

## Glossary

**Agency model:** Method for executing client orders without taking inventory risks. Dealers running an agency model charge a commission for placing a customer's order with the market and for finding a counterparty willing to take the opposite side of the transaction.

**Algorithmic trading:** Automated trading for which a computer algorithm decides the submission and execution of orders (see also "High-frequency trading").

**Application programming interface (API):** Set of rules and specifications followed by software programmes to communicate with each other, and an interface between different software programmes that facilitates their interaction. Prerequisite for algorithmic trading.

**Bid-ask spread:** Difference between the price a dealer receives for selling a security or currency (ask) and the price a dealer pays for buying a security or currency (bid).

**Broker:** Financial intermediary that matches counterparties to a transaction without being a party to it. A broker can operate electronically (electronic broker) or by telephone (voice broker).

**Broker-dealer:** Financial intermediary whose activities include acting as both broker and dealer in financial markets.

**Buy-side:** Refers to a market participant that acts as a dealer's customer.

**Central counterparty (CCP):** Entity that interposes itself between the two sides of a cleared transaction, becoming the buyer to the seller and the seller to the buyer.

**Centralised limit order book (CLOB):** A trading protocol whereby outstanding offers to buy or sell are stored in a queue and filled in a priority sequence, usually by price and time of entry. Orders to buy at prices higher than the best selling price and orders to sell at prices lower than the best buying price are executed. The use of a CLOB is common for highly standardised securities and small trade sizes.

**Credit default swap (CDS):** Agreement whereby the seller commits to repay a debt obligation (eg bond) underlying the agreement at par in the event of default. To secure this guarantee, a regular premium is paid by the buyer during a specified period.

**Credit derivative:** Derivative for which the redemption value is linked to a specified credit-related event such as a bankruptcy, a credit downgrade, non-payment or default. For example, a lender might use a credit derivative to hedge against the risk of a borrower's default. Common credit derivatives include credit default swaps (CDS), total return swaps and credit spread options.

**Cross-currency basis:** Difference between the implied interest cost of borrowing one currency against another in the currency swap market, and the actual interest rate for borrowing that currency directly in the cash market.

**Currency option:** Contract that gives the holder the right (without imposing the obligation) to buy or sell a currency at an agreed exchange rate during a specified period.

**Currency swap:** Longer-term instrument, typically of more than one year, whereby two parties simultaneously borrow and lend an equivalent amount of funds in two different currencies. At maturity, the borrowed amounts are exchanged back at the initial spot rate; but during the life of the swap, the counterparties periodically exchange interest payments. In a cross-currency basis swap, the reference interest rates are the respective Libor rates plus the basis, such that one party pays (receives) a lower (higher) interest rate than the corresponding Libor rate.

**Dark pool:** Trading platform in which pre-trade transparency is deliberately limited, typically by withholding information about market depth or likely transaction price. Dark pools limit transparency in order to induce liquidity suppliers to offer greater quantities for trade.

**Dealer:** Financial intermediary that stands ready to buy or sell assets with its clients.

**Direct price stream:** Trading not intermediated via a third party whereby a liquidity provider streams prices at which trades can be executed directly with another party.

**Electronic communication network (ECN):** System for the electronic matching of buy and sell orders for financial instruments.

**Electronic direct trading:** Bilateral trade conducted electronically without the involvement of a third party. This includes trades conducted via single-bank trading platforms but also via direct electronic price streams with API connectivity.

**Electronic indirect trading:** Trade executed over an electronic matching system. This could include trades conducted via multi-dealer platforms, ECNs operating on a CLOB or dark pools.

**Electronic market-maker:** Firm that provides prices on electronic trading (e-trading) venues and continuously submits limit orders to buy or to sell, thereby providing liquidity to those traders requiring immediacy via marketable orders. Some electronic market-makers also stream prices on a continuous basis either directly or via electronic platforms.

**E-trading desk:** Trading desk that generates continuous algorithmic price quotes for clients via different types of electronic trading venues and protocols.

**Foreign exchange swap:** Transaction involving the exchange of two currencies on a specific date at a rate agreed at the time of the contract's conclusion (the short leg), and a reverse exchange of the same two currencies at a date further in the future at a rate (generally different from the rate applied to the short leg) agreed at the contract's initiation (the long leg).

**Forward contract or outright forward:** Contract between two parties for the delayed delivery of financial instruments or commodities in which the buyer agrees to purchase and the seller agrees to deliver, at an agreed future date, a specified instrument or commodity at an agreed price or yield. Forward contracts are generally not traded on organised exchanges and their contractual terms are not standardised.

**Forward rate agreement (FRA):** Interest rate forward contract in which the rate to be paid or received on a specific obligation for a set period of time, beginning at some time in the future, is determined at contract initiation.

**Government-sponsored enterprise (GSE):** Term that can be applied to a number of entities and organisations but is usually used to refer to the two federal housing finance agencies in the United States: Fannie Mae (formerly the Federal National Mortgage Association) and Freddie Mac (formerly the Federal Home Loan Mortgage

Corporation). Previously private corporations with public charters, both agencies have been under US government conservatorship since September 2008.

**Gross credit exposure:** Gross market value minus amounts netted with the same counterparty across all risk categories under legally enforceable bilateral netting agreements. Gross credit exposure provides a measure of exposure to counterparty credit risk (before collateral).

**Gross market value:** Sum of the absolute values of all outstanding derivatives contracts with either positive or negative replacement values evaluated at market prices prevailing on the reporting date. The term “gross” indicates that contracts with positive and negative replacement values with the same counterparty are not netted. Nor are the sums of positive and negative contract values within a market risk category (such as foreign exchange, interest rates, equities and commodities) set off against one another. Gross market values provide information about the potential scale of market risk in derivatives transactions and of the associated financial risk transfer taking place. Furthermore, gross market values at current market prices provide a measure of economic significance that is readily comparable across markets and products.

**Hedge fund:** Unregulated investment fund and various types of money managers, including commodity trading advisers (CTAs), that share (a combination of) the following characteristics: often follow a relatively broad range of investment strategies that are not subject to borrowing and leverage restrictions (with many of them therefore using high levels of leverage); often have a different regulatory treatment from that of institutional investors and typically cater to high net worth individuals or institutions; often hold long and short positions in various markets, asset classes and instruments; and frequently use derivatives for position-taking purposes.

**High-frequency trading (HFT):** Algorithmic trading strategy that profits from incremental price movements with frequent, small trades executed in milliseconds for very short investment horizons. HFT is a subset of algorithmic trading.

**Hot potato trading:** The quick passing of currency inventory imbalances (due to an exogenous shift in the demand and supply of currencies) around the inter-dealer market.

**Index CDS product:** Multi-name CDS contract with constituent reference credits and a fixed coupon that is determined by an administrator such as Markit (which administers the CDX and iTraxx indices). Index products include tranches of CDS indices.

**Institutional investor:** Long-term investor such as a mutual fund, a pension fund, an insurance company, a reinsurance company or an endowment fund. Sometimes referred to as real money investors.

**Interest rate option:** Contract that gives the holder the right (without imposing the obligation) to pay or receive an agreed interest rate on a predetermined principal during a specified period.

**Interest rate swap:** Agreement to exchange periodic payments related to interest rates in a given currency. Such payments can be for fixed against floating rates or for floating against floating rates (based on different floating rate indices).

**Internalisation:** Process whereby a dealer seeks to match staggered offsetting client trading flows on its own books instead of immediately trading the associated inventory imbalance in the inter-dealer market.

**Inter-office or Intragroup:** Designates business between affiliates of the same corporate group.

**Latency:** Delay between the transmission of information from a source and the reception of the information at its destination. One specific example is the time that elapses between the placement of an order in an electronic trading system and the execution of that order. The delay can be affected by factors such as geographical distance or bandwidth congestion.

**Latency-driven trading:** Trading strategy that attempts to profit from latency differentials across traders or trading platforms.

**Latency floor:** Minimum latency applied to trades executed at a trading venue.

**London interbank offered rate (Libor):** Benchmark rate for short-term unsecured borrowing among banks. Used as the floating rate for interest rate swaps.

**Liquidity aggregator:** Technology that allows participants to simultaneously obtain streamed prices from several liquidity providers/pools. Computer algorithms allow customisation of the price streams for both the liquidity provider and the receiving counterparty.

**Market-maker:** Financial intermediary that stands ready to buy or sell assets by continuously quoting bid and ask prices that are accessible to other traders or registered participants of a trading platform.

**Multi-bank trading platform:** Electronic trading system that aggregates and distributes quotes from multiple FX dealers.

**Multi-name CDS:** CDS contract that references more than one name – for example, a portfolio or basket of CDS, or a CDS index.

**Net market value:** Similar to gross credit exposure, with the difference that netting is restricted to one type of derivative product instead of all product types. In the OTC derivatives statistics, net market values are reported for CDS only.

**Non-deliverable forward:** Contract for trading the difference between an agreed forward exchange rate and the spot rate at maturity, settled with a single payment for one counterparty's net profit.

**Non-financial sector or customer:** Sectoral classification that refers collectively to non-financial corporations, general government and households.

**Notional amount outstanding:** Gross nominal or notional value of all derivatives contracts concluded and still open on the reporting date.

**Notional value:** Value of assets underlying a derivatives contract at the spot price.

**Novation:** Process in which a bilateral derivatives contract is replaced by two new bilateral contracts between each of the market participants and a CCP.

**Official sector financial institutions:** Sectoral classification that refers collectively to central banks, sovereign wealth funds, international organisations, development banks and other public financial agencies.

**Offshore trading:** Trading of an instrument denominated in a given currency reported by sales desks outside the respective currency area. For instance, US dollar offshore trading is global trading of US dollar instruments minus turnover in US dollar instruments reported by sales desks in the United States. This implies that cross-border trades in which one of the counterparties is located in the respective currency area are excluded from the offshore definition of trading.

**Onshore trading:** Trading of an instrument denominated in a given currency, where at least one counterparty is residing in the respective currency area (ie local counterparty). Trades of local reporting dealers with cross-border counterparties (“onshore-offshore” trades) are included in onshore trading.

**OTC (over-the-counter) market:** Refers to bilateral trading between two counterparties which takes place outside an organised exchange.

**Overnight index swap:** Interest rate swap where the floating leg is tied to an overnight rate index, such as the overnight federal funds rate in the United States and the EONIA rate in the euro zone.

**Pip:** Currency quoting unit equal to 0.0001 for most currency pairs that are displayed to four decimal points. For currency pairs displayed to two decimal points, most notably the USD/JPY pair, a pip is equal to 0.01. Typical currency quoting precision is a fraction (one tenth) of a pip.

**Portfolio compression:** Service that allows for a reduction of gross notional amounts of OTC derivatives contracts while keeping economic exposures unchanged by bilaterally or multilaterally cancelling offsetting trades.

**Prime broker:** Institution (usually a large and highly rated bank) that facilitates trading for its clients (often institutional funds, hedge funds and other proprietary trading firms). Prime brokers enable their clients to conduct trades, subject to credit limits, with a group of predetermined third-party banks in the prime broker’s name.

**Prime of prime:** Situation in which a non-dealer bank has an account with an FX dealer prime broker and extends those prime brokerage services to other market participants, such as FX retail aggregators.

**Principal model:** A mode of trading whereby a dealer commits its balance sheet, thus using its own inventory to meet client orders and to make gains or losses from trades. A dealer will charge a bid-offer spread as compensation for the inventory risk it incurs.

**Principal trading firm (PTF):** A firm that invests, hedges or speculates for its own account. This category may include specialised high-frequency trading firms as well as electronic non-bank market-making firms. Sometimes referred to as proprietary trading firm.

**Reporting dealer:** Bank that is active as a market-maker (by offering to buy or sell contracts) and participates as a reporting institution in the Triennial Central Bank Survey.

**Request for market (RFM):** Request for a quote where the client does not reveal the direction of the desired trade (buy or sell). An RFM is a request to see a two-sided or “market” quote rather than a one-sided quote.

**Request for quote (RFQ):** Request for a price quotation from a trading platform member to another member. Systems for sending RFQs vary according to: whether the direction of the order (buy or sell) is revealed; how many participants and what kind of participants may receive a quote; and whether the quotes are executable or indicative.

**Retail aggregator:** Term used for online broker-dealers who stream quotes from the top FX dealers to retail customers (individuals and smaller institutions) and aggregate their trades.

**Retail-driven transaction:** Transaction with a financial institution that caters to retail investors, including electronic retail-focused trading platforms and margin brokerage

firms. Retail-driven transactions also include reporting dealers' direct transactions with "non-wholesale" investors (ie private individuals) executed online or by other means (eg phone).

**Sales desk:** Unit of a dealer bank responsible for taking client orders and other aspects of client service and relationship banking.

**Trading desk:** Unit of a dealer bank that is responsible for trade execution, once client orders have been received.

**Single-bank trading platform:** Proprietary electronic trading system operated by an FX dealer for the exclusive use of its customers.

**Single-name CDS:** Credit derivatives contract where the reference entity is a single name.

**Spot transaction:** Outright transaction involving the exchange of two currencies at a rate agreed on the date of the contract for value or delivery (cash settlement) in two business days or less.

**Turnover:** Number of transactions within a given time period.

**Voice direct trading:** Trade originated personally by phone, fax, e-mail or other messaging system.

**Voice indirect trading:** Trade agreed by a voice-based method but intermediated by a third party (voice broker).

## Abbreviations

### Currencies

ARS	Argentine peso	LTL	Lithuanian litas
AUD	Australian dollar	LVL	Latvian lats
BGN	Bulgarian lev	MXN	Mexican peso
BHD	Bahraini dinar	MYR	Malaysian ringgit
BRL	Brazilian real	NOK	Norwegian krone
CAD	Canadian dollar	NZD	New Zealand dollar
CHF	Swiss franc	OTH	all other currencies
CLP	Chilean peso	PEN	Peruvian new sol
CNY (RMB)	Chinese yuan (renminbi)	PHP	Philippine peso
COP	Colombian peso	PLN	Polish zloty
CZK	Czech koruna	RON	Romanian leu
DKK	Danish krone	RUB	Russian rouble
EEK	Estonian kroon	SAR	Saudi riyal
EUR	euro	SEK	Swedish krona
GBP	pound sterling	SGD	Singapore dollar
HKD	Hong Kong dollar	SKK	Slovak koruna
HUF	Hungarian forint	THB	Thai baht
IDR	Indonesian rupiah	TRY	Turkish lira
ILS	Israeli new shekel	TWD	New Taiwan dollar
INR	Indian rupee	USD	US dollar
JPY	Japanese yen	ZAR	South African rand
KRW	Korean won		

---

## Countries

AR	Argentina	LT	Lithuania
AU	Australia	LV	Latvia
BG	Bulgaria	MX	Mexico
BH	Bahrain	MY	Malaysia
BR	Brazil	NO	Norway
CA	Canada	NZ	New Zealand
CH	Switzerland	PE	Peru
CL	Chile	PH	Philippines
CN	China	PL	Poland
CO	Colombia	RO	Romania
CZ	Czech Republic	RU	Russia
DK	Denmark	SA	Saudi Arabia
EE	Estonia	SE	Sweden
GB	United Kingdom	SG	Singapore
HK	Hong Kong SAR	SK	Slovakia
HU	Hungary	TH	Thailand
ID	Indonesia	TR	Turkey
IL	Israel	TW	Chinese Taipei
IN	India	US	United States
JP	Japan	ZA	South Africa
KR	Korea		

---