CAPITAL MARKETS

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Bernard J. Foley

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*To my mother Sarah and in memory of my father
James Joseph Foley*

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Preface

This book is primarily written for students but will also prove of interest to anyone who wishes to understand the operation of the world's key capital markets. The intention of the author is to inform and not to intimidate hence the book deliberately addresses a wider audience than those who will become academics or financial analysts. Nevertheless it will provide a useful introduction to undergraduates choosing finance and banking courses as well as those currently engaged on an MBA who do not wish to specialise in finance.

One of the major problems in this area is to find books which offer an adequate mix of theoretical discussion and institutional description. If I have erred toward the latter this reflects the fact that there are a large number of excellent, mainly American, textbooks which can take the reader through the arcane mysteries of Arbitrage Pricing Theory or the Black-Scholes Option Valuation Model. There is no point, except to display a certain academic machismo, in repeating the exercise. The book should therefore be seen as complementary to texts which are more formally concerned with financial analysis.

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Formby

BERNARD FOLEY

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List of Abbreviations

ADR	American Depositary Receipt
AFDB	Association of Futures Dealers and Brokers
AIBD	Association of International Bond Dealers
AITC	Association of Investment Trust Companies
AMEX	American Stock Exchange
APT	Automated Pit Trading
BIS	Bank for International Settlements
CAPM	Capital asset Pricing Model
CATS	Computer Assisted Trading System
CBOE	Chicago Board Options Exchange
CBOT	Chicago Board of Trade
CD	Certificate of Deposit
CFTC	Commodity Futures Trading Commission
CLOB	Central Limit Order Book
CLOSE	Central Limit Order Service
CME	Chicago Mercantile Exchange
DDM	Dividend Discount Model
DOTS	Designated Order Turnaround System
DTI	Department of Trade and Industry
ECD	EuroCertificate of Deposit
ECP	EuroCommercial Paper
ECU	European Currency Unit
EMH	Efficient Markets Hypothesis
FCM	Futures Commission Merchant
FIMBRA	Financial Intermediaries, Managers and Brokers Regulatory Association
FOX	Futures and Options Exchange
FRN	Floating Rate Note
FSA	Financial Services Act
GEMM	Gilt Edged Market Maker
HGSCI	Hoare Govett Smaller Companies Index
ICCH	International Commodities Clearing House
IDB	Inter Dealer Broker
IET	Interest Equalisation Tax

ILGS	Index Linked Government Securities
IMM	International Money Market
IMRO	Investment Managers Regulatory Organisation
INS	Institutional Net Settlement
ISE	International Stock Exchange
JSDA	Japanese Securities Dealers Association
LAUTRO	Life Assurance and Unit Trust Regulatory Organisation
LBO	Leveraged Buy Out
LDE	London Derivatives Market
LIFFE	London International Financial Futures Exchange
LIBOR	London InterBank Offered Rate
LOCH	London Options Clearing House
LME	London Metal Exchange
LTOM	London Traded Options Market
MATIF	Marché à Terme International de France
MOF	Multi Option Facility
NASDAQ	National Association of Securities Dealers Automatic Quotation System
NASDIM	National Association of Securities Dealers and Investment Managers
NIF	Note Issuance Facility
NMS	Normal Market Size (UK usage)
NMS	National Market System (US usage)
NYSE	New York Stock Exchange
OARS	Opening Automated Report Service
OTC	Over the Counter
PSBR	Public Sector Borrowing Requirement
PSDR	Public Sector Debt Repayment
RPI	Retail Price Index
RIE	Recognised Investment Exchange
RUF	Revolving Underwriting Facility
SAEF	SEAQ Automatic Execution Facility
SDR	Special Drawing Rights
SEC	Securities and Exchange Commission
SEAQ	Stock Exchange Automatic Quotation system
SIAC	Securities Industry Automation Corporation
SICAV	Société d'Investissement à Capital Variable
SOES	Small Order Execution Service
SRO	Self Regulatory Organisation
TAURUS	Transfer and Automated Registration of Uncertified Stock
TOPIC	Teletext Output of Price Information by Computer
TSA	The Securities Association
TSE	Tokyo Stock Exchange