

Annexes

Glossary of stock market terms

All Share Index (ALSI)

An index designed to reflect the movement of the equity market.

Arbitrage

Buying and selling the same security on different markets and at different prices.

Ask price

The price at which a trader is willing to sell a security.

Available securities

Securities available for carrying out transactions which includes securities which have been purchased but not settled to client account.

Bear market

When a market as a whole is on a downward trend of falling prices.

Bid price

The price a trader is willing to pay for a given share.

BiS DvP model 2

A mechanism where transfer of securities from seller to buyer occurs on a trade by trade basis but transfer of cash from buyer to seller occurs on a net basis.

Blue chip stocks

Stocks of large leading industry companies which have a stable record of dividend payments and have a reputation of sound fiscal management.

Borrowing agent

A custody member appointed by borrower for conducting transactions.

Bull market

When a market as a whole is on a prolonged period of increasing prices.

Cash prefunding requirement

A trading system where the buyer of a security has to deposit cash in advance of the trade.

Central Securities Depository (CSD)

A specialist financial institution holding securities either in certificated or uncertificated form, so that ownership can be transferred through a book entry rather than physical transfer of certificates.

Clearing

All activities pertaining to a security being traded from the moment a commitment is made regarding a transaction to the moment it is settled.

Closing Price – Volume weighted average method

The VWAP is an average calculated by taking the value of all trades in the last 15 minutes before the market close divided by the total traded shares of the company. If no trades occurred during the last 15 minutes the closing price will be the last normal price (trades above SAR 15,000) before the last 15 minutes.

Closing price-Auction method

In this method the closing price is set by an auction that takes place until 10 minutes after the close of normal trading. An equilibrium price is set during the closing auction on normal trades (trades over SAR 15,000). If there are no normal trades during auction the closing auction becomes the last traded price. If there are no trades during the day, the closing price becomes the previous day's closing price.

Custodian

A financial institution that holds customers securities for safeguarding to minimize the risk of their theft or loss. It can also be a clearing member for banks, corporations, foreign investors and institutional investors. They clear the trade by ensuring pay-in/pay-out of securities.

Depository system

IT system used by stock markets to facilitation of clearing, settlement, safekeeping and registry functions.

Derivative

A security or financial instrument whose value is determined by an underlying asset.

DvP

A settlement mechanism that links a securities transfer and a funds transfer in such a way that transfer occurs only if the payment occurs.

Exchange member

A member of an exchange providing trading services for investors.

Exchange Traded Funds (ETF)

A fund made up of a portfolio of shares that reflect the composition of an index. The fund is listed on a recognized exchange and trades like a normal security.

Exchange Traded Products (ETPs)

Securities that are traded on a stock exchange, the value of which is derived from underlying instruments like commodities, currencies, share prices or interest rates.

Execution broker

An exchange member providing trading services in deposited securities, custody services for which are provided by an independent custody member.

Failed trade

This occurs when a seller does not deliver securities or a buyer does not make payment by the settlement date.

Forward contract

This is similar to a futures contract except that it is privately negotiated.

Free float

The proportion of shares of a publicly traded company traded on a stock market.

Futures contract

A contractual agreement, to buy or sell a particular a particular commodity or financial instrument at a predetermined price in the future.

Global Industry Classification Standard (GICS)

A standard classification system for equities developed jointly by Morgan Stanley Capital (MSCI) and Standard and Poor's.

Hedge

A derivative instrument to protect an investment from unfavourable changes in value.

Independent custody member

A custody member providing custody services if trading services are provided by an execution broker.

Index

A simulated portfolio of securities that represents a market or a portion of that market.

Insider trading

Buying or selling a security when having access to non-public information about that security.

Inventory

Securities balance of an investor's account free of pledge and other restrictions.

Lending agent

A custody member appointed by lender for conducting securities borrowing and lending transactions.

Limit order

An order to buy and sell stock at a specified price. This will set the maximum price a client is willing to pay as a buyer and the minimum price he is willing to accept as a seller.

Liquidity

How easily securities can be bought or sold on the market. A security is liquid if there are units available for large transactions to take place without substantial changes in price.

Liquidity risk

The risk that arises from the difficulty in buying or selling a security.

Long fail

When a buyer cannot pay for securities within a specified period.

Maintenance margin

In the context of margin trading this is the minimum amount of equity that should be in the margin account. Equity is the total value of securities minus what has been borrowed from the brokerage firm.

Margin account

This allows a person to borrow money from a broker to purchase securities. The customer will deposit money in the margin account and the broker will loan additional funds and the total could be used to purchase stock. This could be advantageous for the customer if the stock price appreciates. However, if the price declines the broker could require that the customer deposits additional funds within a short period or sell a portion of stock to offset all or a part of the difference between the security's value and maintenance margin.

Market abuse

Securities law violations including insider trading, market manipulation or money laundering.

Market maker

A member firm of an exchange that buys and securities for its own account (principal trades) and for customer accounts (agency trades) and who promotes liquidity in the market.

Member

An individual or corporate body who has the right to trade in securities on an exchange on behalf on investors.

Option

The right (but not the obligation) to buy (a call option) or sell (a put option), a given amount of stock, commodity, currency, index or debt at a specified price (the strike price) during a specified period of time.

Options contract

A financial derivative representing a contract by the option writer to the option holder.

Order placement

If an order is not rejected at pre-order stage it is placed in the order book.

Over-the-Counter (OTC)

A security traded in some context other than a formal exchange, such as a dealer network.

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Par value

The nominal value assigned to a security by the issuer.

Pre-market trading

Trading done before regular trading hours.

Pre-order checks

Checks that an exchange member performs before sending an order to the trading system.

Post-market trading

Trading done after regular trading hours.

Rebalancing

The process of realigning the weightings of a portfolio of assets, by buying and selling, to maintain a desired level of asset allocation. It is often done on a quarterly basis.

Securities Depository Centre (SDC)

An entity that performs registry functions and safekeeping functions, security settlement and cash netting.

Securities Borrowing and Lending (SBL)

A collateralized loan of securities from one party (lender) of transaction to another party (borrower).

Securities pending-in

Securities bought by the investor but not yet settled.

Securities pending-out

Securities sold by the investor but not yet settled.

Settlement failure

This occurs if the exchange member was unable to provide the securities needed.

Settlement member

A Bank nominated by the custody member to facilitate cash settlement for this custody member.

Shareholder register

A list of a company's shareholders updated on an ongoing basis. The register includes each person's name, address and the number of shares owned.

Short selling

The practice of borrowing shares with the idea of returning them later. This is usually done when it is believed that the shares will fall in price, as the borrower could make a profit by selling the shares now and returning at a lower price.

Spread

The difference between the bid and the ask prices of a share; the difference between what a buyer is willing to pay and the seller is willing to sell.

Trade execution

When an order is matched with another order a trade is executed.

Volatility

The price movements of a stock or a market as a whole.