance company, registered investment company, business development company, or small business investment company; 2) an employee benefit plan, within the meaning of the Employee Retirement Income Security Act, if a bank, insurance company, or registered investment adviser makes the investment decisions, or if the plan has total assets in excess of \$5 million; 3) a charitable organization, corporation, or partnership with assets exceeding \$5 million; 4) a director, executive officer, or general partner of the company selling the securities; 5) a business in which all the equity owners are accredited investors; 6) a natural person who has individual net worth, or joint net worth with the person's spouse, that exceeds \$1 million at the time of the purchase; 7) a natural person with income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year; or 8) a trust with assets in excess of \$5 million, not formed to acquire the securities offered, whose purchases a sophisticated person makes.

**Actively traded securities:** Securities that have a current worldwide average daily trading volume over 60 consecutive calendar days (ADTV) of at least \$1 million and an issuer with common equity securities having a public float value of at least \$150 million. This condition is used for an exemption from Regulation M, which restricts the trading of an existing security by participants in a public offering of that security.

**Affiliated Persons:** Persons (individuals, corporations, trusts, etc.) in a position to influence a corporation's decisions. Includes officers, directors, and principal stockholders (those with 10% ownership or more) of the corporation, and their immediate families. Also called insiders or control persons.

**Alternative trading system:** Also known as Electronic Communication Networks (ECN) bring together both buyers and sellers of major brokerages and individual traders directly without having to go through a middleman by matching orders according to a predefined logic. Electronic Communications Networks (ECNs) are alternative trading systems that have sufficient volume in non-government securities and commercial paper that they must be registered with the SEC.

**American Depository Receipt:** A receipt for (usually common) shares of a foreign corporation on deposit with a foreign branch of an American bank. These are used to facilitate and expedite the transfer of beneficial ownership for a foreign security in the U.S.

**AMEX** – previously the American Stock Exchange, now owned by NYSE Euronext as of January 2009.

**AML (Anti-Money Laundering):** is a term mainly used in the financial and legal industries to describe the legal controls that require financial institutions and other regulated entities to prevent or report money-laundering activities. It first came into being as part of the Bank Secrecy Act of 1970 and became a focal point for enforcement as part of the USA Patriot ACT of 2001.

**Annual Meeting:** Corporate law and stock exchange rules require public corporations to hold annual shareholder meetings to elect directors and conduct other shareholder business.

**Annual Report:** The annual report is issued yearly by public corporations to its shareholders, and contains detailed financial and business information required by law.



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**Articles of Incorporation:** Also sometimes called a Charter. The Articles of Incorporation are created at the time a corporation is established. They are filed with the corporation commission (or secretary of state) in the state of incorporation. They establish the basic framework for the corporation, including its purpose, the amount of stock it may issue, and the number of its directors. Only shareholders may amend the Articles of Incorporation or alter a corporate charter.

**Asked price:** The lowest price a seller of a security is willing to take for a unit of a security at a particular time. (Note that the OTC market uses the term "asked," while the exchanges use the term "offered" or "offering.")

**Asset:** Anything of value owned by a company or individual. Assets include cash, investments, and physical property.

**Auction market:** A market in which the price of a security is determined by supply and demand, through a continuous auction. Exchanges are auction markets. Over the counter markets are negotiated markets.

**Automated Confirmation Transaction (ACT):** A computer system that matches trade information, determines locked-in trades, and submits them to clearing through the National Securities Clearing Corporation (NSCC) which is a wholly-owned subsidiary of the Depository Trust and Clearing Corporation (DTCC). The primary way that OTC transactions in equity securities are reported. Participation is mandatory for all brokers that are members of a registered clearing agency and for all brokers who have a clearing arrangement with such brokers.

**Balance sheet:** A financial report of a corporation, showing the corporation's assets, liabilities, and stockholders' equity at a point in time (usually month-end, quarter-end, or year-end).

**Basis:** The cost or book value of an investment. The gain or loss on an investment is the sale price less the basis. Basis is often called "cost basis." Now required to be reported to the IRS on most transactions after January 2010.

**Beneficial Holder or Owner:** from the Financial Dictionary: A beneficial owner of stock is any person or entity with sole or shared power to vote or dispose of the stock. This SEC definition is intended to include a holder who enjoys the benefits of ownership although the shares may be held in another name, such as street name. When an investor opens an account at a brokerage the application paperwork currently asks the investor if they object to their name being known to the issuer (Objecting Beneficial Owner or OBO) or if they do not object to the name being known (Non-Objecting Beneficial Owner or NOBO)

**Best-efforts underwriting:** Underwriting without a guarantee to the issuer to sell the securities. The underwriters act as brokers.

**Bid price:** The highest price a buyer of a security is willing to pay for a unit of the security at a particular time.

**Blue-Sky Laws:** Blue-sky laws are the individual states' securities laws. The term "blue-sky laws" was coined around 1900 by a Kansas Supreme Court Justice who wanted to protect investors from speculative ventures without more basis than "so many feet of blue sky."

**Board of Directors:** A board of directors is the body responsible for overseeing a company's affairs. Shareholders elect the directors to the board.



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**Bond**: A physical certificate evidencing a debt (or loan) instrument. Corporations, municipalities, or the government may issue bonds. Most bonds are now issued in book entry form. The bondholders become creditors to the entity that issued the bond and are paid interest on the debt over the life of the bond.

**Book entry**: A registration procedure in which the shareholder does not receive the physical certificates held by a depository. The depository maintains ownership records and the shareholder receives a statement of his assigned holdings.

**Book value**: The value of a corporation's assets or liabilities on its balance sheet. Assets are valued at their original purchase price less any depreciation taken for accounting purposes. The book value of common stock is the corporation's assets less its liabilities and the liquidation value of its preferred stock. Book value may have little relationship to market value.

**Broker**: One who buys and sells securities for others, in exchange for a commission.

**BSA (Bank Secrecy Act of 1970)**: requires financial institutions in the U.S. to assist U.S. government agencies to detect and prevent money laundering.

**Bylaws**: The document that contains the ground rules by which a company is run. Bylaws normally establish such matters as the titles and duties of executive officers, the timing and procedures for board meetings, and the manner for conducting the annual shareholder meeting.

**Callable securities**: Securities that may be bought back by the issuer before they are due, usually at a premium over the par value. Many bonds and preferred stocks are callable.

**Capital gain**: A gain recognized when a security is purchased at one price and sold at a higher price. It does not include dividend or interest income.

**Capitalization**: The long-term financing of a corporation, including the shareholder's equity section of the balance sheet plus long-term bonds outstanding.

**Cash flow**: The net profits or losses of a business plus noncash expenses such as depreciation, amortization, and depletion.

**Cash settlement**: A trade that is settled on the same day as the trade date.

**CBRS**: Cost Basis Reporting System software program sponsored by the National Settlement & Clearing Corporation for the pass-through of cost basis trade information between all appropriate parties.

**CDWC**: The electronic deposit and withdrawal at custodian function (DWAC) where PTS (Participant Terminal System) access is used instead of the Participant Browser Service (or PBS)

**Cede & Co**: The "nominee" name used by Depository Trust Co. for registration of securities

**Certificate**: The physical paper that evidences ownership of stock in a corporation.



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**Charter:** Also often called the Articles of Incorporation. It is filed with the secretary of state in the state of incorporation, and establishes the basic framework for the corporation, including its purpose, the amount of stock it may issue, and the number of its directors. Only shareholders may alter a corporate charter.

**Circuit breakers:** Trading halts, curtailment of automated trading systems and/or price movement limits used by the exchanges to attempt to prevent the free-fall of stock or stock index futures markets. Established after Black Monday in 1987 by major stock and commodities exchanges. The breakers are triggered when the market has fallen by a specified amount in a specified period. Amounts that trigger the breakers are changed from time to time.

**Clearing Firms:** Brokers or dealers who carry customer or other broker/dealer accounts and receive and hold securities and funds for those accounts. Also called carrying, general securities firms.

**Closed-end investment company:** An investment company with a fixed number of shares that trade in the secondary market.

**Collateral:** Securities or other assets that a borrower pledges to a lender to secure repayment of a loan. If the borrower does not make payments as promised, the lender may legally seize the collateral and use the proceeds from its sale to pay off the loan.

**Commercial paper:** Short-term business notes, drafts, and acceptances maturing in 270 days or less.

**Commission:** The fee charged by a broker/dealer for acting for others in executing buying or selling orders.

**Common stock:** The most basic type of equity security, representing ownership of the corporation.

**Competitive bid underwriting:** An offering in which syndicates enter bids for the opportunity to underwrite the issue.

**Computer-to-Computer Facility (CCF):** CCF is the electronic link used for direct computer-to-computer communication between DTC and its dedicated line automated users.

**Confirmation:** A written report giving details of the trade to the customer or the other broker/dealer involved in the trade. Confirmations must be sent the next business day after the trade.

**Continuous net settlement:** The offsetting of payments and certificates when multiple trades involving a particular security have the same two parties on opposing sides. Used by registered clearing agencies.

**Control book:** The record of shareholder transactions in the stock of an issuer that reflect the authorized shares, the issuances and cancellations and the net outstanding shares. A registrar agent (usually also a transfer agent), registered by the SEC, is responsible for the shareholder records of all public corporations.

**Control stock:** Securities owned by control or affiliated persons.

**Conversion price:** The price of a bond or stock at which it can be converted to common stock.



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**Conversion ratio:** The ratio specifying how many shares of a common stock will be received upon converting one bond or share of preferred stock.

**Convertible:** Designation for a bond, debenture, or preferred stock which signifies that it may be exchanged by the owner for common stock or another security, usually one issued by the same corporation. Conversions are subject to terms established in the issue of the original security.

**Cooling-off period:** The time between the filing of the offering with the SEC and the effective date when the SEC releases it.

**Corporate Action:** Any event that effects or brings about a material change in the stock of a company. It may affect the rights of the shareholders or it may affect the number of shares a holder owns or both.

**Cumulative preferred stock:** A preferred stock whose dividends continue to accumulate even though they are not earned or declared.

**Current assets:** Assets that are converted to cash within one year.

**Current liabilities:** Obligations that must be paid within one year.

**Current ratio:** Current assets divided by current liabilities.

**Current yield:** The ratio of the current income from an investment to the purchase price or the current price of the investment.

**CUSIP number: (CUSIP)** A number assigned to each issue of securities by the Committee on Uniform Securities Identification Procedures to facilitate tracking lost, stolen, or counterfeit securities.

**Custodian:** The person appointed by the donor to manage a minor's account. Might be the donor, a guardian, or some other adult or institution such as a bank.

**Dealer:** One who buys or sells stock for his own account, charging a markup when he sells to a customer and a markdown when he buys from the customer.

**Debenture:** An unsecured, usually non-collateralized bond whose issuing entity promises to pay its debt to its bondholders.

**Declared date:** The date on which a corporation declares a dividend.

**Defined benefit plan:** A corporate pension plan that guarantees a specific level of benefits for participants, usually based on levels of compensation and years of service. For example, an annuity purchased by the corporation for the employee.

**Defined contribution plan:** A corporate pension plan that guarantees the employer will pay a specific amount into the plan each year. Either a money purchase plan, such as a 401(k) or a SEP, or a profit sharing plan, or some combination of the two.



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**Depository Trust & Clearing Corporation (DTCC):** The only central depository in the United States for the physical certificates or F.A.S.T./electronic shares evidencing securities held by the brokerages and banks that are its member owner participants. The members transfer securities among themselves to effect transactions using electronic bookkeeping entries. Transfer agents are not owners of DTCC and are limited participants only.

**Derivative security:** A contract whose value depends on the performance of some other security, index, or other investment. For example, a stock option is a derivative security whose value depends on the value of the underlying stock.

**Designated Market Maker (DMM):** previously known as Specialist on the New York Stock Exchange. A DMM is an exchange member who makes the market in a particular security. He must maintain a "fair and orderly" market.

**Dilution:** Reduction of the percentage ownership of the existing shareholders through the sale of more stock by the corporation.

**Direct Mail by Agent (DMA):** Per agreement with DTCC and as requested on a Shipping Control List, the transfer agent mails certificates or statements directly to beneficial owners instead of back to DTCC in accordance with instructions of a full participant. (DMD- direct mail by DTC – is no longer available.)

**Disclosure laws:** Disclosure laws require companies to fully and fairly disclose all material facts relating to a securities offering.

**Diversification:** Reducing risk by spreading investments among several markets and/or industry segments within a market. Diversification reduces the risk that an individual investment will perform worse than other investments in its same class (i.e., non-systematic risk).

**Diversified investment management company:** An investment company with 75% of the value of its assets held in cash or cash equivalents, government securities, securities of other investment companies, or securities of other issuers; no more than 5% of its total assets in the securities of any one company; and ownership of no more than 10% of the outstanding voting stock of any one company.

**Dividend:** A payment of corporate earnings to shareholders. Dividends are normally paid in cash, but may also be in stock or property.

**Dividend Reinvestment Plan (DRIP):** A program offered by some corporations (particularly investment companies) in which shareholders may opt to use their dividends to purchase additional shares in the corporation in lieu of receiving cash payments. Since the shares are purchased directly from the corporation, brokerage fees do not apply. However, the shareholder is still responsible for taxes on the dividends.

**DMD:** Direct mail by deposit. A request from the Depository Trust & Clearing Corporation for the transfer agent to return the certificates or statements back to DTCC for the brokerage to pick up. This service is no longer available.

**Don't know procedures (DK procedures):** Procedures followed by dealers if confirmations between dealers are in disagreement, or if one party fails to confirm a trade prior to the settlement date. Literally means we "don't know" this trade.



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**DRS:** Acronym for Direct Registration System that allows for the registration of all electronic book-entry shares.

**DRSP:** Acronym for Direct Registration System Profile. This is an individual shareholder's registration of electronic book-entry shares reflected directly on the books of the issuer. The account, however, is held at a brokerage firm. The shares are not held in "street name". This type of registration disallows the individual shareholder's registered shares to be used by the brokerage for lending purposes.

**DTC or DTCC:** Acronym for the Depository Trust & Clearing Corporation, aka Depository Trust Company. Shares held at the depository will be registered to CEDE & Co, which is DTC's nominee name. These are street name shares.

**Due bill:** A written admission of a debt. Due bills are given when a stock split or stock dividend is pending and the shares are sold prior to the ex-date, but too late to transfer them to the buyer's name.

**Due-bill check:** A postdated check dated to the payment date of a cash dividend. Due bill checks are used when a cash dividend is pending and the shares are sold prior to the ex-dividend date, but too late to transfer them to the buyer's name.

**DWAC:** Acronym for Deposit/Withdrawal at Custodian. A sub-activity within DTC's F.A.S.T. software system that allows transactions to occur directly between brokerage firms without the involvement of the Depository Trust & Clearing Corporation. This acronym suggests that an entity other than the Depository Trust is the custodian when, in fact, the Depository Trust & Clearing Corporation is the only custodian of shares.

**Earnings per share:** The net income of a corporation after taxes and payment of preferred stock dividends, divided by the number of common shares outstanding.

**ECN:** Electronic Communication Network, see alternative trading system.

**EDGAR:** Electronic Data Gathering Analysis and Retrieval system used for the filing of SEC reports.

**Effective date:** In a new issue, the date on which the SEC releases the offering allowing it to trade.

**Employee Stock Ownership Plan (ESOP):** A profit sharing plan where the contribution is made in stock.

**Equity:** The value of an asset (or part of an asset) that is not indebted. In securities, it is the ownership interest of the common and preferred stockholders.

**Exchanges:** Organizations or groups of individuals and/or firms that provide a means of bringing buyers or sellers of securities together. Unless their volume is so small to qualify for an exemption, exchanges must register with the SEC as national exchanges and abide by their rules.

**Ex-dividend date:** The date on which a stock starts trading without a pending dividend, usually four business days prior to the record date. It is set by either the exchange or the Uniform Practice Code Committee of FINRA.

**Ex-rights:** The buyer of a stock sold ex-rights acquires only the stock itself and not any associated right to subscribe to additional stock directly from the company at a discount.



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**Face Amount:** The dollar amount that the issuing entity has promised to pay a bondholder at maturity. This amount will appear on the face of the bond.

**Fair market price:** The price a willing buyer would pay a willing seller for an asset, where both are acting rationally with full knowledge.

**FAST:** Acronym for the Fully Automated Stock Transfer software processing system used by the Depository Trust & Clearing Corporation. This system encompasses all electronic book-entry share transactions.

**FBCS:** Fast Balance Confirmation Summary whereby the transfer agent's balance for electronic shares held at DTC in the nominee name of CEDE & Co. for that issuer is reconciled to the balance of shares that DTC also shows for that issuer. This balance is to be confirmed on a daily basis to DTC.

**Federal covered security:** A security that is exempt from state registration because either it must be registered with the Federal government under the Securities Act of 1933 or it is exempt from federal registration under the 1933 Act (except that municipal securities may be regulated by the state of which the issuer is a part). Includes securities listed or authorized for listing on the NYSE, AMEX, the National Market System of Nasdaq®, or securities of the same issuer as those above with equal or higher seniority; registered investment company securities; securities offered or sold to qualified purchasers; securities with respect to certain transactions exempt from Federal registration, including some private placements; and securities that are exempt from Federal registration.

**Fiduciary:** Someone who manages an account for the beneficiary of the account.

**FINRA (Financial Industry Regulatory Authority):** The self-regulatory organization (SRO) authorized and regulated by the SEC that oversees the brokerage and bank community for securities transactions by protecting investors and market integrity.

**FINS (Financial Industry Number Standard):** A standardized numbering system used for identifying companies (brokers, banks, transfer agents) in the securities industry in the United States and Canada. FINS numbers are used for purposes of reporting and inquiry to the Securities Information Center regarding lost and stolen securities and for communicating with the Depository Trust Company (who issues FINS numbers).

**Firm commitment underwriting:** A promise from the underwriters of an issue to purchase the securities for their own account if they cannot be sold to customers.

**FRAC:** Fast Reject and Confirmation program within the Fully Automated Stock Transfer (FAST) software for electronic processing.

**Fixed assets:** Corporate assets that are used in a trade or business having a useful life of more than one year.

**Float:** All outstanding shares registered into street name and held by the Depository Trust & Clearing Corporation.

**Fourth market:** Trades in which institutions deal directly with each other, without using broker/dealers.





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**Forward split:** A method used by corporation to increase the number of shares outstanding without changing each securityholder's proportionate ownership interest in the corporation. The holder's overall equity percentage remains the same even though they now own more shares.

**Fully diluted earnings per share:** The earnings per share if all convertible securities were converted into common stock.

**Fully registered bonds:** Bonds registered in the name of the holder as to both principal and interest.

**Fungible mass:** Securities of the same issue, all registered in street name so as to be of such nature or kind as to be freely exchangeable or replaceable, in whole or in part, for another of like nature or kind.

**Going public:** When a privately held company successfully makes a public securities offering.

**Good delivery:** Acceptable quality for delivery. A security that is in good delivery form must be accepted.

**Good-faith deposit:** In a competitive underwriting, the bidders must make a good faith deposit, to show that they have the capability of handling the offering.

**Green shoe offering:** A new issue in which the issuer grants the underwriters an option or a warrant to purchase up to 15% more shares from the issuer at prices below the public offering price. The additional shares are used to cover certificates borrowed when the manager shorted stock to purchasers. The option is exercisable within thirty days after the effective date of the offering. The additional shares are registered with an amendment to the original registration statement. Profits earned by the manager on covering the short position are distributed to syndicate members pro-rata. So-called because the Green Shoe Company first used this arrangement.

**Grey Market:** An unofficial market in which goods are bought and sold at prices lower than the official price set by a regulatory agency. Stocks listed in the PinkSheet.com Grey Market have no market maker that will claim and trade from held inventory.

**Hypothecation:** A broker/dealer's pledge of a customer stock to a bank as collateral for a bank loan. The proceeds of the bank loan are used to finance the debit balance in the customer's margin account.

**Hypothecation agreement:** Agreement signed by a margin customer which pledges the securities in the account as collateral for the loan and allows the broker/dealer to use the securities as collateral with the bank supplying the loan money. Also called the margin agreement. Usually combined with the Loan Consent Form into one document with two signature lines. The combined document is called the Customer Agreement.

**ICI:** The Investment Company Institute, the National Association of U. S. Investment Companies

**Illiquid asset:** Any asset that cannot be sold or disposed of without any loss in capital value in seven days or less.

**Income statement:** The financial statement showing a corporation's performance over a period of time, such as a month, a quarter, or a year. The income statement shows revenues, cost of sales, and expenses.



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**Index:** A statistical measure of the price activity of some composite group, usually expressed in relation to some previously established base market value. For example, the Consumer Price Index is a measure of the price of a market basket of goods relative to what those goods cost in 1984-85. The NYSE Composite Index is computed relative to the price at the close of market at year-end 1965.

**Indication of interest:** A customer statement that he may consider purchasing securities in a new issue. Indications of interest are taken during the cooling-off period, after the customer has received a red herring.

**Individual Retirement Account (IRA):** A pension plan allowing individuals to save for retirement while enjoying some of the tax advantages given to corporate pension plans.

**Inflation:** A rise in the prices of goods and services.

**Initial public offering:** The initial sale of securities to the public, often called an IPO.

**Inside market:** The inside market is the lowest ask (selling) price and the highest bid (buying price) available for a particular security at a point in time.

**Insider:** Anyone in a position to influence the decisions of a corporation. Insiders include officers, directors, principal stockholders, and their respective immediate families. Insiders of a corporation are also referred to as affiliated persons or control persons.

**Institutional investor:** A investor who is a bank, savings and loan association, insurance company, registered investment company, federal- or state-registered investment adviser, or any other person, corporation, partnership, trust, or other entity with total assets of at least \$50 million.

**Integration:** The practice of including sales before and after an offering with sales during the offering to test whether maximums were violated for Regulation A offerings.

**Intrastate offering:** A solicitation to sell stock made only to residents of the state in which it originates. Also known as a Rule 147 offering.

**Introducing broker/dealers:** Brokers or dealers who use another broker/dealer to carry and clear transactions and accounts for their customers and do not themselves hold customers' fund or securities. The receiving broker/dealer, usually a general securities firm, carries the account with the names and addresses of the customers fully disclosed. Customers write checks directly to the carrying broker/dealer. The introducing broker/dealer can receive securities, but must forward them immediately to the carrying firm. Customers may be public customers or other broker/dealers.

**Inventory:** The total of a corporation's assets held for sale, including raw materials, work-in-process, supplies used in operations, and finished goods.

**Investment Advisers Act of 1940:** The federal law regulating investment advisers. Among other things, the law requires investment advisers to register with the SEC.



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**Investment banker:** A firm acting as intermediary either between a corporation issuing new securities and the public or between the holder of large blocks of securities and potential buyers. The investment banker may operate individually or in a syndicate with other investment bankers, and as an underwriter or an agent in the transaction.

**Investment Company:** A company which, instead of manufacturing a product or providing a service, makes investments in securities or issues face amount certificates of the installment type.

**Investment Company Act of 1940:** The federal law regulating investment companies.

**Investment grade securities:** Securities rated by a nationally recognized statistical rating organization in one of its four highest generic rating categories.

**Issue:** An offering of securities.

**Issuer:** The corporation, trust, association or other entity offering or proposing to offer securities.

**JTWROS:** Joint tenancy with rights of survivorship: a type of ownership right. When one owner dies, his interest passes to his surviving co-tenants.

**Legal opinion:** A written opinion by a securities counsel stating whether or not the equity shares, the shareholder or bond issue conforms with all the laws of the issuer, and the state and federal governments. If the opinion is for bonds, it also addresses the tax status of the bonds.

**Letter of intent:** In mutual funds, a written statement by a customer promising to purchase a stated number of mutual fund shares. The letter assures the investor a reduced sales charge on the entire purchase, provided it is completed within thirteen months. In an underwriting, it is a non-binding agreement between the underwriter and issuer noting the provisions for due diligence on the issuer and reimbursement of the lead manager expenses for the performance of the due diligence.

**Leverage:** The use of debt when purchasing investments. Leverage increases the percentage profit, but also the percentage loss.

**Leveraged Buy-Out (LBO):** Financial transaction in which a corporation's management repurchases all public shares, usually by incurring substantial debt, and the company goes private. Usually involves fairly stable, mature companies with good cash flows. Equity money for the LBO often comes from the investment banker or LBO specialist that arranges the buyout and underwrites the debt issue.

**Liabilities:** All claims on the assets of an individual or corporation. Includes accrued payable amounts, long-and short-term debt, debentures, and notes. Does not include the ownership equity.

**Limited Participant:** A transfer agent who offers services on behalf of an issuer to the Depository Trust & Clearing Corporation. A limited participant cannot initiate any trade transactions nor is a limited participant a member of the self-regulatory organization of DTC.

**Limited partner:** A partner with limited liability who may not engage in business for the partnership.



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**Liquid assets:** Cash or assets easily convertible to cash, such as Treasury bills, money market fund shares, or demand deposits.

**Liquidate:** Convert into cash, using the cash to satisfy creditors.

**Liquidity:** For an investment, portfolio, or account, the ease with which assets may be converted into cash. For a market, the ability of the market to absorb fairly large volumes of sales without drastically affecting the price.

**Listing:** Listing occurs when a security is accepted for trading on a stock exchange. Listings are for specific numbers of shares of equity securities or amounts of debt securities.

**Load Fund:** A mutual fund or unit trust that charges a sales commission (load) to cover its administrative and advisory charges. If it is paid at the time of purchase it is front-end. If it is paid at redemption or sale it is a back-end load. No-load funds do not charge for any of these types of services.

**Long:** Owning the security or other item with the expectation that its value will increase. When a person is long a stock or an option, he owns the stock or holds the option.

**Long-term capital gains:** Gains on assets held for more than 12 months. Usually qualify for lower tax rates than short-term gains do.

**Maintenance call:** In a margin account, the broker/dealer demand for additional funds to restore the equity to the minimum maintenance level.

**Maloney Act of 1938:** The act that added section 15A to the Securities Exchange Act of 1934, allowing for the establishment of registered securities associations to promote self-regulation of the securities industry, properly supervised by the government.

**Management fee:** In an underwriting, the special fee paid to the managing underwriter.

**Manipulation:** The illegal act of creating a false impression of trading volume or price for a security. Includes engaging in wash sales or matching orders, lying, giving or circulating misleading information, or trying to illegally peg, fix or stabilize the price of an issue (i.e., not following the allowable procedure for stabilizing).

**Margin:** The amount a client pays for a security purchase in a credit (or margin) account with a broker/dealer. The Federal Reserve Board sets initial margins on purchases. Minimum margin maintenance amounts are set by the exchanges.

**Margin account:** An account in which a customer may pay only part of the purchase price of securities.

**Margin Agreement:** The customer consent pledging his securities as collateral for a debit balance.

**Margin call:** In a margin account, the request for more equity to bring the account up to the minimum margin maintenance level. Margin calls can be met by depositing cash or stock, or by using SMA.

**Market maker:** A firm that buys and sells a particular security for its own account.



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**Market order:** An order to buy or sell as soon as possible at the best available price.

**Market price:** For securities sold on an exchange, the last reported price at which the security sold. For over-the-counter securities, the inside market quote.

**Marking to market:** Adjusting the value of a security or a portfolio to the current market value. Used in margin accounts to make sure the margin amounts comply with maintenance requirements.

**Master SecurityHolder File:** Is the official list of individual securityholder accounts, also known as a valid issuer shareholder list. These files are generally contained and updated automatically within most electronic computer software systems written for transfer agents. This list shows all of the holdings on a specific date, per registered shareholder, including all identifying information about the shareholder with regard to one issuer and one issue. With respect to uncertificated securities of companies registered under the Investment Company Act of 1940 (mutual funds, et al), the master securityholder file may consist of multiple, but linked, automated files.

**Matching orders:** A prohibited practice similar to a wash sale but involving two or more firms trading a security back and forth at the same price in an attempt to show more trading volume than is actually occurring.

**Material information:** Information, which, if given to reasonable investors in the marketplace and analyzed by them along with other available information about the securities issuer, may cause them to make buying, and selling decisions.

**Maturity date:** The day on which a loan, bond, debenture or other debt security becomes due. Both accrued interest and principal must be paid at this time.

**Medallion:** Medallion Signature Guarantee Stamp identifiable by a Document Reader as valid by assessing the proprietary security ink and barcode.

**Merger:** The joining of two or more corporations into a single corporation.

**Minimum maintenance:** In a margin account, the minimum equity allowed before a maintenance margin call will be issued.

**Minimum-maximum underwriting:** A type of best efforts underwriting. It is similar to an all-or-none underwriting until the minimum amount is raised, in that the offering is canceled if that amount is not raised. It then becomes a normal best efforts underwriting above that amount. An example is a real estate limited partnership with a \$2 million minimum and a \$50 million maximum.

**Minor:** Someone who is under the legal age for his or her state of residence (18 to 21).

**Money market account:** An account with a bank or broker/dealer where the funds are invested in short-term interest-bearing securities. Similar to checking accounts, except that they have limits on checks written per month and pay interest. The FDIC insures accounts with banks.

**Money market fund:** A mutual fund whose assets are low risk, short-term money market instruments such as Treasury bills, commercial CDs, and commercial paper. Usually offer check-writing privileges.



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**MSP:** Medallion Signature Program

**Municipal Bond:** A debt security evidencing a portion of debt in a municipality.

**Naked Short Sale:** The sale of securities that are not owned and have not been borrowed by the seller for delivery prior to settlement. This practice is illegal.

**NASD:** See National Association of Securities Dealers, Inc.

**NASDAQ:** The computer system designed to facilitate trading of over-the-counter securities. NASDAQ stands for the National Association of Securities Dealers Automated Quotation System. NASDAQ traded securities were, for many years, traded over-the-counter, or off-exchange, non-listed. With the merger of NASD and NYSE into FINRA, the stocks that are now traded on NASDAQ are considered listed, exchange-traded securities.

**National Association of Securities Dealers, Inc:** Usually referred to as the NASD, this was the self-regulatory organization which was responsible for supervising the OTC market. It merged with the member regulation enforcement of the NYSE in July 2007 to become FINRA, the Financial Industry Regulatory Authority, which oversees the compliance of both exchange and over-the-counter actions, clearing firms, broker/dealers as well as issuers involved with corporate actions in the market.

**National Medallion Signature Guarantee:** A statement (a stamp and signature) given by a participant in the guarantee program to ensure that the sale, transfer, or assignment of a security certificate is not fraudulent. The guarantor could be a commercial bank, credit union, brokerage firm, or other financial institution that is a member of a medallion signature guarantee program approved by the Securities Transfer Association and the SEC. Three such programs exist: Securities Transfer Association Medallion Program (STAMP), the NY Stock Exchange Program (MSP), and the Stock Exchange Medallion Program (SEMP). The medallion program is not a guarantee by a notary public.

**National Securities Clearing Corporation (NSCC):** Firm that clears trades for all publicly traded securities in the United States. It is a subsidiary of the Depository Trust & Clearing Corporation.

**Negotiable:** A term used to describe a security for which title may be transferred by delivery, such as a stock certificate with a properly signed stock power.

**Negotiated market:** A market in which prices are determined by negotiation between broker/dealers. The OTC market (PinkSheets and OTC Bulletin Board) is a negotiated market.

**Negotiated underwriting:** New offering in which the issuer and the brokerage firm negotiate a contract for the brokerage firm to sell the securities.

**Net capital:** The net worth of the firm less an adjustment for illiquid assets (i.e., the net liquid assets of the firm). The Securities Exchange Act of 1934 establishes uniform and comprehensive net capital standards for all broker/dealers, including members of national securities exchanges and municipal securities broker/dealers.

**Net capital ratio:** A ratio of the firm's aggregate indebtedness to the firm's net capital. The lower the net capital ratio, the better the financial condition of the firm. For example, a net capital ratio of 6:1 is better than a net capital ratio of 9:1.



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**Net proceeds:** The offering proceeds less all expenses of issuing and costs of distributing securities, including the underwriting compensation.

**Net worth:** Owners' equity of the firm, or all assets less all liabilities. For a corporation, net worth is equal to the total of capital stock, paid-in capital, and retained earnings.

**Networking for Equities (NFE):** NFE, through the Depository Trust & Clearing Corporation, allows for the maintenance of customer level information on securities at transfer agents, while giving the depositing participant control over the asset and allowing for securities to be processed in a book-entry format.

**New issue:** Securities being issued by a corporation for the first time. May be additional shares for a class of securities that are already in existence.

**NIRI:** National Investor Relations Institute.

**NOBO List:** List of non-objecting beneficial owners of stock held in street name.

**No-load fund:** A fund that sells shares directly and charges .25% or less in 12b-1 charges per year.

**Nominal quote:** A quote that is not a firm quote. A broker/dealer giving a nominal quote is not obligated to trade at that price.

**Non-cumulative:** Term used to describe preferred stocks for which dividends that are not paid are gone forever and do not accrue.

**Nonparticipating preferred stock:** A type of preferred stock that does not pay higher dividends when the corporation has higher earnings.

**Notice of public offering:** Notice that Rule 135 allows issuers to publish stating that they intend to make a public offering of securities to be registered under the 1933 Act. May be a news release, a written letter to employees or shareholders, or a published statement. Sometimes used to solicit competitive bids for underwriting the offering. Not considered to be an actual offer of the securities.

**Notice of sale:** Same as notice of public offering..

**NYSE:** The New York Stock Exchange.

**NYSE Composite Index:** An index of all the common stocks listed on the NYSE.

**OBO:** List of beneficial owners of street name shares who object to their identity being known to the issuers or other shareholders.

**OFAC:** Office of Foreign Assets Control, division of the U. S. Treasury created during World War II, responsible for administering and enforcing economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign states, organizations, and individuals.



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**Offering:** All methods, private or public, by which companies offer or sell securities to investors.

**Offering materials:** The prospectus and any other communications that are deemed part of the prospectus because the issuer uses them in its effort to sell securities.

**Officer:** State corporate laws usually define officers as the corporation's president, any vice-president, secretary, and treasurer. The company's bylaws usually define officers' titles and responsibilities. The board of directors appoints officers.

**Option:** A contract that gives the right to a holder to buy (call option) or sell (put option) a fixed amount of a security at a specific price anytime before the stated expiration date (for an American-style option). If the holder does not exercise his option, the option expires and he forfeits the amount he paid for the option (the premium). Options are a type of derivative security.

**Ordinary income:** For tax purposes, income from wages, salaries, and self-employment, demagogically called "earned income."

**OTC Bulletin Board (OTCBB):** Quotation system developed for penny stocks and other thinly traded securities. The system lists domestic and foreign equity securities (including registered ADRs) that have at least one market maker, are not listed on NASDAQ or a national securities exchange. To be eligible to trade on the OTC Bulletin Board, foreign equity securities must be fully registered with the SEC and domestic securities must be providing current financial information to the SEC.

**Over-the-counter market:** The market for securities that are not listed on an exchange. Various broker/dealers buy and sell these securities for their own inventory accounts.

**Par value:** The dollar amount or face value assigned to the security by the issuing corporation and appearing on the certificate. Par value has no relationship to the market value. Preferred stocks normally have a par value of \$100 and bonds, a par value of \$1,000. Common shares are often in fractions of a penny.

**Parity price:** For convertible securities, the price level at which their exchange value equals that of the common stock.

**Participant Browser Service (PBS):** Web-based computer access used by brokerages and clearing firms to access the software programs in use at the Depository Trust & Clearing Corporation.

**Participant Terminal System (PTS or PTS, Jr):** Participant Terminal System (or PTS Jr.) through which most small and mid-size transfer agents and some broker dealers access the software programs in use at the Depository Trust & Clearing Corporation. It can involve either an automated/dedicated T-1 telephone line for PTS or for PTS, Jr., a dial-up modem called SMART DIAL, for computer access.

**Participating preferred stock:** Preferred stock that shares in exceptional earnings of the corporation. Participating preferred stocks may be paid an extra quarterly dividend if the company has a very good year.

**Partnership:** A business entity in which two or more people agree to share equally the risks and profits of the business.





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**Passive income:** For tax purposes, income from direct investments in a business venture by an investor who does not actively participate in management, such as income from limited partnerships.

**Pass-through security:** In a pass-through security, debt obligations are purchased by an intermediary who packages them into new securities backed by the pooled obligations and then sells shares in the pool in the open market. The interest and principal payments made by the debtor flow through the intermediary, who pays them to the investor net of service fees. The most common type of pass-through security is a mortgage-backed security, secured by homeowners' mortgages and sometimes guaranteed by the Veteran's Administration, the Farmer's Home Administration, or the Federal Housing Administration.

**Payment date:** The date on which a corporation pays a dividend that has been declared.

**P/E ratio:** See price/earnings ratio..

**Penny stocks:** Speculative equity securities (excluding options and investment company shares) with prices under \$5 per share. Usually do not meet the listing requirements for Nasdaq or the exchanges. Their sale through broker/dealers is subject to certain rules as to approval of customers, maintenance of information to support quotations, distribution of account statements, and disclosure of risk, quotations, and compensation.

**Phantom shares:** Shares that have been "entitled" but not yet delivered in a short sale. These can appear to be settled shares but may, in fact, be shares that have failed to be delivered.

**Piggy-backed or piggy-back qualified:** A security that is able to trade in the public market by merging with an already publicly traded security. The publicly traded entity may be a reporting company or a non-reporting company.

**Pink sheets:** A listing (on pink paper) of OTC securities, their quotes, and the firms that make the market per the guidelines set forth through PinkSheets, Inc..

**Point:** A price increment for a security or index. One point is \$1 for stocks and \$10 for bonds (1% of \$1,000 face value). However, a one-point rise in the NYSE Composite Index does not represent \$1.

**Portfolio income:** For tax purposes, an income category that includes capital gains and losses, and interest and dividend income.

**Pot:** In a corporate underwriting, syndicate members estimate their sales to institutional investors. Those shares are set aside (placed in "the pot") and handled by the managing underwriter.

**Power of attorney:** A written statement executed by a customer to give someone else the right to enter orders in the customer's account. Must be witnessed by a notary public or other public official.

**Preemptive right:** A corporate shareholder's right to maintain his share of ownership when new shares are sold through a rights offering.

**Preferred stock:** A type of corporate stock with a stated dividend which must be paid before the common stockholders may receive a dividend. A preferred stock also has priority in liquidation over the common stock.



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**Preliminary prospectus:** A preliminary version of the prospectus that is published as soon as the offering is registered with the SEC. It does not include the final price or spread, and may not be used to solicit orders, but may be used to solicit indications of interest. It is often referred to as a "red herring."

**Preliminary study:** A short analysis done as part of the negotiation process in an offering to determine if an investment banker wishes to proceed with an underwriting.

**Price to Earnings ratio:** The ratio of the price of a common stock to its earnings per share, often referred to as the P/E ratio. It is used to measure how expensive a stock is, relative to its earnings.

**Primary distribution:** A sale of new stock to the public.

**Primary market:** The buying and selling of new issues. Resales are handled in the secondary markets.

**Prime rate:** The interest rate banks charge their best customers.

**Principal:** 1) In a loan, the amount of the loan, not including interest; 2) in a brokerage firm, a person in an ownership and/or supervisory capacity; and 3) in a trade, a firm acting as dealer.

**Principal stockholder:** Any person or entity owning ten percent or more of the common stock of the corporation.

**Principal transactions:** Dealer transactions done directly with customers. The firm must disclose if it is acting as a principal in a transaction.

**Prior preferred stock:** A preferred stock that has priority in regard to dividends and other rights over other preferred stocks issued by the same corporation.

**Private placement:** A securities offering under Regulation D, which is not registered with the SEC. The offering is generally made to a limited number of persons who meet certain suitability standards.

**Private placement memorandum:** A disclosure document that must be prepared by the issuer in a Schedule D offering if any offers are made to non-accredited investors. This document must be given to all offerees, not just the non-accredited investors.

**Private securities transaction:** A transaction by a registered representative acting outside the scope of his employment with a broker/dealer. If done without the knowledge and consent of the employer, it is prohibited. This is also known as "selling away."

**Proceeds sale:** Selling one security, and using the proceeds to buy another.

**Profit-sharing plans:** Type of corporate retirement plan in which contributions are made out of net profits, either based on a precise formula or merely made in substantial and systematic way. An employee stock ownership plan (ESOP) is a profit sharing plan where the contribution is made in stock.

**Program trading:** Computer-aided trading where orders are automatically generated at trigger points.



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**Proper Presentment:** Securities that are delivered for processing to the office of a transfer agent that have all accompanying documentation, instructions, and payment included in the presentment

**Prospectus:** The disclosure document for an offering registered with the SEC. The final prospectus is issued on the effective date, when the offering is released by the SEC.

**Prospectus delivery period:** The period after a public offering during which dealers must usually give a final prospectus to purchasers who buy the security in the secondary market. Extends to 40 calendar days after the offering date, or for 90 calendar days if it was an initial public offering. Calculated for shelf distributions the same as for other issues, even though the offering may continue for some time beyond that point. The delivery period is dropped to 25 calendar days if the security is listed on an exchange or included in Nasdaq® by the offering date.

**Proxy:** “Proxy” means a proxy card or a person who stands in the place of another. It is the person to whom other people delegate the right to cast their votes at corporate meetings, in accordance with their instructions.

**Proxy agent:** A service company used to coordinate proxy matters with issuers and clearing agencies. The agent mails voting materials to brokers and shareholders and solicits instructions on how customers’ shares should be voted.

**Public disclosure:** Material that is disclosed in a manner sufficient to ensure its availability to the investing public. Disclosure is usually made through a periodic report, an SEC filing, or in a press release. The market must have time to absorb the news before an insider may trade on the information.

**Public Offering:** Securities offerings that are made to the general public.

**Public offering price:** For a mutual fund, the price at which an investor may buy a share, or the net asset value plus the sales load. If the fund does not charge an up-front sales charge, the public offering price is the net asset value.

**Purchaser's representative:** In a Rule 506 offering under Regulation D, pertaining to a private placement, investors are encouraged to appoint someone to act as their representative. He or she is to analyze the offering to ensure that it is a suitable investment.

**Qualified purchasers:** Under the Investment Company Act of 1940, individuals with investments of at least \$5 million or persons who have discretion over investments of at least \$25 million for their own accounts or the accounts of other qualified purchasers. Exemptions from the definition of an investment company are allowed for companies who sell their shares only to qualified purchasers.

**Qualified retirement plan:** A pension, profit sharing, or stock bonus plan set up by an employer to provide retirement benefits for employees that qualifies for special tax treatment. In general, a plan qualifies if participation in the plan and benefits do not discriminate in favor of the employer's key employees.

**Quick assets:** Assets that can readily be converted to cash, including marketable securities, accounts receivable, and checking accounts.

**Quick ratio:** The ratio between quick assets and current liabilities. This is a measure of the liquidity of the company.



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**Quote or quotation:** A bid price or asked price given by a dealer. A two-sided quotation would include both a bid and asked price.

**Reallowance:** In a corporate underwriting, the compensation of a firm that is not a member of the syndicate or the selling group for selling shares to the public.

**Recession:** A mild form of depression, identified by two consecutive calendar quarters of economic decline.

**Record date:** The date determining shareholders or bondholders of record (those who own the stock or bond) who are entitled to receive a dividend or interest payment.

**Recovery:** The phase of the business cycle when economic activity begins to improve from a recession or depression.

**Redeemable security:** Security that entitles the holder to receive approximately his proportionate share of the issuer's current net assets (or its cash equivalent) upon presentation of the security to the issuer or its designated representative.

**Red Herring:** same as preliminary prospectus.

**Reference security:** Security X is a reference security for another security, Y, if Y may be converted into, exchanged for, or exercised to purchase or sell X, or if X in whole or part determines the value of Y. For example, if a convertible bond is convertible into common stock, the common stock would be a reference security for the bond, but the bond would not be a reference security for the stock.

**Registered as to principal only:** Bonds are registered and payable at maturity to the registered holder, but which have coupons attached that must be cut off and presented by the bearer periodically for interest payments.

**Registered representative:** An employee of a broker/dealer that is a member of FINRA and who is registered with the SEC and performs the duties of an account executive.

**Registered bond or registered stock:** equity or debt securities registered in the owner's name on the books of the issuing entity. To transfer ownership, the registered owner or representative must endorse the bond, a bond power, the back of the stock certificate, or a stock power and have the signature Medallion Guaranteed by a financial institution or broker who is a member of STAMP.

**Registrar:** The company official who maintains the list of corporate shareholders, and ascertains the correct number of outstanding shares, preventing overissuance.

**Registration:** Registration refers to the registration of securities (that are to be sold) with the SEC, which comes from the requirement that the company provide potential investors with a prospectus before the company can offer its securities for sale. Registration also refers to the name or names of shareholders that are placed on stock certificates (as evidence of ownership) and/or kept in the records of a transfer agent/registrar on behalf of an issuer of securities.



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**Regular way settlement:** For corporate and municipal securities, settlement three business days after the trade date. For U.S. government securities, the next business day. The word "settlement" applies only to broker/dealers, not customers.

**Regulation A offerings:** Offerings of \$1,500,000 or less that do not have to be fully registered with the SEC.

**Regulation D:** The federal regulation pertaining to private placements of offerings to a limited number of people meeting certain suitability standards. Private placements need not register with the SEC.

**Regulation M:** Regulation that restricts the trading of an existing security by participants in a public offering of that security.

**Regulation S:** Safe harbor that allows both domestic and foreign issuers to distribute and resell securities outside the U.S. without registering them in the U.S.

**Regulation T:** The federal regulation governing extension of credit by broker/dealers to customers for trading securities. Regulation T mandates payment conditions and governs margin accounts.

**Regulation U:** The federal regulation of bank loans collateralized by securities, including broker/dealer hypothecation of stock.

**Resistance:** A charting pattern where a stock price tops out or levels off. Breaking the resistance level is a buy signal for a technical analyst.

**Restricted account:** A margin account with a balance below 50% equity.

**Restricted securities:** Securities that have been purchased directly from the issuer or an affiliate of the issuer rather than through a public offering. Affiliated persons might obtain restricted securities by exercising stock options included in the person's compensation plan. Nonaffiliated persons would normally purchase restricted stock through a Regulation D offering or in a transaction subject to Rule 144A, Private Resales of Securities to Institutions. Subject to holding periods before resale.

**Retention:** 1) When securities are sold in a restricted margin account, at least 50% of the sale proceeds must remain in the account and be applied to reduce the debit balance. 2) In an underwriting, the number of shares sold on a retail basis by a syndicate member. This is the syndicate member's allotment, less any shares held in "the pot" for sale to institutional investors, and any shares given up to the selling group.

**Reverse split:** Combine multiple stock shares into one share such that the stockholder's equity (both in total and for the individual stockholder) remains unchanged, but each stockholder holds fewer shares worth more each. For example, in a one-for-two reverse split, each stockholder receives one share for every two shares held. The new shares are worth twice as much as the old shares, but since the stockholder has half as many shares, his investment remains unchanged.

**Rights:** Certificates allowing shareholders to purchase enough new shares to maintain their percentage of ownership in the corporation.



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**Rights offering:** A rights offering occurs when a corporation makes new shares (called "rights") available to its existing shareholders, thus allowing them to maintain their existing proportion of ownership in the corporation.

**Riskless transaction:** A transaction by a broker/dealer who, upon a customer's request, buys a security for its own account first, then sells it to the customer as a dealer, and charges a markup. Riskless transactions are also known as simultaneous transactions.

**Rollup of a DPP:** A transaction where a direct participation program not listed on an exchange over-the-counter is "rolled up" into another public DPP, a public trust, or a public corporation. The form of the rollup could be an acquisition, merger, or consolidation.

**Round lot:** The normal trading unit of a security: 100 shares of stock or 5 bonds in the OTC market (1 bond on the NYSE).

**Rule 134 Communication:** Tombstone advertisement or other purely factual communication about an offering that is not a solicitation.

**Rule 144:** The federal law regarding resale of securities without registration if the securities are owned by affiliated persons or the securities are restricted.

**Rule 144A:** Rule that exempts private placements of some issuers from the SEC registration and disclosure requirements, and allows qualified institutional investors (insurance companies, investment companies, pension plans, investment advisers, etc.) to trade these securities among themselves without some of the restrictions imposed to protect the public. Securities must not be of the same class as securities listed on a registered national securities exchange or quoted on a U.S. automated inter-dealer quotation system (or be convertible or exchangeable into a class thus listed or quoted). Issues of foreign securities are sometimes traded in this fashion.

**Rule 147:** An exemption from federal registration for securities offered within a single state and thus regulated by that state. The issuer and the purchasers must meet certain requirements. Limitations on resales apply.

**Safe Harbor:** A safe harbor is a provision of a statute or a regulation that reduces or eliminates a party's liability under the law, on the condition that the party performed its actions in good faith.

**Sarbanes-Oxley:** The Sarbanes-Oxley Act of 2002 enacted to reinforce stricter top management responsibilities regarding financial practices, internal audits and corporate governance.

**SCL:** Shipment Control List documentation that accompanies all requests received at the transfer agency from the Depository Trust & Clearing Corporation. All SCL numbers coincide to a format that denotes what the instruction for transfer encompasses.

**SEC:** see Securities and Exchange Commission.

**Secondary distribution:** In underwritings, the sale of previously issued shares, such as treasury stock or shares held by insiders. Large block trades may also be called secondary distributions.

**Secondary market:** The market in which previously issued securities are traded among public investors. Most securities transactions occur in the secondary market.



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**Securities Act of 1933:** The federal law regulating new issues, requiring their registration with the SEC.

**Securities and Exchange Commission:** U. S. Securities and Exchange Commission, an independent, quasi-judicial U.S. government agency that is responsible for protecting the public against malpractice and fraud in the securities and financial markets. Transfer agents must be registered with the SEC and have its approval in order to conduct any transfer agency business. The SEC regulates the activities of transfer agents and periodically visits and examines them for their compliance with established SEC rules.

**Securities Exchange Act of 1934:** The federal law regulating the markets for existing securities, and governing public companies, broker/dealers, and exchanges. It allowed for the creation of self-regulatory organizations, such as the NASD.

**Securities Information Center (SIC):** The agency that takes reports on lost, stolen, or counterfeit securities. The database is accessed by brokers and banks to assure themselves that a security they accept has not been reported as lost, stolen or previously cancelled. Commonly known as the SIC.

**Securities Investor's Protection Corporation (SIPC):** Organization that insures customers of brokerage firms in the event of the bankruptcy of a brokerage firm, much the same way the FDIC insures customers of banks. The SIPC is a nonprofit corporation that is not an agency of the U.S. government. The NASD requires virtually all brokerage firms to be members of the SIPC. The only exception is firms that deal only in mutual funds and variable annuities. The SIPC is funded by assessments on member firms. The SIPC insures customers for up to \$500,000 of cash and securities on deposit with a member firm. Of the \$500,000, no more than \$100,000 may be cash on deposit with the member.

**Security:** SEC definition includes: investment notes, stocks, treasury stocks, bonds, or debentures; certificates of interest or participation in a profit-sharing agreement or in oil, gas, or other mineral royalty or lease; collateral-trust certificates or voting-trust certificates; investment contracts; certificates of deposit for one of the above; options, rights or warrants on one of the above or on any group or index of the above; or foreign currency options or rights. Includes temporary securities but does not include currency, or any note, draft, bill of exchange, or banker's acceptance with a maturity of less than nine months. Commodity futures contracts or commodity options are not generally considered securities, but fall under the jurisdiction of the Commodities Futures Trading Commission. While whole life, term, and universal life insurance are not considered securities, even though they may include some investment risk, variable life insurance is considered a security.

**Self-regulatory organizations (SROs):** Private organizations owned and operated by their members and to whom the SEC delegates much of its authority to oversee both securities markets and participants in those markets. The SEC must approve all SRO rules and regulations. An SRO may be either a national exchange, such as the New York Stock Exchange (NYSE), or a national securities association such as the NASD.

**Selling group:** A select group of broker/dealers who assist the syndicate in selling the new issue in a corporate underwriting.

**Selling group agreement:** Agreement between members of the selling group and the managing underwriter, signed when the offering has been released by the Securities and Exchange Commission.

**Selling group concession:** In a corporate underwriting, the compensation paid to the selling group members.



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**Selling short:** Selling a security or future that the seller does not own, either to lock in a gain on a long position or to make a gain on an anticipated decline in the market.

**Sell stop:** An order to sell a stock if the price falls to or below a specified price. It is often called a "stop loss" order.

**Settlement:** In a trade, the exchange of money and the security. Regular way settlement takes place three business days after trade date.

**Shareholder:** A person who owns shares in a corporation – also called a stockholder.

**Shelf distribution:** Method of distributing shares in which the seller registers the shares with the SEC, but does not immediately sell them to the public. The shares are "put on the shelf" and held for later sale at any time within two years of the registration that market conditions seem appropriate. Originally designed for use by insiders of the issuer, such as major shareholders who own unregistered shares acquired directly from the issuer, but now expanded to allow issuers to use the process.

**Shipment Control List:** see SCL.

**Short:** Selling securities not currently owned. The sale must be covered by bought or borrowed securities prior to settlement. Considered a viable investment strategy in a downward moving market.

**Short against the box:** A position of an investor who is long and short the same security, usually for tax purposes, to lock in a sales price, but defer the gain into the year the short position is covered.

**SIC:** see Securities Information Center.

**Simultaneous transaction:** See Riskless Transaction.

**SIPC:** See Securities Investors Protection Corporation.

**SMA:** Special Memorandum Account. In a margin account, SMA is a line of credit that is granted when the account generates equity in excess of 50%.

**Sole proprietorship:** A business entity that is owned and operated by a single individual and which is not a corporation.

**SOX:** see Sarbanes-Oxley.

**Special bid:** A bid for a large number of shares. Announcement is made on the consolidated tape that a firm is bidding to purchase a number of shares.

**Specialist:** now known as a designated market maker (DMM). An exchange member who makes the market in a particular security. He must maintain a "fair and orderly" market.





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**Specialist's bid:** A specialist's bid for a block of stock owned by a customer. The purchase is a negotiated transaction.

**Specialist's offer:** A specialist's sale of a block of stock to a customer in a negotiated transaction.

**Special offer:** An offer for a block of stock that is reported on the consolidated tape.

**Special Reserve Account for the Exclusive Benefit of Customers (SRA):** Account required for all brokerage firms that hold customers' cash and securities for the protection of customers. May be maintained in one or more banks. Must be kept separate from the firm's other bank accounts. Assets in the account may not be used by the bank as collateral and the bank may not attach any claim to the account. The amount of cash or qualified securities the firm must deposit in the SRA is calculated either weekly or monthly based on the excess of customer credits over customer debits (i.e., the net credits).

**Special situation:** Circumstances that may cause a company to buy or sell its securities other than the fundamental prospects of the corporation. An example is a company that has received a tender offer by someone trying to buy all outstanding shares. The decision to buy or sell stock is made more on the basis of the likely success or failure of the tender offer than on the long-term prospects of the company.

**Split:** Divide stock shares into multiple shares such that the stockholder's equity (both in total and for the individual stockholder) remains unchanged, but each stockholder holds more shares worth less each. For example, in a two-for-one split each stockholder receives two shares for every share held. The new shares are worth half as much as the old shares, but since the stockholder has twice as many shares, his investment remains unchanged.

**Spread:** An option position in which the investor is long an option and short another option of the same type. For example, he is long 1 ABC July 50 Call and short 1 ABC July 55 Call. Also the difference in price between what the principal who offers an IPO pays and what the investor pays for the newly offered securities.

**SRO:** see Self-Regulatory Organizations.

**SSA:** Shareholder Services Association. A trade organization mainly for corporate in-house transfer agents.

**STA:** Securities Transfer Association. A trade organization for commercial independent and in-house transfer agents.

**Stabilizing bid:** In a corporate underwriting, a bid by the managing underwriter to buy outstanding shares of the issuer's stock. This is done to support the stock price so the new issue can be distributed. For example, if a company offers a new issue at \$30 per share, and the price of the old shares falls below \$30, the managing underwriter may enter a stabilizing bid at \$30 or slightly less to support the price.

**STAMP:** Securities Transfer Association Medallion Program for Medallion Guarantee stamps.

**Standard & Poor's 100 Index:** An index of 100 stocks published by Standard & Poor's Corporation; the index on which OEX options are based.

**Standard & Poor's 500 Index:** An index of 500 stocks published by Standard & Poor's and considered representative of the overall stock market.



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**Standby underwriting:** A corporate underwriting related to a rights offering. The syndicate agrees to underwrite any shares not sold through the rights offering. Standby underwritings apply only to offerings of common stock.

**Staying power:** An investor's ability to maintain his or her positions by meeting margin calls and/or holding onto his or her investments through down markets rather than having to liquidate at a disadvantageous time.

**Stock Power:** A power of attorney document that allows the current owner of a registered security to transfer ownership to another party.

**Stop limit order:** An order activated when the stock price trades at or through a trigger price. The order then becomes a limit order.

**Stop loss order:** Another name for a stop order.

**Stop order:** An order that is activated if the stock price trades at or through a trigger price. The order then becomes a market order. See also Buy Stops and Sell Stops.

**Stopping stock:** An execution guaranteed by a specialist to a floor broker for customer orders. The specialist guarantees the order will be filled at a specified price or better.

**Street Name:** Securities held in the name of a brokerage firm, a clearing firm, bank nominee or depository for the account of a securityholder are considered to be held in street name. If the shares are held by the Depository Trust & Clearing Corporation, they will be registered to CEDE & Co, the nominee name of the Depository.

**Subject quotes:** A quote subject to confirmation by someone else. It is not a firm quote, but a nominal quote.

**Subordination agreement:** Agreements that the firm makes with a lender in which the lender agrees to subordinate itself to all other creditors of the firm, present or future. In other words, if the firm went out of business, all other creditors would be paid before the lender on the subordination agreement.

**Subscription agreement:** An agreement between a prospective buyer, usually an accredited investor, and an issuing company that typically asks many questions regarding the investor's suitability for the investment as well as outlines the terms under which the shares are to be bought.

**Summary prospectus:** A document for use by most issuers that are not investment companies that summarizes information in the registration statement and can be used as a prospectus to solicit orders. The summary prospectus must be labeled at the beginning or end with the words "Copies of a more complete prospectus may be obtained from (insert name(s), address(es) and telephone number(s))."

**Support:** A charting pattern indicating buying pressure. If the stock price declines below the support level, a technical analyst views the decline as a sell signal.

**Syndicate:** In an underwriting, a group of firms acting together to market a stock or bond issue. They are required to buy unsold shares for their own accounts if they fail to sell them to their customers.

**Syndicate letter:** In a competitive bid underwriting, the contract governing the syndicate.



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**Systematic risk:** The portion of an investment's risk that is coincident with the market and thus cannot be eliminated by diversification. Measured by the security's beta coefficient. Also called market risk.

**TA:** Acronym referring to transfer agent.

**Tacking:** The ability for a shareholder to use as his or her own, the period of time the previous security owner had held the shares in order to meet the holding requirement under Rule 144(d).

**Technical analysis:** Analysis of investments based on technical factors, primarily on charting. This is the practice of determining investment strategies based on chart patterns.

**Tenants-in-common:** A joint account in which, if one party to the account dies, his or her share goes to his or her estate, not to the surviving tenant(s)-in-common.

**Tender offer:** An offer to buy all or a large block of the securities of a particular company. The offer must be made to all shareholders.

**Third market:** Over-the-counter market trades in securities listed on an exchange.

**Tippee:** Person who is given material secret, non-public information by an insider to a corporation and buys or sells a security while in possession of such information. The possession of such information gives the holder an unfair (and illegal) advantage over the investor on the other side of the trade who does not have the information. Both the tippee and the tipper may be prosecuted.

**Tombstone advertisement:** For a new issue, an advertisement showing the security being sold, the price, and the names of the broker/dealers from whom a prospectus can be obtained.

**Total capital:** Owners' equity, adjusted for unrealized profits and losses, plus subordination agreements.

**Trade date:** The date a firm accepts a bid or offer for a security, even if time differences mean that the acceptance may not reach the firm making the bid or offer until the next day. The trade date may be different than the day the order was placed with a firm.

**Trader:** An individual who either buys and sells from his own account for profit or handles trades for a brokerage firm and its clients. Also known as a market maker.

**Trading authorization:** A power of authority given to someone outside the firm, such as an investment adviser. The person holding this power is said to have trading authority in the account. The trading authorization will typically be given in the investment adviser contract.

**Transfer agent:** The person or firm that cancels the shares in the name of the seller and reissues shares in the name of the buyer. A transfer agent also maintains all of the shareholder issuance, cancellation and transfer records for the issuer while under contract.

**Treasury stock:** Stock that has been repurchased by the issuing corporation on the open market. It has no voting rights, does not receive dividends, and is not used in calculating earnings per share.



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**Turnover rate:** The number of shares traded in a year as a percentage of the total shares outstanding. May be calculated for a particular security, a portfolio (such as a mutual fund), or a securities exchange.

**Underlying security:** For any given option contract, the security that the holder of an option has a right to buy or sell.

**Underwriter:** A syndicate member in a firm commitment underwriting. The term is usually only given to those who have a financial commitment to buy the stock for their own account.

**Underwriter's book:** Place where the syndicate manager in an underwriting records indications of interest in order to determine how well the offering is being received. This information is used to price the issue and determine the share of each member of the syndicate.

**Underwriter's concession:** In a corporate underwriting, the profit of a syndicate member selling securities to a customer.

**Underwriting:** The process in which broker/dealers form a syndicate to sell a new issue of securities.

**Underwriting spread:** The amount the underwriters retain for distributing an offering. Composed of the management fee paid to the syndicate manager for management services and the underwriter's concession paid to each member of the syndicate (including the manager) for the shares they are allotted. The selling group concession paid to the selling group members for their assistance in distributing the securities comes out of the underwriter's concession.

**Uniform Commercial Code:** The UCC is one of a number of uniform acts that have been promulgated in conjunction with efforts to harmonize the law of sales and other commercial transactions in all 50 states within the U.S. Article 8 of the Uniform Commercial Code deals with investment securities.

**Uniform Gift to Minors Act:** The law governing gifts of money or securities to a minor, commonly referred to as UGMA. The donor must appoint a custodian (frequently the donor) to manage the account.

**Uniform Securities Act:** A model developed by the National Conference of Commissioners on Uniform State Law that serves as a basis for most state securities laws. The model makes it easier for securities professionals to do business across state lines. However, individual states, even those that adopted a version of the Act, might have individual variances.

**Unit Investment Trust:** An investment company organized under a trust indenture rather than a corporation charter and able to issue only redeemable shares of beneficial interest to represent an individual participation in a unit of specified securities. For example: a unit investment trust (UIT) invests in a pool of municipal bonds. Each investor owns a portion of the pool of bonds.

**Unlisted stock:** A security that is not listed on a stock exchange. PinkSheets and OTC Bulletin Board are examples of public, unlisted, negotiated, quotation markets.

**Uptick:** A higher price than the previous trade.



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**Uptick rule:** A federal law requiring that short sales be executed on an uptick or a zero plus tick.

**Venture capital:** Equity investment for a company not large enough to go public that is supplied by partnerships set up to pool funds and invest in untried companies, by wealthy individuals, or by large institutional investors. Venture capitalists take on high risks in hopes of making extraordinary returns on some of their investments.

**Waiting period:** Time during which the SEC studies a firm's registration statement occurring after the question and answer period has ended. During this time the firm may distribute the preliminary prospectus.

**Wall Street:** Generic term referring to all of the securities firms who buy, sell and underwrite securities.

**Warrant:** A security entitling the holder a long-term privilege (5-10 years, usually) to buy a proportionate amount of stock at a specified future date and specified price, usually higher than the current market price.

**Wash sale:** Purchase and simultaneous sale (or within a very short timeframe) that locks in a tax loss without altering the holder's position.

**Watered stock:** A stock that is worth less than the invested capital resulting in low liquidity, market value and inadequate rate of investment return.

**When issued:** Refers to a conditional stock transaction because the stock cannot be issued yet, usually due to a pending corporate action.

**Wholly owned subsidiary:** A subsidiary company whose parent company owns 100% of its common stock.

**Window:** The cashier's department at a brokerage firm where securities are delivered and transactions are settled.

**Wire room:** Department of a brokerage firm that receives orders from the customers and transmits the orders to the appropriate trading platform (exchange, over-the-counter market or trading department of the firm)

**With rights:** Shares bought with an entitlement to the rights to buy more shares in the company's rights issue.

**Working capital:** The difference between current assets and current liabilities (excluding short-term debt.) Cash and cash equivalents may or may not be included.

**Working order:** Standing order in the marketplace in which a broker continues to bid or offer shares in a series of lots at opportune times in order to hopefully receive a better price overall.

**Write:** To sell a put or a call option order. Also applies to derivative products.

**Written-down value:** The book value of an asset after allowing for amortization and depreciation.

**X or XD:** Trading without dividends, ex-dividend.

**XR:** Trading without rights, ex-rights.



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**XW**: Trading without warrants, ex-warrants.

**Yellow sheets**: A listing of corporate bonds traded in the OTC market, showing the market makers and their quotes.

**Yield curve**: A chart showing yields of bonds with various maturities. Short-term debt normally has a lower yield than long-term debt.

**Yield to call**: The yield of a bond to its call date. The calculation is similar to a yield to maturity calculation, except the bond is assumed to mature on the next permissible call date at the call price.

**Yield to maturity**: The yield of a bond, taking into account the gain or loss at maturity.

**Zero coupon bond**: A bond without interest payments. Because they pay no interest, they trade at a steep discount from par.

**Zero plus tick**: A trade that was preceded by a trade at the same price, but the prior change in price was an up-tick.



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