

Professional Certificate in Securities Clearing and Settlement

## Securities market structure and participants

### Securities Market Structure and Participants

**Securities Market Structure:** The securities market structure refers to the organization and framework through which securities are traded. It includes various components such as exchanges, trading platforms, clearinghouses, settlement systems, and participants.

**Participants:** Participants are entities or individuals involved in the securities market who play different roles in trading, clearing, and settling securities transactions. These participants include investors, brokers, dealers, exchanges, clearinghouses, custodians, and regulators.

Here is a detailed glossary of terms related to securities market structure and participants:

1. **Auction Market:** An auction market is a type of market where buyers and sellers come together to trade securities through an auction process. Prices are determined through competitive bids and offers.
2. **Broker:** A broker is a licensed individual or firm that acts as an intermediary between buyers and sellers in the securities market. Brokers execute buy and sell orders on behalf of clients in exchange for a commission.
3. **Central Counterparty (CCP):** A central counterparty is an entity that interposes itself between the buyer and seller of a security to guarantee the performance of the trade. CCPs reduce counterparty risk in the securities market.
4. **Clearinghouse:** A clearinghouse is an organization that facilitates the clearing and settlement of securities transactions. It acts as a central counterparty to both the buyer and seller to ensure the smooth processing of trades.
5. **Custodian:** A custodian is a financial institution that holds and safeguards securities on behalf of clients. Custodians also provide services such as settlement, safekeeping, and reporting to institutional investors.
6. **Dealer:** A dealer is a firm or individual that buys and sells securities for its own account. Dealers provide liquidity to the market by quoting bid and ask prices for securities.
7. **Exchange:** An exchange is a regulated marketplace where securities are bought and sold. Exchanges provide a transparent and efficient platform for trading securities.
8. **Initial Public Offering (IPO):** An initial public offering is the first sale of stock by a company to the public. Companies use IPOs to raise capital and become publicly traded entities.
9. **Investor:** An investor is an individual or entity that allocates capital to securities with the expectation of generating a return. Investors may include retail investors, institutional investors, and hedge funds.

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10. **Market Maker:** A market maker is a firm or individual that quotes bid and ask prices for securities and stands ready to buy or sell securities at those prices. Market makers help maintain liquidity in the market.
11. **Order Book:** An order book is a list of buy and sell orders for a particular security, organized by price and volume. The order book provides transparency into the market depth and liquidity.
12. **Over-the-Counter (OTC) Market:** The over-the-counter market is a decentralized marketplace where securities are traded directly between buyers and sellers. OTC markets do not have a centralized exchange.
13. **Regulator:** A regulator is a government agency or organization responsible for overseeing and enforcing regulations in the securities market. Regulators protect investors and maintain market integrity.
14. **Settlement:** Settlement is the process of transferring securities and funds between buyers and sellers to complete a trade. Settlement ensures that ownership of securities is transferred and payment is made.
15. **Settlement Cycle:** The settlement cycle is the timeframe within which securities transactions must be settled. The settlement cycle can vary depending on the type of security and market regulations.
16. **Settlement System:** A settlement system is a mechanism or infrastructure that facilitates the settlement of securities transactions. Settlement systems ensure the timely and accurate transfer of securities and funds.
17. **Stock Exchange:** A stock exchange is a regulated marketplace where stocks and other securities are bought and sold. Stock exchanges provide a platform for companies to raise capital and investors to trade securities.
18. **Trade Matching:** Trade matching is the process of comparing buy and sell orders for a security to determine if a trade can be executed. Trade matching ensures that trades are accurately processed.
19. **Trading Platform:** A trading platform is an electronic system or software that allows investors to buy and sell securities. Trading platforms provide access to the securities market and facilitate trading activities.
20. **Underwriter:** An underwriter is a financial institution that helps companies issue securities to the public. Underwriters purchase securities from the issuer and sell them to investors at a predetermined price.
21. **Volatility:** Volatility is a measure of the degree of variation in the price of a security over time. High volatility indicates significant price fluctuations, while low volatility suggests stability.
22. **Yield:** Yield is the income generated by a security, expressed as a percentage of its price. Yield can be calculated based on dividends, interest payments, or other forms of income generated by the security.
23. **Zero-Coupon Bond:** A zero-coupon bond is a bond that does not pay periodic interest payments. Instead, zero-coupon bonds are issued at a discount to face value and mature at face value, generating a return for investors.
24. **52-Week High/Low:** The 52-week high/low is the highest and lowest price level at which a security has

traded over the past 52 weeks. The 52-week high/low is used to gauge the price performance of a security.

25. Accredited Investor: An accredited investor is an individual or entity that meets certain financial criteria and is eligible to participate in certain types of private securities offerings. Accredited investors have higher income or net worth requirements.

26. All-or-None Order: An all-or-none order is a type of order where the entire order must be filled in a single transaction or not at all. All-or-none orders are used to ensure that trades are executed in full.

27. American Depositary Receipt (ADR): An American Depositary Receipt is a certificate issued by a U.S. depository bank representing shares of a foreign company's stock. ADRs allow U.S. investors to invest in foreign companies.

28. Ask Price: The ask price is the price at which a seller is willing to sell a security. The ask price is also known as the offer price and is quoted in the order book.

29. Asset Allocation: Asset allocation is the process of dividing an investment portfolio across different asset classes such as stocks, bonds, and cash. Asset allocation is used to achieve diversification and manage risk.

30. Back Office: The back office is the part of a financial institution responsible for processing and settling trades. Back-office functions include trade confirmation, reconciliation, and reporting.

31. Balance Sheet: A balance sheet is a financial statement that shows a company's assets, liabilities, and shareholders' equity at a specific point in time. The balance sheet provides insight into a company's financial position.

32. Bear Market: A bear market is a prolonged period of declining stock prices, typically characterized by a decline of 20% or more from recent highs. Bear markets are associated with pessimism and economic downturns.

33. Beta: Beta is a measure of a security's volatility relative to the overall market. A beta of 1 indicates that the security moves in line with the market, while a beta greater than 1 is more volatile.

34. Blue Chip Stock: Blue-chip stocks are shares of large, well-established companies with a history of stable earnings and dividends. Blue-chip stocks are considered safe and reliable investments.

35. Bond: A bond is a fixed-income security issued by a government or corporation to raise capital. Bonds pay interest to investors at a predetermined rate and mature at a specified date.

36. Book Value: Book value is the value of a company's assets minus its liabilities as reported on the balance sheet. Book value is used to determine the intrinsic value of a company's stock.

37. Bull Market: A bull market is a period of rising stock prices, typically characterized by a gain of 20% or more from recent lows. Bull markets are associated with optimism and economic growth.

38. Capital Gain: A capital gain is the profit realized from the sale of a capital asset such as stocks or real

estate. Capital gains are subject to capital gains tax.

39. Capital Loss: A capital loss is the loss incurred from the sale of a capital asset at a lower price than the purchase price. Capital losses can be used to offset capital gains for tax purposes.

40. Capital Market: The capital market is a financial market where long-term debt and equity securities are traded. The capital market provides funding for companies and governments to finance their operations.

41. Cash Market: The cash market is a market where securities are traded for immediate delivery and payment. Cash market transactions are settled on the spot, typically within two business days.

42. CFTC: The Commodity Futures Trading Commission (CFTC) is a U.S. regulatory agency responsible for overseeing derivatives markets, including futures and options. The CFTC protects market participants and maintains market integrity.

43. CMO: A collateralized mortgage obligation (CMO) is a type of mortgage-backed security that is divided into tranches with different levels of risk and return. CMOs provide investors with exposure to mortgage debt.

44. Commercial Paper: Commercial paper is a short-term debt instrument issued by corporations to raise funds for operating expenses. Commercial paper typically matures in less than 270 days.

45. Common Stock: Common stock is a type of equity security that represents ownership in a corporation. Common stockholders have voting rights and may receive dividends based on company performance.

46. Convertible Bond: A convertible bond is a type of bond that can be converted into shares of the issuer's common stock at a predetermined price. Convertible bonds offer investors the potential for capital appreciation.

47. Corporate Action: A corporate action is an event initiated by a publicly traded company that may affect its shareholders. Corporate actions include stock splits, dividends, mergers, and acquisitions.

48. Credit Rating: A credit rating is an assessment of the creditworthiness of a borrower or issuer of debt securities. Credit ratings are assigned by credit rating agencies based on financial strength and repayment ability.

49. Dark Pool: A dark pool is a private electronic trading platform where institutional investors can anonymously trade large blocks of securities. Dark pools provide liquidity and reduce market impact.

50. Day Order: A day order is a type of order that expires at the end of the trading day if it is not executed. Day orders are valid only for the day they are entered.

51. Debt Security: A debt security is a financial instrument that represents a loan made by an investor to a borrower. Debt securities include bonds, notes, and debentures.

52. Derivative: A derivative is a financial instrument whose value is derived from an underlying asset such as

stocks, bonds, or commodities. Derivatives include options, futures, and swaps.

53. Dividend: A dividend is a distribution of profits made by a corporation to its shareholders. Dividends are typically paid in cash or additional shares of stock.

54. Dividend Yield: Dividend yield is a financial ratio that measures the annual dividend income generated by a stock relative to its price. Dividend yield is calculated as the dividend per share divided by the stock price.

55. Dividend Reinvestment Plan (DRIP): A dividend reinvestment plan is a program that allows shareholders to reinvest their dividends in additional shares of the issuing company's stock. DRIPs help investors compound their returns over time.

56. Diversification: Diversification is a risk management strategy that involves spreading investments across different asset classes to reduce risk. Diversification helps investors minimize the impact of market fluctuations.

57. Dow Jones Industrial Average (DJIA): The Dow Jones Industrial Average is a stock market index that tracks the performance of 30 large, publicly traded companies in the United States. The DJIA is a widely followed benchmark for the stock market.

58. Efficient Market Hypothesis: The efficient market hypothesis is a theory that states that asset prices reflect all available information and are therefore always accurately priced. The efficient market hypothesis suggests that it is impossible to consistently outperform the market.

59. Equity: Equity is the ownership interest in a company represented by common stock. Equity holders have a claim on the company's assets and earnings.

60. Exchange-Traded Fund (ETF): An exchange-traded fund is a type of investment fund that trades on a stock exchange like a stock. ETFs track an index or a basket of securities and provide diversification to investors.

61. Execution: Execution is the process of completing a trade by matching buy and sell orders at an agreed-upon price. Execution ensures that trades are accurately processed and settled.

62. Ex-Dividend Date: The ex-dividend date is the date on which a stock trades without the dividend included in the stock price. Investors who purchase the stock on or after the ex-dividend date are not entitled to the dividend.

63. Federal Reserve System (Fed): The Federal Reserve System is the central banking system of the United States responsible for implementing monetary policy and regulating the financial system. The Fed aims to promote economic growth and stability.

64. Financial Market: A financial market is a marketplace where buyers and sellers trade financial assets such as stocks, bonds, currencies, and derivatives. Financial markets provide liquidity and capital to businesses and governments.

65. **Fixed-Income Security:** A fixed-income security is a financial instrument that pays a fixed interest or dividend at regular intervals. Fixed-income securities include bonds, certificates of deposit, and preferred stock.
66. **Foreign Exchange Market:** The foreign exchange market is a decentralized marketplace where currencies are traded. The forex market is the largest and most liquid financial market in the world.
67. **Front Office:** The front office is the part of a financial institution responsible for client-facing activities such as trading, sales, and investment banking. Front-office functions generate revenue for the institution.
68. **Futures Contract:** A futures contract is a standardized agreement to buy or sell a specified asset at a predetermined price on a future date. Futures contracts are traded on organized exchanges.
69. **Hedge Fund:** A hedge fund is an investment fund that pools capital from accredited investors to invest in a range of financial instruments. Hedge funds aim to generate high returns while managing risk.
70. **High-Frequency Trading (HFT):** High-frequency trading is a trading strategy that uses algorithms to execute trades at high speeds and frequencies. HFT aims to capitalize on small price discrepancies in the market.
71. **Initial Margin:** Initial margin is the amount of collateral required by a broker from a trader to open a futures or options position. Initial margin serves as a security deposit against potential losses.
72. **Insider Trading:** Insider trading is the illegal practice of trading securities based on material nonpublic information. Insider trading violates securities laws and undermines market integrity.
73. **Investment Bank:** An investment bank is a financial institution that provides a range of financial services to corporations and governments. Investment banks offer services such as underwriting, mergers and acquisitions, and advisory.
74. **IPO Lock-Up Period:** The IPO lock-up period is a restriction that prevents company insiders from selling their shares for a specified period after an initial public offering. The lock-up period helps stabilize the stock price.
75. **Junk Bond:** A junk bond is a high-yield, high-risk bond issued by a company with a low credit rating. Junk bonds offer higher returns to compensate for the increased risk of default.
76. **Limit Order:** A limit order is an order to buy or sell a security at a specified price or better. Limit orders help investors control the price at which their trades are executed.
77. **Liquidity:** Liquidity is the ability to buy or sell a security in the market without causing a significant price change. Liquid securities can be easily traded with minimal impact on price.
78. **Market Order:** A market order is an order to buy or sell a security at the current market price. Market orders are executed immediately at the best available price.

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79. Money Market: The money market is a financial market where short-term debt securities are traded. Money market instruments include Treasury bills, commercial paper, and certificates of deposit.
80. Mortgage-Backed Security (MBS): A mortgage-backed security is a type of asset-backed security that is secured by a pool of mortgage loans. MBSs pay investors principal and interest based on the underlying mortgages.
81. Mutual Fund: A mutual fund is an investment fund that pools capital from multiple investors to invest in a diversified portfolio of securities. Mutual funds offer professional management and diversification to investors.
82. Nasdaq: Nasdaq is a stock exchange that specializes in technology and growth companies. Nasdaq is known for its electronic trading platform and listing of high-tech companies.
83. Net Asset Value (NAV): Net asset value is the value of a mutual fund's assets minus its liabilities, divided by the number of outstanding shares. NAV represents the per-share value of the mutual fund.
84. Option: An option is a financial derivative that gives the holder the right, but not the obligation, to buy or sell an underlying asset at a predetermined price within a specified period. Options provide leverage and flexibility to investors.
85. Portfolio: A portfolio is a collection of investments held by an individual or institution. Portfolios may include stocks, bonds, mutual funds, and other securities.
86. Price-Earnings Ratio (P/E Ratio): The price-earnings ratio is a valuation metric that compares a company's stock price to its earnings per share. The P/E ratio is used to assess the relative value of a stock.
87. Primary Market: The primary market is where new securities are issued and sold to investors for the first time. Companies raise capital in the primary market through initial public offerings (IPOs) and bond offerings.
88. Prospectus: A prospectus is a legal document that provides information about a securities offering to potential investors. The prospectus includes details about the company, offering terms, and risks.