Glossary of Terms

"Explaining all those new words"

This document explains the meaning of all the words that may be used throughout the advice process. If you cannot find the definition of the word you are looking for in this document please do not hesitate to ask.

AAA-rating: The best credit rating that can be given to a borrower's debts, indicating that the risk of a borrower defaulting is minuscule.

Administration: A rescue mechanism for UK companies in severe trouble. It allows them to continue as a going concern, under supervision, giving them the opportunity to try to work their way out of difficulty. A firm in administration cannot be wound up without permission from a court.

AGM: An annual general meeting, which companies hold each year for shareholders to vote on important issues such as dividend payments and appointments to the company's board of directors. If an emergency decision is needed - for example in the case of a takeover - a company may also call an exceptional general meeting of shareholders or EGM.

Article 50: Is the name of the formal legal process to leave the European Union (EU) - but it's never been used and it's pretty vague

Assets: Things that provide income or some other value to their owner.

- Fixed assets (also known as long-term assets) are things that have a useful life of more than one year, for example buildings and machinery; there are also intangible fixed assets, like the good reputation of a company or brand.
- Current assets are the things that can easily be turned into cash and are expected to be sold or used up in the near future.

Austerity: Economic policy aimed at reducing a government's deficit (or borrowing). Austerity can be achieved through increases in government revenues - primarily via tax rises - and/or a reduction in government spending or future spending commitments.

Bailout: The financial rescue of a struggling borrower. A bailout can be achieved in various ways:

- providing loans to a borrower that markets will no longer lend to
- guaranteeing a borrower's debts
- guaranteeing the value of a borrower's risky assets
- providing help to absorb potential losses, such as in a bank recapitalisation

Bankruptcy: A legal process in which the assets of a borrower who cannot repay its debts - which can be an individual, a company or a bank - are valued, and possibly sold off (liquidated), in order to repay debts.

Where the borrower's assets are insufficient to repay its debts, the debts have to be written off. This means the lenders must accept that some of their loans will never be repaid, and the borrower is freed of its debts. Bankruptcy varies greatly from one country to another, some countries have laws that are very friendly to borrowers, while others are much more friendly to lenders.

Base rate: The key interest rate set by the Bank of England. It is the overnight interest rate that it charges to banks for lending to them. The base rate - and expectations about how the base rate will change in the future - directly affect the interest rates at which banks are willing to lend money in sterling.

Basis point: One hundred basis points make up a percentage point, so an interest rate cut of 25 basis points might take the rate, for example, from 3% to 2.75%.

BBA: The British Bankers' Association is an organisation representing the major banks in the UK - including foreign banks with a major presence in London. It is responsible for the daily Libor interest rate which determines the rate at which banks lend to each other.

Bear market: In a bear market, prices are falling and investors, fearing losses, tend to sell. This can create a self-sustaining downward spiral.

Bill: A debt security- or more simply an IOU. It is very similar to a bond, but has a maturity of less than one year when first issued.

Bond: A debt security, or more simply, an IOU. The bond states when a loan must be repaid and what interest the borrower (issuer) must pay to the holder. They can be issued by companies, banks or governments to raise money. Banks and investors buy and trade bonds.

BRIC: An acronym used to describe the fast-growing economies of Brazil, Russia, India and China.

Brexit: is an abbreviation for "British exit," referring to the UK's decision in a June 23, 2016 referendum to leave the European Union (EU).

Bull market: A bull market is one in which prices are generally rising and investor confidence is high.

Capital: For investors, it refers to their stock of wealth, which can be put to work in order to earn income. For companies, it typically refers to sources of financing such as newly issued shares.

For banks, it refers to their ability to absorb losses in their accounts. Banks normally obtain capital either by issuing new shares, or by keeping hold of profits instead of paying them out as dividends. If a bank writes off a loss on one of its assets - for example, if it makes a loan that is not repaid - then the bank must also write off a corresponding amount of its capital. If a bank runs out of capital, then it is insolvent, meaning it does not have enough assets to repay its debts.

Capital adequacy ratio: A measure of a bank's ability to absorb losses. It is defined as the value of its capital divided by the value of risk-weighted assets (ie taking into account how risky they are). A low capital adequacy ratio suggests that a bank has a limited ability to absorb losses, given the amount and the riskiness of the loans it has made.

A banking regulator - typically the central bank - sets a minimum capital adequacy ratio for the banks in each country, and an international minimum standard is set by the BIS. A bank that fails to meet this minimum standard must be recapitalised, for example by issuing new shares.

Capitulation (market:. The point when a flurry of panic selling induces a final collapse - and ultimately a bottoming out - of prices.

Carry trade: Typically, the borrowing of currency with a low interest rate, converting it into currency with a high interest rate and then lending it. The most common carry trade currency used to be the yen, with traders seeking to benefit from Japan's low interest rates. Now the dollar, euro and pound can also serve the same purpose. The element of risk is in the fluctuations in the currency market.

Collateralised debt obligations (CDOs): A financial structure that groups individual loans, bonds or other assets in a portfolio, which can then be traded. In theory, CDOs attract a stronger credit rating than individual assets due to the risk being more diversified. But as the performance of many assets fell during the financial crisis, the value of many CDOs was also reduced.

Commercial paper: Unsecured, short-term loans taken out by companies. The funds are typically used for working capital, rather than fixed assets such as a new building. The loans take the form of IOUs that can be bought and traded by banks and investors, similar to bonds.

Commercial Property: Also called commercial real estate, investment or income property. refers to buildings or land intended to generate a profit, either from capital gain or rental income.

Commodities: are products that, in their basic form, are all the same so it makes little difference from whom you buy them. That means that they can have a common market price. You would be unlikely to pay more for iron ore just because it came from a particular mine, for example.

Contracts to buy and sell commodities usually specify minimum common standards, such as the form and purity of the product, and where and when it must be delivered.

The commodities markets range from soft commodities such as sugar, cotton and pork bellies to industrial metals such as iron and zinc.

Core inflation: A measure of CPI inflation that strips out more volatile items (typically food and energy prices). The core inflation rate is watched closely by central bankers, as it tends to give a clearer indication of long-term inflation trends.

Correction (market): A short-term drop in stock market prices. The term comes from the notion that, when this happens, overpriced or underpriced stocks are returning to their "correct" values.

CPI: The Consumer Prices Index is a measure of the price of a bundle of goods and services from across the economy. It is the most common measure used to identify inflation in a country. CPI is used as the target measure of inflation by the Bank of England and the ECB.

Credit crunch: A situation where banks and other lenders all cut back their lending at the same time, because of widespread fears about the ability of borrowers to repay.

If heavily-indebted borrowers are cut off from new lending, they may find it impossible to repay existing debts. Reduced lending also slows down economic growth, which also makes it harder for all businesses to repay their debts.

Credit default swap (CDS): A financial contract that provides insurance-like protection against the risk of a third-party borrower defaulting on its debts. For example, a bank that has made a loan to Greece may choose to hedge the loan by buying CDS protection on Greece.

The bank makes periodic payments to the CDS seller. If Greece defaults on its debts, the CDS seller must buy the loans from the bank at their full face value. CDSs are not just used for hedging - they are used by investors to speculate on whether a borrower such as Greece will default.

Credit rating: The assessment given to debts and borrowers by a ratings *agency* according to their safety from an investment standpoint - based on their creditworthiness, or the ability of the company or government that is borrowing to repay.

Ratings range from *AAA*, the safest, down to D, a company that has already defaulted. Ratings of BBB- or higher are considered "investment grade". Below that level, they are considered "speculative grade" or more colloquially as junk.

Currency peg: A commitment by a government to maintain its currency at a fixed value in relation to another currency.

Sometimes pegs are used to keep a currency strong, in order to help reduce inflation. In this case, a central bank may have to sell its reserves of foreign currency and buy up domestic currency in order to defend the peg. If the central bank runs out of foreign currency reserves, then the peg will collapse.

Pegs can also be used to help keep a currency weak in order to gain a competitive advantage in trade and boost exports. China has been accused of doing this.

The People's Bank of China has accumulated trillions of dollars in US government bonds, because of its policy of selling yuan and buying dollars - a policy that has the effect of keeping the yuan weak.

Debt restructuring: A situation in which a borrower renegotiates the terms of its debts, usually in order to reduce short-term debt repayments and to increase the amount of time it has to repay them. If lenders do not agree to the change in repayment terms, or if the restructuring results in an obvious loss to lenders, then it is generally considered a default by the borrower. However, restructuring can also occur through a debt swap - a voluntary agreement by lenders to switch existing debts for new debts with easier repayment terms - in which case it can be very hard to determine whether the restructuring counts as a default.

Default: Strictly speaking, a default occurs when a borrower has broken the terms of a loan or other debt, for example if a borrower misses a payment. The term is also loosely used to mean any situation that makes clear that a borrower can no longer repay its debts in full, such as bankruptcy or a debt restructuring.

A default can have a number of important implications. If a borrower is in default on any one debt, then all of its lenders may be able to demand that the borrower immediately repay them. Lenders may also be required to write off their losses on the loans they have made.

Deficit: The amount by which spending exceeds income over the course of a year.

In the case of trade, it refers to exports minus imports. In the case of the government budget, it equals the amount the government needs to borrow during the year to fund its spending. The government's "primary" deficit means the amount it needs to borrow to cover general government expenditure, excluding interest payments on debts. The primary deficit therefore indicates whether a government will run out of cash if it is no longer able to borrow and decides to stop repaying its debts.

Deflation: Negative inflation - that is, when the prices of goods and services across the whole economy are falling on average.

Deleveraging: A process whereby borrowers reduce their debt loads. Primarily this occurs by repaying debts. It can also occur by bankruptcies and debt defaults, or by the borrowers increasing their incomes, meaning that their existing debt loads become more manageable. Western economies are experiencing widespread deleveraging, a process associated with weak economic growth that is expected to last years.

Households are deleveraging by repaying mortgage and credit card debts. Banks are deleveraging by cutting back on lending. Governments are also beginning to deleverage via austerity programmes - cutting spending and increasing taxation.

Derivative: A financial contract which provides a way of investing in a particular product without having to own it directly. For example, a stock market futures contract allows investors to make bets on the value of a stock market index such as the FTSE 100 without having to buy or sell any shares. The value of a derivative can depend on anything from the price of coffee to interest rates or what the weather is like.

Credit derivatives such as credit default swaps depend on the ability of a borrower to repay its debts. Derivatives allow investors and banks to hedge their risks, or to speculate on markets. Futures, forwards, swaps and options are all types of derivatives.

Dividends: An income payment by a company to its shareholders, usually linked to its profits.

Double-dip recession: A recession that experiences a limited recovery then dips back into recession. The exact definition is unclear, as the definition of what counts as a recession varies between countries.

A widely-accepted definition is one where the initial recovery fails to take total economic output back up to the peak seen before the recession began.

EBA: The European Banking Authority is a pan-European regulator responsible created in 2010 to oversee all banks within the European Union. Its powers are limited, and it depends on national bank regulators such as the UK's Financial Services Authority to implement its recommendations. It has already been active in laying down new rules on bank bonuses and arranging the European bank stress tests.

EBRD: The European Bank for Reconstruction and Development is a similar institution to the World Bank, set up by the US and European countries after the fall of the Berlin Wall to assist in economic transition in Eastern Europe. Recently the EBRD's remit has been extended to help the Arab countries that emerged from dictatorship in 2011.

ECB: The European Central Bank is the central bank responsible for monetary policy in the Eurozone. It is headquartered in Frankfurt and has a mandate to ensure price stability - which is interpreted as an inflation rate of no more than 2% per year.

EIB: The European Investment Bank is the European Union's development bank. It is owned by the EU's member governments, and provides loans to support pan-European infrastructure, economic development in the EU's poorer regions and environmental objectives, among other things.

ESM: The European Stability Mechanism is a 500bn-euro rescue fund that will replace the EFSF and the EFSM from June 2013. Unlike the EFSF, the ESM is a permanent bail-out arrangement for the Eurozone. Unlike the EFSM, the ESM will only be backed by members of the Eurozone, and not by other European Union members such as the UK.

EFSF: The European Financial Stability Facility is currently a temporary fund worth up to 440bn euros set up by the Eurozone in May 2010. Following a previous bail-out of Greece, the EFSF was originally intended to help other struggling Eurozone governments, and has since provided rescue loans to the Irish Republic and Portugal. More recently, the Eurozone agreed to broaden the EFSF's mandate, for example by allowing it to support banks.

EFSM: The European Financial Stability Mechanism is 60bn euros of money pledged by the member governments of the European Union, including 7.5bn euros pledged by the UK. The EFSM has been used to loan money to the Irish Republic and Portugal. It will be replaced by the ESM from 2013.

Equity: The value of a business or investment after subtracting any debts owed by it. The equity in a company is the value of all its shares. In a house, your equity is the amount your house is worth minus the amount of mortgage debt that is outstanding on it.

Eurobond: A term increasingly used for the idea of a common, jointly-guaranteed bond of the Eurozone governments. It has been mooted as a solution to the Eurozone debt crisis, as it would prevent markets from differentiating between the creditworthiness of different government borrowers.

Confusingly and quite separately, "Eurobond" also refers to a bond issued in a country which isn't denominated in that country's currency. For example, this is used to refer to bonds in US dollars issued in Europe.

Eurozone: The 17 countries that share the euro.

Federal Reserve: The US central bank.

Financial Policy Committee: A new committee at the Bank of England set up in 2010-11 in response to the financial crisis. It has overall responsibility for ensuring major risks do not build up within the UK financial system.

Financial transaction tax: See Tobin tax.

Fiscal policy: The government's borrowing, spending and taxation decisions. If a government is worried that it is borrowing too much, it can engage in austerity; raising taxes and/or cutting spending. Alternatively, if a government is afraid that the economy is going into recession it can engage in fiscal stimulus, which can include cutting taxes, raising spending and/or raising borrowing.

FTSE 100: An index of the 100 companies listed on the London Stock Exchange with the biggest market value. The index is revised every three months.

Fundamentals: determine a company, currency or security's value in the long-term. A company's fundamentals include its assets, debt, revenue, earnings and growth.

Futures: A futures contract is an agreement to buy or sell a commodity at a predetermined date and price. It could be used to hedge or to speculate on the price of the commodity. Futures contracts are a type of derivative, and are traded on an exchange.

G7: The group of seven major industrialised economies, comprising the US, UK, France, Germany, Italy, Canada and Japan.

G8: The G7 plus Russia.

G20: The G8 plus developing countries that play an important role in the global economy, such as China, India, Brazil and Saudi Arabia. It gained in significance after leaders agreed how to tackle the 2008-09 financial crisis and recession at G20 gatherings.

GDP: Gross domestic product. A measure of economic activity in a country, namely of all the services and goods produced in a year. There are three main ways of calculating GDP - through output, through income and through expenditure.

Haircut: A reduction in the value of a troubled borrower's debts, imposed on, or agreed with, its lenders as part of a debt restructuring.

Hedge fund: A private investment fund which uses a range of sophisticated strategies to maximise returns including hedging, leveraging and derivatives trading. Authorities around the world are working on ways to regulate them.

Hedging: Making an investment to reduce the risk of price fluctuations to the value of an asset. Airlines often hedge against rising oil prices by agreeing in advance to buy their fuel at a set price. In this case, a rise in price would not harm them - but nor would they benefit from any falls.

IIF: The Institute of International Finance is a global trade association of the major banks.

IMF: The International Monetary Fund is an organisation set up after World War II to provide financial assistance to governments. Since the 1980s, the IMF has been most active in providing rescue loans to the governments of developing countries that run into debt problems.

Since the financial crisis, the IMF has also provided rescue loans, alongside the European Union governments and the ECB, to Greece, the Irish Republic and Portugal. The IMF is traditionally - and of late controversially - headed by a European.

Impairment charge: The amount written off by a company when it realises that it has valued an asset more highly than it is actually worth.

Independent Commission on Banking: A commission chaired by economist Sir John Vickers set up in 2010 by the UK government in order to make recommendations on how to reform the banking system. The commission reported back in September 2011, and called for:

- a ring-fence, to separate and safeguard the activities of banks that were deemed essential to the UK economy
- measures to increase the transparency of bank accounts and competition among banks, including the creation of a new major High Street bank
- much higher capital requirements for the big banks so that they can better absorb future losses

Inflation: The upward price movement of goods and services.

Insolvency: A situation in which the value of a borrower's *assets* is not enough to repay all of its debts. If a borrower can be shown to be insolvent, it normally means they can be declared *bankrupt* by a court.

Investment bank: Investment banks provide financial services for governments, companies or extremely rich individuals. They differ from commercial banks where you have your savings or your mortgage.

Traditionally investment banks provided underwriting, and financial advice on mergers and acquisitions, and how to raise money in the financial markets. The term is also commonly used to describe the more risky activities typically undertaken by such firms, including trading directly in financial markets for their own account.

Junk bond: A bond with a credit rating of BB+ or lower. These debts are considered very risky by the ratings agencies. Typically the bonds are traded in markets at a price that offers a very high yield(return to investors) as compensation for the higher risk of default.

Keynesian economics: The economic theories of John Maynard Keynes. In modern political parlance, the belief that the state can directly stimulate demand in a stagnating economy, for instance, by borrowing money to spend on public works projects such as roads, schools and hospitals.

Lehman Brothers: A US investment bank, whose collapse in September 2008 sparked the most intense phase of the financial crisis.

Leverage: or gearing, means using debt to supplement investment. The more you borrow on top of the funds (or equity) you already have, the more highly leveraged you are. Leverage can increase both gains and losses. Deleveraging means reducing the amount you are borrowing.

Liability: A debt or other form of payment obligation, listed in a company's accounts.

Libor: London Inter Bank Offered Rate. The rate at which banks in London lend money to each other for the short-term in a particular currency. A new Libor rate is calculated every morning by financial data firm Thomson Reuters based on interest rates provided by members of the British Bankers Association.

Limited liability: Confines an investor's loss in a business to the amount of *capital* they invested. If a person invests £100,000 in a company and it goes under, they will lose only their investment and not more.

Liquidation: A process in which assets are sold off for cash. Liquidation is often the outcome for a company deemed irretrievably loss-making. In that case, its assets are sold off individually, and the cash proceeds are used to repay its lenders. In liquidation, a company's lenders and other claimants are given an order of priority. Usually the tax authorities are the first to be paid, while the company's shareholders are the last, typically receiving nothing.

Liquidity: How easy something is to convert into cash. Your current account, for example, is more liquid than your house. If you needed to sell your house quickly to pay bills you would have to drop the price substantially to get a sale.

Liquidity crisis A situation in which it suddenly becomes much more difficult for banks to obtain cash due to a general loss of confidence in the financial system.

Investors (and, in the case of a bank run, even ordinary depositors) may withdraw their cash from banks, while banks may stop lending to each other, if they fear that some banks could go bust. Because most of a bank's money is tied up in loans, even a healthy bank can run out of cash and collapse in a liquidity crisis.

Central banks usually respond to a liquidity crisis by acting as "lender of last resort" and providing emergency cash loans to the banks.

Liquidity trap: A situation described by economist John Maynard Keynes in which nervousness about the economy leads everybody to cut back on their spending and to hold cash, even if the cash earns no interest. The widespread fall in spending undermines the economy, which in turn makes households, banks and companies even more nervous about spending and investing their money.

The problem becomes particularly intractable when - as in Japan over the last 20 years - the weak spending leads to falling prices, which creates a stronger incentive for people to hold onto their cash, and also makes debts more difficult to repay.

In a liquidity trap, monetary policy can become useless, and Keynes said that the onus is on governments to increase their spending.

Loans-to-deposit ratio: For financial institutions, the sum of their loans divided by the sum of their deposits. It is used as a way of measuring a bank's vulnerability to the loss of confidence in a liquidity crisis. Deposits are typically guaranteed by the bank's government and are therefore considered a safer source of funding for the bank.

Before the 2008 financial crisis, many banks became reliant on other sources of funding - meaning they had very high loan-to-deposit ratios. When these other sources of funding suddenly evaporated, the banks were left critically short of cash.

Mark-to-market (MTM): Recording the value of an asset on a daily basis according to current market prices. So for a Greek government bond, the MTM is how much it could be sold for today.

Banks are not required to mark to market investments that they intend to hold indefinitely (in what is called the "banking book" in accounting jargon). Instead, these investments are valued at the price at which they were originally purchased, minus any impairment charges - which might arise following a default by the borrower.

Monetary policy: The policies of the central bank. A central bank has an unlimited ability to create new money. This allows it to control the short-term interest rate, as well as to engage in unorthodox policies such as quantitative easing - printing money to buy up government debts and other assets. Monetary policy can be used to control inflation and to support economic growth.

Money markets: Global markets dealing in borrowing and lending on a short-term basis.

Mortgage-backed securities (MBS): Banks repackage debts from a number of mortgages into MBS, which can be bought and traded by investors. By selling off their mortgages in the form of MBS, it frees the banks up to lend to more homeowners.

MPC: The Monetary Policy Committee of the Bank of England is responsible for setting short-term interest rates and other monetary policy in the UK, such as quantitative easing.

Nationalisation: The act of bringing an industry or assets such as land and property under state control.

Negative equity: Refers to a situation in which the value of your house is less than the amount of the mortgage that still has to be paid off.

Options: A type of derivative that gives an investor the right to buy (or to sell) something - anything from a share to a barrel of oil - at an agreed price and at an agreed time in the future. Options become much more valuable when markets are volatile, as they can be an insurance against price swings.

Platform: Platforms are online services, used by intermediaries (and sometimes consumers directly) to view and administer their investment portfolios. As well as providing facilities for investments to be bought and sold, platforms are often used to aggregate, and arrange custody for customers' assets.

The term platform is often used to describe both wraps and fund supermarkets.

Preference shares: A class of shares that usually do not offer voting rights, but do offer a superior type of dividend, paid ahead of dividends to ordinary shareholders. Preference shareholders often also have somewhat better protection when a company is liquidated.

Private equity fund: An investment fund that specialises in buying up troubled or undervalued companies, reorganising them, and then selling them off at a profit.

PPI: The Producer Prices Index, a measure of the wholesale prices at which factories and other producers are able to sell goods in an economy.

Profit warning: When a company issues a statement indicating that its profits will not be as high as it had expected. Also profits warning.

Quantitative easing: Central banks increase the supply of money by "printing" more. In practice, this may mean purchasing government bonds or other categories of assets, using the new money.

Rather than physically printing more notes, the new money is typically issued in the form of a deposit at the central bank.

The idea is to add more money into the system, which depresses the value of the currency, and to push up the value of the assets being bought and to lower longer-term interest rates, which encourages more borrowing and investment. Some economists fear that quantitative easing can lead to very high inflation in the long term.

Rating: The assessment given to debts and borrowers by a ratings agency according to their safety from an investment standpoint - based on their creditworthiness, or the ability of the company or government that is borrowing to repay.

Ratings range from AAA, the safest, down to D, a company that has already defaulted. Ratings of BBB- or higher are considered "investment grade". Below that level, they are considered "speculative grade" or more colloquially as junk.

Rating agency: A company responsible for issuing credit ratings. The major three rating agencies are Moody's, Standard & Poor's and Fitch.

Recapitalisation: To inject fresh equity into a firm or a bank, which can be used to absorb future losses and reduce the risk of insolvency. Typically this will happen via the firm issuing new shares. The cash raised can also be used to repay debts.

In the case of a government recapitalising a bank, it results in the government owning a stake in the bank. In an extreme case, such as Royal Bank of Scotland, it can lead to nationalisation, where the government owns a majority of the bank.

Recession: A period of negative economic growth. In most parts of the world a recession is technically defined as two consecutive quarters of negative growth - when economic output falls. In the United States, a larger number of factors are taken into account, such as job creation and manufacturing activity. However, this means that a US recession can usually only be defined when it is already over.

Repo: A repurchase agreement - a financial transaction in which someone sells something (for example a bond or a share) and at the same time agrees to buy it back again at an agreed price at a later day. The seller is in effect receiving a loan. Repos were heavily used by investment banks such as Lehman Brothers to borrow money prior to the financial crisis.

Repos are also used by speculators for short selling. The speculator can buy a share through a repo and then immediately sell it again. At a later date the speculator hopes to buy the share back from the market at a cheaper price, before selling it back again at the pre-agreed price via the repo.

Reserves: Assets accumulated by a central bank, which typically comprise gold and foreign currency. Reserves are usually accumulated in order to help the central bank defend the value of the currency, particularly when its value is pegged to another foreign currency or to gold.

Reserve currency: A currency that is widely held by foreign central banks around the world in their reserves. The US dollar is the pre-eminent reserve currency, value is pegged to another foreign currency or to gold, but the euro, pound, yen and Swiss franc are also popular.

Retained earnings: Profits not paid out by a company as dividends and held back to be reinvested.

Rights issue: When a public company issues new shares to raise cash. The company might do this for a number or reasons - because it is running short of cash, because it wants to make an expensive investment or because it needs to be recapitalised.

By putting more shares on the market, a company dilutes the value of its existing shares. It is called a "rights" issue, because existing shareholders have the first right to buy the new shares, thereby avoiding dilution of their existing shares.

Ring-fence: A recommendation of the UK's Independent Commission on Banking. Services provided by the banks that are deemed essential to the UK economy - such as customer accounts, payment transfers, lending to small and medium businesses - should be separated out from the banks other, riskier activities.

They would be placed in a separate subsidiary company in the bank, and provided with its own separate capital to absorb any losses. The ring-fenced business would also be banned from lending to or in other ways exposing itself to the risks of the rest of the bank - in particular its investment banking activities.

Securities lending: When one broker or dealer lends a security (such as a bond or a share) to another for a fee. This is the process that allows short selling.

Securitisation: Turning something into a security. For example, taking the debt from a number of mortgages and combining them to make a financial product, which can then be traded (see mortgage backed securities). Investors who buy these securities receive income when the original home-buyers make their mortgage payments.

Security: A contract that can be assigned a value and traded. It could be a share, a bond or a mortgage-backed security.

Separately, the term "security" is also used to mean something that is pledged by a borrower when taking out a loan. For example, mortgages in the UK are usually secured on the borrower's home.
This means that if the borrower cannot repay, the lender can seize the security - the home - and sell it in order to help repay the outstanding debt.

Shadow banking: A global financial system - including investment banks, securitisation, SPVs, CDOs and monoline insurers - that provides a similar borrowing-and-lending function to banks, but is not regulated like banks. Prior to the financial crisis, the shadow banking system had grown to play as big a role as the banks in providing loans. However, much of shadow banking system collapsed during the credit crunch that began in 2007, and in the 2008 financial crisis.

Short selling: A technique used by investors who think the price of an asset, such as shares or oil contracts, will fall. They borrow the asset from another investor and then sell it in the relevant market. The aim is to buy back the asset at a lower price and return it to its owner, pocketing the difference. Also known as shorting.

Spread (yield): The difference in the yield of two different bonds of approximately the same maturity, usually in the same currency. The spread is used as a measure of the market's perception of the difference in creditworthiness of two borrowers.

Stagflation: The dreaded combination of inflation and stagnation - an economy that is not growing while prices continue to rise. Most major western economies experienced stagflation during the 1970s.

Sticky prices: A phenomenon observed by Depression-era economist John Maynard Keynes. Workers typically strongly resist falling wages, even if other prices - and therefore the cost of living - is falling. This can mean that, particularly during deflation, wages can become uncompetitive, leading to higher unemployment. The implication is that periods of deflation usually go hand-in-hand with very high unemployment.

Many economists warn that this may be the fate of Greece and other struggling economies within the Eurozone.

Stimulus: Monetary policy or fiscal policy aimed at encouraging higher growth and/or inflation. This can include interest rate cuts, quantitative easing, tax cuts and spending increases.

Sub-prime mortgages: These carry a higher risk to the lender (and therefore tend to be at higher interest rates) because they are offered to people who have had financial problems or who have low or unpredictable incomes.

Swap: A derivative that involves an exchange of cash flows between two parties. For example, a bank may swap out of a fixed long-term interest rate into a variable short-term interest rate, or a company may swap a flow of income out of a foreign currency into their own currency.

Toxic debts: are debts that are very unlikely to be recovered from borrowers. Most lenders expect that some customers cannot repay; toxic debt describes a whole package of loans that are unlikely to be repaid.

During the financial crisis, toxic debts were very hard to value or to sell, as the markets for them ceased to function. This greatly increased uncertainty about the financial health of the banks that owned much of these debts.

Underwriters: The financial institution pledging to purchase a certain number of newly-issued securities if they are not all bought by investors. The underwriter is typically an investment bank who arranges the new issue. The need for an underwriter can arise when a company makes a rights issue or a bond issue.

Unwind: To unwind a deal is to reverse it -to sell something that you have previously bought, or vice versa, or to cancel a derivative contract for an agreed payment. When administrators are called in to a bank, they must do the unwinding before creditors can get any money back.

Volatility: A statistical measure of the dispersion of returns for a given security or market index. It can either be measured by using the standard deviation or variance between returns from that same security or market index. Commonly, the higher the volatility, the riskier the security.

Warrants: A document entitling the bearer to receive shares, usually at a stated price.

Working capital: A measure of a company's ability to make payments falling due in the next 12 months. It is calculated as the difference between the company's current assets (unsold inventories plus any cash expected to be received over the coming year) minus its current liabilities (what the company owes over the same period). A healthy company should have a positive working capital.

A company with negative working capital can experience cash flow problems.

World Bank: Set up after World War II along with the IMF, the World Bank is mainly involved in financing development projects aimed at reducing world poverty. The World Bank is traditionally headed by an American, while the IMF is headed by a European. Like the IMF and OECD, the World Bank produces economic data and research, and comments on global economic policy.

Wraps: Wraps and fund supermarkets are very similar. Generally, fund supermarkets offer access to a wide variety of unit trusts and open ended investment companies (OEICS). Wraps offer access to a greater variety of products and usually support advisers that want to agree their own remuneration with clients.

Write-down: Reducing the book value of an asset, either to reflect a fall in its market value (see mark-to-market) or due to an impairment charge.

Yield: The return to an investor from buying a bond implied by the bond's current market price. Also indicates the current cost of borrowing in the market for the bond issuer. As a bond's market price falls, its yield goes up, and vice versa. Yields can increase for a number of reasons. Yields for all bonds in a particular currency will rise if markets think that the central bank in that currency will raise short-term interest rates due to stronger growth or higher inflation. Yields for a particular borrower's bonds will rise if markets think there is a greater risk that the borrower will default.