U.S. COMMODITY FUTURES TRADING COMMISSION
ENSURING THE INTEGRITY OF THE FUTURES & OPTIONS MARKETS

CFTC GLOSSARY

A GUIDE TO THE LANGUAGE OF THE FUTURES INDUSTRY

The CFTC Glossary is intended to assist the public in understanding some of the specialized words and phrases used in the futures industry since many of these terms are not found in standard reference works. The CFTC Glossary is not inclusive, and if you cannot find the term you are looking for or have any other comments, please let us know.

Definitions are not intended to state or suggest the views of the Commission concerning the legal significance or meaning of any word or term and no definition is intended to state or suggest the Commission's views concerning any trading strategy or economic theory.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Abandon
To elect not to exercise or offset a long **option** position.

Accommodation Trading
Non-competitive trading entered into by a trader, usually to assist another with illegal trades, such as a sale at a below market price intended to create a short-term trading loss for tax purposes that is later reversed.

Accumulator
A contract in which the seller agrees to deliver a specified quantity of a commodity or other asset to the buyer at a pre-determined price on a series of specified accumulation dates over a specified period of time. The contract typically has a "knock-out" price, which, if reached, will trigger the cancellation of all remaining accumulations. Moreover, the amount of the commodity to be delivered may be doubled or otherwise adjusted on those accumulation dates when the price of the asset reaches a specified price different from the knockout price.

Active Fund
A private fund as defined in section 202(a) of the Investment Advisers Act of 1940, that is not a third-party subaccount and that executes 200 or more swaps per month.

Actuals
The physical or cash commodity, as distinguished from a futures contract. See **Cash** and **Spot Commodity**.

Aggregation
The principle under which all futures positions owned or controlled by one trader (or group of traders acting in concert) are combined to determine reporting status and compliance with **speculative position limits**.

Agricultural Commodity
An agricultural commodity is defined in Commission regulation 1.3(zz) as a commodity in one of four categories: (1) the enumerated commodities listed in section 1a of the **Commodity Exchange Act**, including such things as wheat, cotton, corn, the soybean complex, livestock, etc.; (2) a general operational definition that covers: "All other commodities that are, or once were, or are derived from, living organisms, including plant, animal and aquatic life, which are generally fungible, within their respective classes, and are used primarily for human food, shelter, animal feed, or natural fiber;" (3) a catch-all category for commodities that would generally be recognized as agricultural in nature, but which don't fit within the general operational definition: "Tobacco, products of horticulture, and such other commodities used or consumed by animals or humans as the Commission may by rule, regulation, or order designate after notice and opportunity for hearing;" and (4) "Commodity-based indexes based wholly or principally on underlying agricultural commodities."

Agricultural Trade Option
Off-exchange options on agricultural commodities that are transacted directly between commercial market participants for hedging or risk management purposes.

Agricultural Trade Option Merchant
Any person that is in the business of soliciting or entering **option** transactions involving an **enumerated agricultural commodity** that are not conducted or executed on or subject to the rules of an **exchange**.

Allowances
The discounts (premiums) allowed for **grades** or **locations** of a commodity lower (higher) than the **par** (or basis) grade or location specified in the futures contract. See **Differentials**.

American Option
An **option** that can be exercised at any time prior to or on the **expiration** date. See **European**

Option.

Anonymous Bidding
Refers to any market structure in which the identity of the parties placing bids and asks is not disclosed, making it more difficult for one trader to effectively discriminate against another. An **order book** generally uses anonymous bidding.

Approved Delivery Facility
Any bank, stockyard, mill, storehouse, plant, elevator, or other depository that is authorized by an **exchange** for the **delivery** of commodities tendered on futures contracts.

Arbitrage
A strategy involving the simultaneous purchase and sale of identical or equivalent commodity futures contracts or other instruments across two or more markets in order to benefit from a discrepancy in their price relationship. In a theoretical **efficient market**, there is a lack of opportunity for profitable arbitrage. See **Spread**.

Arbitration
A process for settling disputes between parties that is less structured than court proceedings. The **National Futures Association** arbitration program provides a forum for resolving futures-related disputes between NFA members or between NFA members and customers. Other forums for customer complaints include the **American Arbitration Association**.

Artificial Price
A futures price that has been affected by a **manipulation** and is thus higher or lower than it would have been if it reflected the forces of supply and demand.

Asian Option
An **exotic option** whose payoff depends on the average price of the underlying asset during some portion of the life of the **option**.

Ask
The price level of an **offer**, as in bid-ask spread.

Assignable Contract
A contract that allows the holder to convey his rights to a third party. Exchange-traded contracts are not assignable.

Assignment
Designation by a **clearing organization** of an option **writer** who will be required to buy (in the case of a **put**) or sell (in the case of a **call**) the underlying futures contract or security when an option has been **exercised**, especially if it has been exercised early.

Associated Person (AP)
An individual who solicits or accepts (other than in a clerical capacity) orders, **discretionary accounts**, or participation in a **commodity pool**, or supervises any individual so engaged, on behalf of a **futures commission merchant**, an **introducing broker**, a **commodity trading advisor**, a **commodity pool operator**, or an **agricultural trade option merchant**.

At-the-Market
An order to buy or sell a futures contract at whatever price is obtainable when the order reaches the trading facility. See **Market Order**.

At-the-Money
When an option's **strike price** is the same as the current trading price of the underlying commodity, the option is at-the-money.

Audit Trail
The record of trading information identifying, for example, the **brokers** participating in each transaction, the firms **clearing** the trade, the terms and time or sequence of the trade, the order receipt and execution time, and, ultimately, and when applicable, the customers involved.

Automatic Exercise
A provision in an option contract specifying that it will be exercised automatically on the **expiration date** if it is **in-the-money** by a specified amount, absent instructions to the contrary.

A **B** C D E F G H I J K L M N O P Q R S T U V W X Y Z

Back Months
Futures delivery months other than the **spot** or **front month** (also called deferred months).

Back Office
The department in a financial institution that processes and deals and handles **delivery**, **settlement**, and regulatory procedures.

Back pricing
Fixing the price of a commodity for which the commitment to purchase has been made in advance. The buyer can fix the price relative to any monthly or periodic delivery using the futures markets.

Back Spread
A **delta-neutral ratio spread** in which more options are bought than sold. A back spread will be profitable if volatility increases. See **Delta**.

Backwardation
Market situation in which futures prices are progressively lower in the distant delivery months. For instance, if the gold quotation for January is $360.00 per ounce and that for June is $355.00 per ounce, the backwardation for five months against January is $5.00 per ounce. (Backwardation is the opposite of **contango**). See **Inverted Market**.

Banging the Close
See **Marking the Close**.

Banker's Acceptance
A draft or bill of exchange accepted by a bank where the accepting institution guarantees payment. Used extensively in foreign trade transactions.

Basis
The difference between the **spot** or cash price of a commodity and the price of the nearest **futures contract** for the same or a related commodity (typically calculated as cash minus futures). Basis is usually computed in relation to the futures contract next to expire and may reflect different time periods, product forms, **grades**, or **locations**.

Basis Grade
The **grade** of a commodity used as the standard or **par** grade of a futures contract.

Basis Point
The measurement of a change in the yield of a debt security. One basis point equals 1/100 of one percent.

Basis Quote
Offer or sale of a cash commodity in terms of the difference above or below a futures price (e.g., 10 cents over December corn).

Basis Risk
The risk associated with an unexpected widening or narrowing of the **basis** between the time a hedge position is established and the time that it is lifted.

Basis Swap
A **swap** whose cash settlement price is calculated based on the **basis** between a futures contract (e.g., natural gas) and the **spot price** of the underlying commodity or a closely related commodity (e.g., natural gas at a location other than the futures delivery location) on a specified date.

Bear
One who expects a decline in prices. The opposite of a **bull**. A news item is considered bearish if it is expected to result in lower prices.

Bear Market
A market in which prices generally are declining over a period of months or years. Opposite of **bull market**.

Bear Market Rally
A temporary rise in prices during a **bear market**. See **Correction**.

Bear Spread
(1) A strategy involving the simultaneous purchase and sale of **options** of the same **class** and **expiration date**, but different **strike prices**. In a bear spread, the option that is purchased has a lower **delta** than the option that is bought. For example, in a **call** bear spread, the purchased option has a higher **exercise price** than the option that is sold. Also called bear **vertical spread**. (2) The simultaneous purchase and sale of two futures contracts in the same or related commodities with the intention of profiting from a decline in prices but at the same time limiting the potential loss if this expectation does not materialize. In agricultural products, this is accomplished by selling a **nearby delivery** and buying a **deferred delivery**.

Bear Vertical Spread
See **Bear Spread**.

Bermuda Option
An **exotic option** which can be exercised on a specified set of predetermined dates during the life of the option

Bespoke Swap
A highly customized **swap** , usually constructed around the needs of a sophisticated customer with specialized risk exposure.

Beta (Beta Coefficient)
A measure of the variability of rate of return or value of a stock or portfolio compared to that of the overall market, typically used as a measure of riskiness.

Bid
An offer to buy a specific quantity of a commodity at a stated price.

Bid-Ask Spread or Bid-Offer Spread
The difference between the **bid** price and the ask or **offer** price..

Binary Option
Futures delivery months other than the **spot** or **front month** (also called deferred months).

Black-Scholes Model
An **option pricing model** initially developed by Fischer Black and Myron Scholes for securities options and later refined by Black for options on futures.

Blind Auction
A blind auction, also called a sealed bid auction, is a market structure in which the traders place offers to buy or sell without seeing current **bids** and **offers**, as opposed to an **order book** format where standing bid and offer prices are continuously visible to all market participants.

Block Trade
(1) A large transaction that is negotiated off an exchange's centralized trading facility and then executed on the trading facility, as permitted under exchange rules. (2) A large notional **swap** transaction that is exempt from **real-time reporting** requirements but must be reported to swap data repositories on a delayed basis.

Board of Trade
Any organized exchange or other trading facility for the trading of **futures**, **swap** and/or **option** contracts. See **7 USC 1a(6)**.

Boiler Room
An enterprise that often is operated out of inexpensive, low-rent quarters (hence the term 'boiler room'), that uses high pressure sales tactics (generally over the telephone), and possibly false or misleading information to solicit generally unsophisticated investors.

Bona Fide Hedging Transactions
Transactions on a **designated contract market** or **swap execution facility** that serve as a substitute for transactions in physical marketing channel and reduce actual risks that a business would otherwise face (without the bona fide hedging transaction) related to the change in value of assets, liabilities, and services.

Book Transfer
A series of accounting or bookkeeping entries used to settle a series of **cash market** transactions.

Booking the Basis
A forward pricing sales arrangement in which the cash price is determined either by the buyer or seller within a specified time. At that time, the previously-agreed **basis** is applied to the then-current futures quotation.

Box Spread
An option position in which the owner establishes a **long call** and a **short put** at one **strike price** and a short call and a long put at another strike price, all of which are in the same **contract month** in the same commodity.

Break
A rapid and sharp price decline.

Broad-Based Security Index
Any index of securities that does not meet the legal definition of **narrow-based security index**.

Broker
A person paid a fee or commission for executing buy or sell orders for a customer. In commodity futures trading, the term may refer to: (1) **Floor broker**, a person who actually executes orders on the trading floor of an exchange; (2) Account executive or **associated person**, the person who deals with customers in the offices of futures commission merchants; or (3) the **futures commission merchant**.

Broker Association
Two or more persons with exchange trading privileges who (1) share responsibility for executing

customer orders; (2) have access to each other's unfilled customer orders as a result of common employment or other types of relationships; or (3) share profits or losses associated with their brokerage or trading activity.

Bucket Shop
A brokerage enterprise that 'books' (i.e., takes the opposite side of) **retail customer** orders without actually having them executed on an exchange.

Bucketing
Directly or indirectly taking the opposite side of a customer's order into a **broker's** own account or into an account in which a broker has an interest, without open and competitive execution of the order on an **exchange**. Also called trading against .

Bull
One who expects a rise in prices. The opposite of **bear**. A news item is considered bullish if it is expected to result in higher prices.

Bull Market
A market in which prices generally are rising over a period of months or years. Opposite of **bear market**.

Bull Spread
(1) A strategy involving the simultaneous purchase and sale of options of the same **class** and **expiration date** but different **strike prices**. In a bull **vertical spread**, the purchased option has a higher **delta** than the option that is sold. For example, in a **call** bull spread, the purchased option has a lower **exercise price** than the sold option. Also called bull vertical spread . (2) The simultaneous purchase and sale of two futures contracts in the same or related commodities with the intention of profiting from a rise in prices but at the same time limiting the potential loss if this expectation is wrong. In agricultural commodities, this is accomplished by buying the **nearby delivery** and selling the **deferred**.

Bull Vertical Spread
See **Bull Spread**.

Bullion
Bars or ingots of precious metals, usually cast in standardized sizes.

Bunched Order
A discretionary order entered on behalf of multiple customers.

Bust
An executed trade cancelled by an exchange that is considered to have been executed in error.

Butterfly Spread
A three-legged option spread in which each leg has the same **expiration date** but different **strike prices**. For example, a butterfly spread in soybean call options might consist of one long call at a $5.50 strike price, two short calls at a $6.00 strike price, and one long call at a $6.50 strike price.

Buy (or Sell) On Close
To buy (or sell) at the end of the trading session within the **closing price range**.

Buy (or Sell) On Opening
To buy (or sell) at the beginning of a trading session within the **opening price range**.

Buyer
A market participant who takes a long futures position or buys an option. An option buyer is also called a taker, holder, or owner.

Buyer's Call
A purchase of a specified quantity of a specific **grade** of a commodity at a fixed number of points above or below a specified **delivery month** futures price with the buyer allowed a period of time to fix the price either by purchasing a futures contract for the account of the seller or telling the seller when he wishes to fix the price. See **Seller's Call**.

Buyer's Market
A condition of the market in which there is an abundance of goods available and hence buyers can afford to be selective and may be able to buy at less than the price that previously prevailed. See **Seller's Market**.

Buying Hedge (or Long Hedge)
Hedging transaction in which futures contracts are bought to protect against possible increases in the cost of commodities. See **Hedger**.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

C & F
'Cost and Freight' paid to a point of destination and included in the price quoted; same as C.A.F.

C.I.F
Cost, insurance, and freight paid to a point of destination and included in the price quoted.

Calendar Spread
(1) The purchase of one **delivery month** of a given futures contract and simultaneous sale of a different delivery month of the same futures contract; (2) the purchase of a **put** or **call** option and the simultaneous sale of the same type of option with typically the same **strike price** but a different **expiration date**. Also called a horizontal spread or time spread.

Call
(1) An **option** contract that gives the buyer the right but not the obligation to purchase a commodity or other asset or to enter into a **long** futures position at a specified price on or prior to a specified **expiration date**; (2) formerly, a period at the **opening** and the **close** of some futures markets in which the price for each futures contract was established by auction; or (3) the requirement that a financial instrument such as a bond be returned to the issuer prior to maturity, with principal and accrued interest paid off upon return. See **Buyer's Call**, **Seller's Call.**

Call Auction
An auction in which the traders place limit bids and offers over a specified time period and those orders are subsequently matched, as opposed to an order book format where standing bid and offer prices are continuously available to all market participants.

Called
Another term for exercised when an option is a **call**. In the case of an option on a physical, the writer of a call must deliver the indicated underlying commodity when the option is exercised or called. In the case of an option on a futures contract, a futures position will be created that will require margin, unless the writer of the call has an offsetting position.

Capping
Effecting transactions in an **instrument** underlying an option shortly before the option's **expiration date** to depress or prevent a rise in the price of the instrument so that previously written call options will expire worthless, thus protecting **premiums** previously received. See **Pegging.**

Carry Trade
A trade where one borrows a currency or commoidity commodity or currency with a low **cost of carry** and lends a similar instrument with a high cost of carry in order to profit from the differential.

Carrying Broker
An exchange member firm, usually a **futures commission merchant**, through whom another **broker** or customer elects to clear all or part of its trades.

Carrying Charges
Also called Cost of Carry. Cost of storing a physical commodity or holding a financial instrument over a period of time. These charges include insurance, storage, and interest on the deposited funds, as well as other incidental costs. It is a carrying charge market when there are higher futures prices for each successive contract maturity. If the carrying charge is adequate to reimburse the holder, it is called a 'full charge'. See **Negative Carry, Positive Carry,** and **Contango.**

Cascade
A situation in which the execution of market orders or **stop loss orders** on an electronic trading system triggers other stop loss orders which may, in turn, trigger still more stop loss orders. This may lead to a very large price move if there are no safety mechanisms to prevent cascading.

Cash Commodity
The physical or actual commodity as distinguished from the **futures** contract, sometimes called **spot commodity** or **actuals.**

Cash Forward Sale
See **Forward Contract.**

Cash Market
The market for the cash commodity (as contrasted to a **futures** contract) taking the form of: (1) an organized, self-regulated central market (e.g., a commodity **exchange**); (2) a decentralized **over-the-counter** market; or (3) a local organization, such as a grain elevator or meat processor, which provides a market for a small region.

Cash Price
The price in the marketplace for actual cash or spot commodities to be delivered via customary market channels.

Cash Settlement

A method of settling **futures**, **options** and other derivatives whereby the seller (or **short**) pays the buyer (or **long**) the cash value of the underlying commodity or a cash amount based on the level of an index or price according to a procedure specified in the contract. Also called **Financial Settlement**. Compare to **Physical Delivery**.

CCC
See **Commodity Credit Corporation.**

CEA
Commodity Exchange Act or **Commodity Exchange Authority.**

Central Limit Order Book (CLOB)
A single order book covering an entire market that accepts **limit orders**. In general, the term is synonymous with **order book**.

Centralized Counterparty (CCP)
A **clearing organization.**

Certificate of Deposit (CD)
A time deposit with a specific maturity traditionally evidenced by a certificate. Large denomination CDs are typically negotiable.

Certificated or Certified Stocks
Stocks of a commodity that have been inspected and found to be of a quality deliverable against futures contracts, stored at the **delivery points** designated as regular or acceptable for delivery by an exchange. In grain, called stocks in deliverable position. See **Deliverable Stocks**.

CFO
Cancel Former Order.

CFTC
See **Commodity Futures Trading Commission.**

Changer
Formerly, a **clearing member** of both the Mid-America Commodity Exchange (MidAm) and another futures exchange who, for a fee, would assume the opposite side of a transaction on MidAm by taking a spread position between MidAm and the other futures exchange that traded an identical, but larger, contract. Through this service, the changer provided liquidity for MidAm and an economical mechanism for **arbitrage** between the two markets. MidAm was a subsidiary of the Chicago Board of Trade (CBOT). MidAm was closed by the CBOT in 2003 after MidAm contracts were delisted on MidAm and relisted on the CBOT as **Mini contracts**. The CBOT continued to use changers for former MidAm contracts traded on an **open outcry platform**.

Charting
The use of graphs and charts in the **technical analysis** of futures markets to plot trends of price movements, average movements of price, volume of trading, and **open interest**.

Chartist
Technical trader who reacts to signals derived from graphs of price movements.

Cheapest-to-Deliver
Usually refers to the selection of a class of bonds or notes deliverable against an expiring bond or note futures contract. The bond or note that has the highest **implied repo rate** is considered cheapest to deliver.

Chooser Option
An **exotic option** that is transacted in the present, but that at some specified future date is chosen to be either a **put** or a **call option**.

Churning
Excessive trading of a **discretionary account** by a person with control over the account for the purpose of generating commissions while disregarding the interests of the customer.

Circuit Breakers
A system of coordinated trading halts and/or price limits on equity markets and equity derivative markets designed to provide a cooling-off period during large, intraday market declines. The first known use of the term circuit breaker in this context was in the Report of the Presidential Task Force on Market Mechanisms (January 1988), which recommended that circuit breakers be adopted following the market **break** of October 1987.

Class (of options)
Options of the same type (i.e., either **puts** or **calls**, but not both) covering the same underlying futures contract or other asset (e.g., a March call with a strike price of 62 and a May call with a strike price of 58).

Clearing
The procedure through which the **clearing organization** becomes the buyer to each seller of a futures contract or other derivative, and the seller to each buyer for **clearing members**.

Clearing Association
See **Clearing Organization.**

Clearing House
See **Clearing Organization.**

Clearing Mandate
The requirement in the **Dodd-Frank Act** that certain swap transactions be cleared through a **derivatives clearing organization** unless the transaction is subject to the **end-user exception**.

Clearing Member
A member of a **clearing organization**. All trades of a non-clearing member must be processed and eventually **settled** through a clearing member.

Clearing Organization
An entity through which futures and other derivative transactions are **cleared** and **settled**. It is also charged with assuring the proper conduct of each contract's **delivery** procedures and the adequate financing of trading. A clearing organization may be a division of a particular **exchange**, an adjunct or affiliate thereof, or a freestanding entity. Also called a clearing house, multilateral clearing organization, centralized counterparty, or clearing association. A clearing organization that is registered with the CFTC is known as a **Derivatives Clearing Organization**. See **Centralized Counterparty**.

Clearing Price
See **Settlement Price.**

Close or Closing Period
The exchange-designated period at the end of the trading session during which all transactions are considered made at the close. See **Call.**

Closing Price (or Range)
The price (or price range) recorded during trading that takes place in the final period of a trading session's activity that is officially designated as the **'close'**.

Closing-Out
Liquidating an existing **long** or **short futures** or **option** position with an equal and opposite transaction. Also known as **Offset.**

Co-Location
The placement of servers used by market participants in close physical proximity to an **electronic trading facility's** matching engine in order to facilitate high-frequency trading.

Combination
Puts and **calls** held either long or short with different **strike prices** and/or expirations. Types of combinations include **straddles** and **strangles**.

Commercial
An entity involved in the production, processing, or merchandising of a **commodity**.

Commercial Grain Stocks
Domestic grain in store in public and private elevators at important markets and grain afloat in vessels or barges in lake and seaboard ports.

Commercial paper
Short-term promissory notes issued in bearer form by large corporations, with maturities ranging from 5 to 270 days. Since the notes are unsecured, the commercial paper market generally is dominated by large corporations with impeccable **credit ratings**.

Commission
(1) The charge made by a **futures commission merchant** for buying and selling **futures contracts**; or (2) the fee charged by a futures **broker** for the execution of an order. Note: when capitalized, the word Commission usually refers to the **CFTC**.

Commitments
See **Open Interest**.

Commitments of Traders Report (COT)
A weekly report from the **CFTC** providing a breakdown of each Tuesday's **open interest** for markets in which 20 or more traders hold positions equal to or above the **reporting levels** established by the CFTC. Open interest is broken down by aggregate **commercial**, non-commercial, and non-reportable holdings.

Commodity

(1) A commodity, as defined in the **Commodity Exchange Act**, includes the agricultural commodities enumerated in Section 1a(9) of the Commodity Exchange Act, 7 USC 1a(9), and all other goods and articles, except onions as provided in Public Law 85-839 (7 USC 13-1), a 1958 law that banned futures trading in onions, and all services, rights, and interests in which contracts for future delivery are presently or in the future dealt in; (2) A physical commodity such as an agricultural product or a natural resource as opposed to a financial instrument such as a currency or interest rate. See **7 USC 1a(9)**

Commodity Credit Corporation

Commodity Credit Corporation: A government-owned corporation established in 1933 to assist American agriculture. Major operations include price support programs, foreign sales, and export credit programs for agricultural commodities.

Commodity Exchange Act (CEA)

The Commodity Exchange Act, 7 USC 1, et seq., provides for the federal regulation of commodity futures and options trading and was enacted in 1936.

Commodity Exchange Authority

A regulatory agency of the U.S. Department of Agriculture established to regulate futures trading under the **Commodity Exchange Act** between 1936 and 1975. The Commodity Exchange Authority was the predecessor of the **Commodity Futures Trading Commission**. Before World War II, this agency was known as the Commodity Exchange Administration. Between 1922 and 1936, the Grain Futures Administration regulated grain futures trading under the Grain Futures Act.

Commodity Exchange Commission (CEC)

The Commodity Exchange Commission was the successor commission to the Grain Futures Commission, which was created by the Grain Futures Act, enacted on September 21, 1922. The Commodity Exchange Commission, like its predecessor, consisted of the Secretary of Agriculture, Secretary of Commerce, and the Attorney General. The Commodity Exchange Act granted the Commodity Exchange Commission the authority to establish Federal speculative position limits, but not the authority to require exchanges to set their own speculative position limits.

Commodity Futures Trading Commission

CFTC: The Federal regulatory agency established by the Commodity Futures Trading Act of 1974 to administer the **Commodity Exchange Act**.

Commodity Index

An index of a specified set of (physical) commodity prices or commodity **futures** prices.

Commodity Index Fund

An investment fund that enters into **futures** or commodity swap positions for the purpose of replicating the return of an index of commodity prices or commodity futures prices.

Commodity Index Swap

A swap whose cash flows are intended to replicate a commodity index.

Commodity Index Trader

An entity that conducts futures trades on behalf of a **commodity index fund** or to **hedge commodity index swap** positions.

Commodity Option

An **option** on a commodity or a **futures contract**.

Commodity Pool

An investment trust, syndicate, or similar form of enterprise operated for the purpose of trading commodity **futures** or **option** contracts. Typically thought of as an enterprise engaged in the business of investing the collective or “pooled” funds of multiple participants in trading commodity futures or options, where participants share in profits and losses on a pro rata basis. See **7 USC 1a(10)**.

Commodity Pool Operator (CPO)

A person engaged in a business similar to an investment trust or a syndicate and who solicits or accepts funds, securities, or property for the purpose of trading commodity **futures** contracts or commodity **options**. The commodity pool operator either itself makes trading decisions on behalf of the pool or engages a **commodity trading advisor** to do so. Managers at **hedge funds** or their advisors are often registered with the CFTC as CPOs or CTAs. See **7 USC 1a(11)**.

Commodity Trading Advisor (CTA)

A person who, for pay, regularly engages in the business of advising others as to the value of **commodity futures** or **options** or the advisability of trading in commodity futures or options, or issues analyses or reports concerning commodity futures or options. Managers at **hedge funds** or their advisors are often registered with the CFTC as CPOs or CTAs. See **7 USC 1a(12)**

Commodity-Linked Bond
A bond in which payment to the investor is dependent to a certain extent on the price level of a commodity, such as crude oil, gold, or silver, at **maturity**.

Confirmation Statement
A statement sent by a **futures commission merchant** to a customer when a futures or options position has been initiated which typically shows the price and the number of contracts bought and sold. See **P&S (Purchase and Sale Statement)**.

Congestion
(1) A market situation in which **shorts** attempting to cover their positions are unable to find an adequate supply of contracts provided by **longs** willing to liquidate or by new sellers willing to enter the market, except at sharply higher prices (see **Squeeze**, **Corner**); (2) in **technical analysis**, a period of time characterized by repetitious and limited price fluctuations.

Consignment
A shipment made by a producer or dealer to an agent elsewhere with the understanding that the commodities in question will be cared for or sold at the highest obtainable price. Title to the merchandise shipped on consignment rests with the shipper until the goods are disposed of according to agreement.

Contango
Market situation in which prices in succeeding delivery months are progressively higher than in the **nearest delivery month**; the opposite of contango is **backwardation**.

Contract
(1) A term of reference describing a unit of trading for a commodity **future** or **option** or other **derivative**; (2) an agreement to buy or sell a specified commodity, detailing the amount and **grade** of the product and the date on which the contract will **mature** and become deliverable.

Contract Grades
Those **grades** of a commodity that have been officially approved by an **exchange** as deliverable in **settlement** of a futures contract.

Contract Month
See **Delivery Month**.

Contract Size
The actual amount of a commodity represented in a contract.

Contract Unit
See **Contract Size**.

Controlled Account
An account for which trading is directed by someone other than the owner. Also called a **Managed Account** or a **Discretionary Account**.

Convergence
The tendency for prices of **physicals** and **futures** to approach one another, usually during the delivery month. Also called a 'narrowing of the **basis**.'

Conversion
A position created by selling a **call** option, buying a **put** option, and buying the underlying instrument (for example, a futures contract), where the options have the same **strike price** and the same **expiration**. See **Reverse Conversion**.

Conversion Factors
Numbers published by a futures **exchange** to determine **invoice prices** for debt instruments deliverable against bond or note futures contracts. A separate conversion factor is published for each deliverable instrument. Invoice price = Contract Size X Futures Settlement Price X Conversion Factor + Accrued Interest.

Core Principle
A provision of the Commodity Exchange Act with which a registered entity such as a **designated contract market**, **swap execution facility**, **swap data repository**, or **derivatives clearing organization** must comply on an ongoing basis. There are 23 core principles for designated contract markets, 15 core principles for swap execution facilities, 4 core principles for swap data repositories, and 18 core principles for derivatives clearing organizations.

Corn-Hog Ratio
See **Feed Ratio**.

Corner
(1) Securing such relative control of a commodity that its price can be **manipulated**, that is, can be

controlled by the creator of the corner; or (2) in the extreme situation, obtaining contracts requiring the delivery of more commodities than are available for delivery. See **Squeeze**, **Congestion**.

Correction

A temporary decline in prices during a **bull market** that partially reverses the previous rally. See **Bear Market Rally**.

Cost of Carry

See **Carrying Charges.**

Cost of Tender

Total of various charges incurred when a commodity is **certified** and **delivered** on a futures contract.

COT

See **Commitments of Traders Report**.

Counter-Trend Trading

In **technical analysis**, the method by which a trader takes a position contrary to the current market direction in anticipation of a change in that direction.

Counterparty

The opposite party in a bilateral agreement, contract, or transaction, such as a **swap**. In the retail **foreign exchange** (or Forex) context, the party to which a retail customer sends its funds; lawfully, the party must be one of those listed in Section 2(c)(2)(B)(ii)(I)-(VI) of the **Commodity Exchange Act**.

Counterparty Risk

The risk associated with the financial stability of the party with whom one has entered into contract. **Forward contracts** impose upon each party the risk that the counterparty will default, but **futures contracts** executed on a designated **contract market** are guaranteed against default by the **clearing organization**.

Coupon (Coupon Rate)

A fixed dollar amount of interest payable per annum, stated as a percentage of principal value, usually payable in semiannual installments.

Cover

(1) Purchasing futures to offset a **short** position (same as Short Covering); see **Offset, Liquidation**; (2) to have in hand the physical commodity when a short futures sale is made, or to acquire the commodity that might be deliverable on a **short sale**.

Covered Option

A **short call** or **put option** position that is covered by the sale or purchase of the underlying futures contract or other underlying instrument. For example, in the case of options on futures contracts, a covered call is a short call position combined with a long futures position. A covered put is a short put position combined with a short futures position.

Cox-Ross-Rubinstein Option Pricing Model

An **option pricing model** developed by John Cox, Stephen Ross, and Mark Rubinstein that can be adopted to include effects not included in the **Black-Scholes Model** (e.g., early exercise and price supports).

CPO

See **Commodity Pool Operator**.

Crack Spread

(1) In energy futures, the simultaneous purchase of crude oil futures and the sale of petroleum product futures to establish a refining margin. One can trade a gasoline crack spread, a heating oil crack spread, or a 3-2-1 crack spread which consists of three crude oil futures contracts spread against two gasoline futures contracts and one heating oil futures contract. The 3-2-1 crack spread is designed to approximate the typical ratio of gasoline and heating oil that results from refining a barrel of crude oil. See **Gross Processing Margin**. (2) Calculation showing the theoretical market value of petroleum products that could be obtained from a barrel of crude after the oil is refined or cracked. This does not necessarily represent the refining margin because a barrel of crude yields varying amounts of petroleum products.

Credit Default Option

A **put option** that makes a payoff in the event the issuer of a specified **reference asset** defaults. Also called **default option**.

Credit Default Swap

A bilateral **over-the-counter** (OTC) contract in which the seller agrees to make a payment to the buyer in the event of a specified **credit event** in exchange for a fixed payment or series of fixed payments; the most common type of **credit derivative**; also called a credit **swap**; similar to **credit default option**.

Credit Derivative
A **derivative** contract designed to assume or shift credit risk, that is, the risk of a **credit event** such as a default or bankruptcy of a borrower. For example, a lender might use a credit derivative to hedge the risk that a borrower might default or have its **credit rating** downgraded. Common credit derivatives include **credit default swaps**, **credit default options**, **credit spread options**, and **total return swaps**.

Credit Event
An event such as a debt default or bankruptcy that will affect the payoff on a **credit derivative**, as defined in the derivative agreement.

Credit Rating
A rating determined by a rating agency that indicates the agency's opinion of the likelihood that a borrower such as a corporation or sovereign nation will be able to repay its debt. The rating agencies include Standard & Poor's, Fitch, and Moody's.

Credit Spread
The difference between the yield on the debt securities of a particular corporate or sovereign borrower (or a class of borrowers with a specified **credit rating**) and the yield of similar maturity **Treasury bills**, **notes**, or **bonds**.

Credit Spread Option
An **option** whose payoff is based on the **credit spread** between the debt of a particular borrower and similar maturity **Treasury bills**, **notes**, or **bonds**.

Credit Swap
See **Credit Default Swap**.

Crop Year
The time period from one harvest to the next, varying according to the commodity (e.g., July 1 to June 30 for wheat; September 1 to August 31 for soybeans).

Cross Rate
In **foreign exchange**, the price of one currency in terms of another currency in the market of a third country. For example, the exchange rate between Japanese yen and Euros would be considered a cross rate in the U.S. market.

Cross Trading
Offsetting or noncompetitive match of the buy order of one customer against the sell order of another, a practice that is permissible only when executed in accordance with the **Commodity Exchange Act**, CFTC rules, and rules of the exchange.

Cross-Hedge
Hedging a **cash market** position in a **futures** or **option** contract for a different but price-related commodity.

Cross-Margining
A procedure for **margining** related securities, **options**, and **futures** contracts jointly when different **clearing organizations** clear each side of the position.

Crush Spread
In the soybean futures market, the simultaneous purchase of soybean futures and the sale of soybean meal and soybean oil futures to establish a processing margin. See **Gross Processing Margin**, **Reverse Crush Spread**.

CTA
See **Commodity Trading Advisor**.

CTI (Customer Type Indicator) Codes
These consist of four identifiers that describe transactions by the type of customer for which a trade is effected. The four codes are: (1) trading by a person who holds trading privileges for his or her own account or an account for which the person has discretion; (2) trading for a **clearing member's proprietary account**; (3) trading for another person who holds trading privileges who is currently present on the **trading floor** or for an account controlled by such other person; and (4) trading for any other type of customer. Transaction data classified by the above codes is included in the trade register report produced by a **clearing organization**.

Curb Trading
Trading by telephone or by other means that takes place after the official market has closed and that originally took place in the street on the curb outside the market. Under the **Commodity Exchange Act** and CFTC rules, curb trading is illegal. Also known as **kerb trading**.

Currency Swap
A **swap** that involves the exchange of one currency (e.g., U.S. dollars) for another (e.g., Japanese

yen) on a specified schedule.

Current Delivery Month
See **Spot Month**.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Daily Price Limit
The maximum price advance or decline from the previous day's **settlement price** permitted during one trading session, as fixed by the rules of an **exchange**.

Day Ahead
See **Next Day**.

Day Order
An order that expires automatically at the end of each day's trading session. There may be a day order with time contingency. For example, an 'off at a specific time' order is an order that remains in force until the specified time during the session is reached. At such time, the order is automatically canceled.

Day Trader
A trader, often a person with exchange trading privileges, who takes positions and then **offsets** them during the same trading session prior to the close of trading.

De minimis Threshold
The notional amount of swap positions connected to swap dealing activity below which a person engaged in such activity is not required to register with the CFTC as a swap dealer. In general, the threshold is defined as swap positions with an aggregate gross notional amount of $3 billion over the preceding 12 months ($8 billion during the rules' phase-in period).

Dealer/Merchant (AD)
A large trader that declares itself a “Dealer/Merchant” on CFTC Form 40,which provides as examples “wholesaler, exporter/importer, shipper, grain elevator operator, crude oil marketer.”

Deck
The orders for purchase or sale of futures and option contracts held by a **floor broker**.

Declaration (of Options)
See **Exercise**.

Declaration Date
See **Expiration Date**.

Default
Failure to perform on a futures contract as required by **exchange** rules, such as failure to meet a **margin call**, or to make or take **delivery**.

Default Option
See **Credit Default Option**.

Deferred Futures
See **Back Months**.

Deliverable Grades
See **Contract Grades**.

Deliverable Stocks
Commodities located in exchange-approved storage for which receipts may be used in making **delivery** on futures contracts. In the cotton trade, the term refers to cotton certified for delivery. Also see **Certificated or Certified Stocks**.

Deliverable Supply
The total supply of a commodity that meets the delivery specifications of a futures contract. See **Economically Deliverable Supply**.

Delivery
The tender and receipt of the actual commodity, the cash value of the commodity, or of a delivery instrument covering the commodity (e.g., **warehouse receipts** or **shipping certificates**), used to **settle** a futures contract. See **Notice of Intent to Deliver**, **Delivery Notice**.

Delivery Date
The date on which the commodity or instrument of **delivery** must be delivered to fulfill the terms of a contract.

Delivery Instrument

A document used to effect **delivery** on a futures contract, such as a **warehouse receipt** or **shipping certificate**.

Delivery Month
The specified month within which a futures contract **matures** and can be **settled** by **delivery** or the specified month in which the delivery period begins.

Delivery Notice
The written notice given by the seller of his intention to make **delivery** against an open **short futures** position on a particular date. This notice, delivered through the **clearing organization**, is separate and distinct from the **warehouse receipt** or other instrument that will be used to transfer title. Also called **Notice of Intent to Deliver or Notice of Delivery**.

Delivery Option
A provision of a futures contract that provides the **short** with flexibility in regard to timing, location, quantity, or quality in the **delivery** process.

Delivery Point
A location designated by a commodity **exchange** where stocks of a commodity represented by a **futures** contract may be **delivered** in fulfillment of the contract. Also called **Location**.

Delivery Price
The price fixed by the **clearing organization** at which deliveries on futures are invoiced—generally the price at which the futures contract is **settled** when deliveries are made. Also called **Invoice Price**.

Delivery, Current
Deliveries being made during a present month. Sometimes current delivery is used as a synonym for **nearby delivery**.

Delivery, Nearby
The nearest traded month, the **front month**. In plural form, one of the nearer trading months.

Delta
A calculation of the expected change in an **option's** price given a one-unit change in the price of the underlying commodity or asset. For example, the price of an option with a delta of 0.5 would be expected to change $0.50 when the underlying commodity or asset's price moves $1.00.

Delta Margining or Delta-Based Margining
An **option margining** system used by some exchanges that equates the changes in option **premiums** with the changes in the price of the underlying futures contract to determine risk factors upon which to base the **margin** requirements.

Delta Neutral
Refers to a position involving **options** with a value that is independent of the value of the underlying instrument, i.e. that is designed to have an overall **delta** of zero.

Deposit
See **Initial Margin**.

Depository Receipt
See **Vault Receipt**.

Derivative
A financial instrument, traded on or off an **exchange**, the price of which is directly dependent upon (i.e. derived from) the value of one or more underlying **securities**, equity indices, debt instruments, **commodities**, other derivative instruments, or any agreed upon pricing index or arrangement (e.g., the movement over time of the Consumer Price Index or freight rates). They are used to **hedge** risk or to exchange a floating rate of return for fixed rate of return. Derivatives include **futures**, **options**, and **swaps**. For example, futures contracts with cash settlement are derivatives of the price of a commodity or the value of an index and options on futures are derivatives of futures contracts.

Derivatives Clearing Organization (DCO)
A **clearing organization** registered with the CFTC that, in respect to a contract (1) enables each party to the contract to substitute, through novation or otherwise, the credit of the derivatives clearing organization for the credit of the parties; (2) arranges or provides, on a multilateral basis, for the **settlement** or netting of obligations resulting from such contracts; or (3) otherwise provides clearing services or arrangements that mutualize or transfer among participants in the derivatives clearing organization the credit risk arising from such contracts. See **7 USC 1a(15)**.

Designated Contract Market (DCM)
A **board of trade** or **exchange** designated by the CFTC to trade **futures**, **swaps**, and/or **options** under the **CEA**. A contract market can allow both institutional and retail participants and can list for trading contracts on any commodity, provided that each contract is not readily susceptible to **manipulation**.

Designated Self-Regulatory Organization (DSRO)

Self-regulatory organizations (i.e., the commodity **exchanges** and registered futures associations) that enforce minimum financial and reporting requirements for their members, among other responsibilities outlined in the **CFTC's** regulations. When a **futures commission merchant** (FCM) is a member of more than one SRO, the SROs may decide among themselves which of them will assume primary responsibility for these regulatory duties and, upon approval of the plan by the Commission, be appointed the 'designated self-regulatory organization' for that FCM.

Diagonal Spread

A **spread** between two **call options** or two **put** options with different **strike prices** and different **expiration dates**. See **Horizontal Spread**, **Vertical Spread**.

Differentials

The discount (premium) allowed for **grades** or **locations** of a commodity lower (higher) than the **par** of basis grade or location specified in the futures contact. See **Allowances**.

Digital Option

See **Binary Option**.

Directional Trading

Trading strategies designed to speculate on the direction of the underlying market, especially in contrast to **volatility trading**. Disclosure Document: A statement that must be provided to prospective customers that describes trading strategy, potential risk, commissions, fees, performance, and other relevant information.

Discount

(1) The amount a price would be reduced to purchase a commodity of lesser **grade**; (2) sometimes used to refer to the price differences between **futures** of different **delivery months**, as in the phrase July at a discount to May indicating that the price for the July futures is lower than that of May.

Discretionary Account

An arrangement by which the holder of an account gives written power of attorney to someone else, often a **commodity trading advisor**, to buy and sell without prior approval of the holder; often referred to as a 'managed account or **controlled account**. DRT ('Disregard Tape') or Not-Held Order: Absent any restrictions, a DRT (Not-Held Order) means any order giving the floor broker complete discretion over price and time in execution of an order, including discretion to execute all, some, or none of this order.

Disruptive Trading Practice

The **Dodd-Frank Act** amended the **Commodity Exchange Act** to explicitly prohibit trading activity that (A) violates **bids** or **offers**; (B) demonstrates intentional or reckless disregard for the orderly execution of transactions during the **closing period**; or (C) enters bids and offers with the intent to cancel before execution, also called spoofing.

Distant or Deferred Months

See **Back Month**.

Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010. Title VII of the Dodd-Frank Act amends the **Commodity Exchange Act** to establish a comprehensive new regulatory framework for **swaps** and **security-based swaps**. The legislation was enacted to reduce risk, increase transparency, and promote market integrity within the financial system by, among other things: 1) providing for the registration and comprehensive regulation of **swap dealers** and **major swap participants**; 2) imposing clearing and trade execution requirements on standardized derivative products; 3) creating robust recordkeeping and reporting regimes (including real-time reporting); and 4) enhancing the Commission's rulemaking and enforcement authorities with respect to, among others, all registered entities and intermediaries subject to the Commission's oversight.

Dominant Future

The futures contract having the largest amount of **open interest**.

Double Hedging

As used by the CFTC, it implies a situation where a trader holds a **long** position in the futures market in excess of the **speculative position limit** as an offset to a fixed price sale, even though the trader has an ample supply of the commodity on hand to fill all sales commitments.

Dual Trading

Dual trading occurs when: (1) a **floor broker** executes customer orders and, on the same day, trades for his own account or an account in which he has an interest; or (2) a **futures commission merchant** carries customer accounts and also trades or permits its employees to trade in accounts in which it has a proprietary interest, also on the same trading day.

Duration

A measure of a bond's price sensitivity to changes in interest rates.

Dutch Auction

An auction of a debt instrument (such as a **Treasury note**) in which all successful bidders receive the same yield (the lowest yield that results in the sale of the entire amount to be issued).

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E-Local

A person with trading privileges at an **exchange** with an **electronic trading facility** who trades electronically (rather than in a **pit** or **ring**) for his or her own account, often at a **trading arcade**.

ECN

Electronic Communications Network, refers to a electronic system for trading in stocks or futures. The critical distinction between an exchange and an ECN is that while both can match and execute trades, only an exchange can list a new security or futures contract. Trades consummated by ECNs are often routed to exchanges for clearing.

Economically Deliverable Supply

That portion of the **deliverable supply** of a commodity that is **in position** for **delivery** against a futures contract, and is not otherwise unavailable for delivery. For example, **Treasury bonds** held by long-term investment funds are not considered part of the economically deliverable supply of a Treasury bond futures contract.

Efficient Market

In economic theory, an efficient market is one in which market prices adjust rapidly to reflect new information. The degree to which the market is efficient depends on the quality of information reflected in market prices. In an efficient market, profitable **arbitrage** opportunities do not persist and traders cannot expect to consistently outperform the market unless they have lower-cost access to information that is reflected in market prices or unless they have access to information before it is reflected in market prices. See **Random Walk**.

EFP

See **Exchange for Physical**.

EIA

See **Energy Information Administration**.

Electronic Trading Facility

A **trading facility** that operates by an electronic or telecommunications network instead of a **trading floor** and maintains an automated **audit trail** of transactions. See **7 USC 1a(16)**.

Eligible Commercial Entity

An **eligible contract participant** or other entity approved by the **CFTC** that has a demonstrable ability to make or take **delivery** of an **underlying commodity** of a contract; incurs risks related to the commodity; or is a dealer that regularly provides risk management, **hedging** services, or **market-making** activities to entities trading commodities or **derivative** agreements, contracts, or transactions in commodities. See **7 USC 1a(17)**.

Eligible Contract Participant

An entity, such as a financial institution, an insurance company, or commodity pool, that is classified by the **Commodity Exchange Act** as an eligible contract participant based upon its regulated status or the amount it invests on a discretionary basis. This classification permits these persons to engage in specific transactions (such as trading on a **swap execution facility** or entering into a bilateral **swap** trade) not directly available to non-eligible contract participants, i.e., retail customers. See **7 USC 1a(18)**.

Emergency

Any market occurrence or circumstance which requires immediate action and threatens or may threaten such things as the fair and orderly trading in, or the liquidation of, or delivery pursuant to, any contracts on a **designated contract market**.

End User Exception

The **Dodd-Frank Act's** provision that exempts non-financial entities that are end users from the **clearing mandate** thus allowing end users to execute swaps bilaterally for the purpose of hedging or mitigating commercial risk.

Energy Information Administration (EIA)

An agency of the US Department of Energy that provides statistics, data, analysis on resources, supply, production, consumption for all energy sources. EIA data includes weekly inventory statistics for crude oil and petroleum products as well as weekly natural storage data.

Enumerated Agricultural Commodities

The commodities specifically listed in Section 1a(9) of the **Commodity Exchange Act**: wheat, cotton, rice, corn, oats, barley, rye, flaxseed, grain sorghums, mill feeds, butter, eggs, Solanum tuberosum (Irish potatoes), wool, wool tops, fats and oils (including lard, tallow, cottonseed oil, peanut oil, soybean oil, and all other fats and oils), cottonseed meal, cottonseed, peanuts, soybeans, soybean meal, livestock, livestock products, and frozen concentrated orange juice.

Equity
As used on a trading account statement, refers to the residual dollar value of a futures or option trading account, assuming it was liquidated at current prices.

ETF
See **Exchange Traded Fund**.

EURIBOR (Euro Interbank Offered Rate)
The euro denominated rate of interest at which banks borrow funds from other banks, in marketable size, in the interbank market. See **LIBOR**, **TIBOR**.

Euro
The official currency of most members of the European Union.

Eurocurrency
Certificates of Deposit (CDs), bonds, deposits, or any capital market instrument issued outside of the national boundaries of the currency in which the instrument is denominated (for example, **Eurodollars**, Euro-Swiss francs, or Euroyen).

Eurodollars
U.S. dollar deposits placed with banks outside the U.S. Holders may include individuals, companies, banks, and central banks.

European Option
An **option** that may be exercised only on the **expiration date**. See **American Option**.

Even Lot
A unit of trading in a commodity established by an **exchange** to which official price quotations apply. See **Round Lot**.

Event Market
A market in **derivatives** whose payoff is based on a specified event or occurrence such as the release of a macroeconomic indicator, a corporate earnings announcement, or the dollar value of damages caused by a hurricane.

Ex-Pit
See **Transfer Trades** and **Exchange for Physicals**.

Exchange
A central marketplace such as a **designated contract market** with established rules and regulations where buyers and sellers meet to trade **futures** and **options** contracts or securities.

Exchange for Physicals (EFP)
A transaction in which the buyer of a cash commodity transfers to the seller a corresponding amount of **long futures contracts**, or receives from the seller a corresponding amount of **short** futures, at a price difference mutually agreed upon. In this way, the opposite hedges in futures of both parties are closed out simultaneously. Also called **Exchange of Futures for Cash**, AA (against actuals), or **Ex-Pit** transactions.

Exchange of Derivatives for Related Positions (EDRP)
A general term for privately negotiated trades exchanging a futures position for a related physical or swap position that are transacted off exchange but reported to the **designated contract market** and submitted to the DCM's **Derivatives Clearing Organization** for **clearing**. Types of EDRP include **exchange of futures for physicals** (EFP), **exchange of futures for swaps** (EFS) and **exchange of options for options** (EOO).

Exchange of Futures for Cash
See **Exchange for Physicals**.

Exchange of Futures for Swaps (EFS)
A privately negotiated transaction in which a position in a futures contract is exchanged for a **swap** position in the same or a related commodity, pursuant to the rules of a futures ~exchange ~~ exchange.

Exchange of Options for Options (EOO)
A privately negotiated and simultaneous exchange of a position in an exchange-traded **option** on a **futures contract** for a corresponding OTC option position in the same or a related instrument.

Exchange Rate
The price of one currency stated in terms of another currency.

Exchange Risk Factor
The **delta** of an **option** as computed daily by the **exchange** on which it is traded.

Exchange Traded Fund (ETF)
An investment vehicle holding a commodity or other asset that issues shares that are traded like a stock on a **securities exchange**.

Excluded Commodity
In general, the **Commodity Exchange Act** defines an excluded commodity as: any financial instrument such as a **security**, currency, interest rate, debt instrument, or **credit rating**; any economic or commercial index other than a **narrow-based commodity index**; or any other value that is out of the control of participants and is associated with an economic consequence. See **7 USC 1a(19)**.

Exempt Commodity
The **Commodity Exchange Act** defines an exempt commodity as any commodity other than an **excluded commodity** or an **agricultural commodity**. Examples include energy commodities and metals. See **7 USC 1a(20)**.

Exempt Foreign Firm
A foreign firm that does business with U.S. customers only on foreign **exchanges** and is exempt from registration as a **futures commission merchant** under CFTC regulations based upon compliance with its home country's regulatory framework (also known as a 'Rule 30.10 firm').

Exercise Price (Strike Price)
The price, specified in the **option** contract, at which the underlying **futures** contract, **security**, or **commodity** will move from seller to buyer.

Exotic Options
Any of a wide variety of **options** with non-standard payout structures or other features, including **Asian options** and **lookback options**.

Expiration Date
The date on which an **option** contract automatically expires; the last day an option may be exercised.

Extrinsic Value
See **Time Value**.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

F.O.B. (Free On Board)
Indicates that all delivery, inspection and elevation, or loading costs involved in putting commodities on board a carrier have been paid.

FAB (Five Against Bond) Spread
A futures **spread** trade involving the buying (selling) of a five-year **Treasury note** futures contract and the selling (buying) of a long-term (15-30 year) **Treasury bond** futures contract.

FAN (Five Against Note) Spread
A futures **spread** trade involving the buying (selling) of a five-year **Treasury note** futures contract and the selling (buying) of a ten-year Treasury note futures contract.

Fast Market
An **open outcry** market situation in which transactions in the **pit** or **ring** take place in such volume and with such rapidity that price reporters fall behind with price quotations, label each quote 'FAST' and show a range of prices. Also called a fast tape.

Federal Energy Regulatory Commission
(FERC): An independent agency of the U.S. Government that regulates the interstate transmission of natural gas, oil, and electricity. FERC also regulates natural gas and hydropower projects.

Feed Ratio
The relationship of the cost of feed, expressed as a ratio to the sale price of animals, such as the corn-hog ratio. These serve as indicators of the profit margin or lack of profit in feeding animals to market weight.

FERC
See **Federal Energy Regulatory Commission**.

FIA
See **Futures Industry Association**.

Fibonacci Numbers

A number sequence discovered by a thirteenth century Italian mathematician Leonardo Fibonacci (circa 1170-1250), who introduced Arabic numbers to Europe, in which the sum of any two consecutive numbers equals the next highest number—i.e., following this sequence: 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, and so on. The ratio of any number to its next highest number approaches 0.618 after the first four numbers. These numbers are used by technical analysts to determine price objectives from percentage retracements.

Fictitious Trading
Wash trading, **bucketing**, **cross trading**, or other schemes which give the appearance of trading but actually no bona fide, competitive trade has occurred.

Fill
The execution of an order.

Fill or Kill Order (FOK)
An order that demands immediate execution or cancellation. Typically involving a designation, added to an order, instructing the **broker** to offer or bid (as the case may be) one time only; if the order is not filled immediately, it is then automatically cancelled.

Final Settlement Price
The price at which a **cash-settled** futures contract is settled at maturity, pursuant to a procedure specified by the **exchange**.

Financial Settlement
See **Cash settlement**.

First Notice Day
The first day on which **notices of intent to deliver** actual commodities against futures market positions can be received. First notice day may vary with each commodity and **exchange**.

Fix, Fixing
See **Gold Fixing**.

Fixed Income Security
A **security** whose nominal (or current dollar) yield is fixed or determined with certainty at the time of purchase, typically a debt security.

Floor Broker
A person with exchange trading privileges who, in any **pit**, **ring**, post, or other place provided by an **exchange** for the meeting of persons similarly engaged, executes for another person any orders for the purchase or sale of any **commodity** for future delivery. See **7 USC 1a(22)**.

Floor Trader
A person with exchange trading privileges who executes his own trades by being personally present in the **pit** or **ring** for **futures** trading. See **Local**. See **7 USC 1a(23)**.

Force Majeure
A clause in a supply contract that permits either party not to fulfill the contractual commitments due to events beyond their control. These events may range from strikes to export delays in producing countries.

Forced Liquidation
The situation in which a customer's account is liquidated (open positions are offset) by the brokerage firm holding the account, usually after notification that the account is under-margined due to adverse price movements and failure to meet **margin calls**.

Foreign Board of Trade
A futures exchange based outside the United States. Foreign boards of trade that wish to offer direct access in the U.S. must register with the CFTC.

Foreign Exchange
Trading in foreign currency.

Foreign Exchange Forward
A transaction that solely involves the exchange of two different currencies on a specific future date at a fixed rate agreed upon on the inception of the contract covering the exchange. See **7 USC 1a(24)**.

Foreign Exchange Swap
A transaction that solely involves both an exchange of two different currencies on a specific date at a fixed rate that is agreed upon on the inception of the contract covering the exchange; and a reverse exchange of the same two currencies at a later date and at a fixed rate that is agreed upon on the inception of the contract covering the exchange. See **7 USC 1a(25)**.

Forex
Refers to the **over-the-counter** market for **foreign exchange** transactions. Also called the foreign

exchange market.

Forward Contract
A cash transaction common in many industries, including commodity merchandising, in which a commercial buyer and seller agree upon delivery of a specified quality and quantity of goods at a specified future date. Terms may be more 'personalized' than is the case with standardized futures contracts (i.e., delivery time and amount are as determined between seller and buyer). A price may be agreed upon in advance, or there may be agreement that the price will be determined at the time of delivery.

Forward Market
The **over-the-counter** market for **forward contracts**.

Forward Months
Futures contracts, currently trading, calling for later or distant delivery. See **Deferred Futures**, **Back Months**.

Forward Rate Agreement (FRA)
An OTC forward contract on a short-term interest rate. The buyer of a FRA is a notional borrower, i.e., the buyer commits to pay a fixed rate of interest on some notional amount that is never actually exchanged. The seller of a FRA agrees notionally to lend a sum of money to a borrower. FRAs can be used either to hedge interest rate risk or to speculate on future changes in interest rates.

Forwardation
See **Contango**.

Front Month
The **spot** or **nearby delivery month**, the nearest traded contract month. See **Back Month**.

Front Running
With respect to commodity futures and options, taking a **futures** or **option** position based upon non-public information regarding an impending transaction by another person in the same or related future or option. Also known as trading ahead.

Front Spread
A **delta-neutral ratio spread** in which more **options** are sold than bought. Also called ratio vertical spread. A front spread will increase in value if volatility decreases.

Full Carrying Charge, Full Carry
See **Carrying Charges**.

Fund of Funds
A **commodity pool** that invests in other commodity pools rather than directly in **futures** and **options** contracts.

Fundamental Analysis
Study of basic, underlying factors that will affect the supply and demand of the **commodity** being traded in **futures contracts**. See **Technical Analysis**.

Fungibility
The characteristic of interchangeability. **Futures** contracts for the same **commodity** and **delivery month** traded on the same **exchange** are fungible due to their standardized specifications for quality, quantity, delivery date, and delivery locations.

Futures
See **Futures Contract**.

Futures Commission Merchant (FCM)
Individuals, associations, partnerships, corporations, and trusts that solicit or accept orders for the purchase or sale of any **commodity** for future delivery on or subject to the rules of any **exchange** and that accept payment from or extend credit to those whose orders are accepted. See 7 **USC 1a(28)**.

Futures Contract
An agreement to purchase or sell a **commodity** for delivery in the future: (1) at a price that is determined at initiation of the contract; (2) that obligates each party to the contract to fulfill the contract at the specified price; (3) that is used to assume or shift price risk; and (4) that may be satisfied by **delivery** or **offset**.

Futures Industry Association (FIA)
(FIA): A membership organization for **futures commission merchants** (FCMs) which, among other activities, offers education courses on the **futures** markets, disburses information, and lobbies on behalf of its members.

Futures Option

An **option** on a **futures contract**.

Futures Price

(1) Commonly held to mean the price of a **commodity** for future delivery that is traded on a futures **exchange**; (2) the price of any **futures contract**.

Futures-equivalent

A term frequently used with reference to **speculative position limits** for **options** on **futures contracts**. The futures-equivalent of an option position is the number of options multiplied by the previous day's risk factor or **delta** for the **option series**. For example, ten deep **out-of-money** options with a delta of 0.20 would be considered two futures-equivalent contracts. The delta or risk factor used for this purpose is the same as that used in **delta-based margining** and risk analysis systems.

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Gamma

A measurement of how fast the **delta** of an option changes, given a unit change in the underlying **futures price**; the 'delta of the delta.'

Ginzy Trading

A non-competitive trade practice in which a **floor broker**, in executing an order—particularly a large order—will fill a portion of the order at one price and the remainder of the order at another price to avoid an **exchange's** rule against trading at fractional increments or 'split ticks.'

Give Up

A contract executed by one **broker** for the client of another broker that the client orders to be turned over to the second broker. The broker accepting the order from the customer collects a fee from the **carrying broker** for the use of the facilities. Often used to consolidate many small orders or to disperse large ones.

Gold Fixing (Gold Fix)

The setting of the gold price at 10:30 a.m. (first fixing) and 3:00 p.m. (second fixing) in London by representatives of the **London gold market**.

Gold/Silver Ratio

The number of ounces of silver required to buy one ounce of gold at current **spot** prices.

Good This Week Order (GTW)

Order which is valid only for the week in which it is placed.

Good Till Canceled Order (GTC)

An order which is valid until cancelled by the customer. Unless specified GTC, unfilled orders expire at the end of the trading day. See **Open Order**.

GPM

See **Gross Processing Margin**.

Grades

Various qualities of a **commodity**.

Grading Certificates

A formal document setting forth the quality of a commodity as determined by authorized inspectors or graders.

Grain Futures Act

Federal statute that provided for the regulation of trading in grain futures, effective June 22, 1923; administered by the Grain Futures Administration, an agency of the U.S. Department of Agriculture. The Grain Futures Act was amended in 1936 by the **Commodity Exchange Act** and the Grain Futures Administration became the Commodity Exchange Administration, later the **Commodity Exchange Authority**.

Grantor

The maker, writer, or issuer of an **option** contract who, in return for the **premium** paid for the option, stands ready to purchase the underlying commodity (or **futures contract**) in the case of a **put** option or to sell the underlying commodity (or futures contract) in the case of a **call** option.

Gross Processing Margin (GPM)

Refers to the difference between the cost of a commodity and the combined sales income of the finished products that result from processing the commodity. Various industries have formulas to express the relationship of raw material costs to sales income from finished products. See **Crack Spread**, **Crush Spread**, and **Spark Spread**.

GTC

See **Good 'Till Canceled Order**.

GTW

See **Good This Week Order**.

Guaranteed Introducing Broker

An **introducing broker** that has entered into a guarantee agreement with a **futures commission merchant** (FCM), whereby the FCM agrees to be jointly and severally liable for all of the introducing broker's obligations under the **Commodity Exchange Act**. By entering into the agreement, the introducing broker is relieved from the necessity of raising its own capital to satisfy minimum financial requirements. In contrast, an independent introducing broker must raise its own capital to meet minimum financial requirements.

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Haircut

In computing the value of assets for purposes of capital, **segregation**, or **margin** requirements, a percentage reduction from the stated value (e.g., book value or market value) to account for possible declines in value that may occur before assets can be **liquidated**.

Hard Position Limit

A **Speculative Position Limit** whose exceedance is a violation of **exchange** rules and consequently triggers predefined penalties. This is in contrast to a **position accountability** level, which when exceeded triggers a notification to an exchange but is not itself a violation of exchange rules.

Head and Shoulders

In **technical analysis**, a chart formation that resembles a human head and shoulders and is generally considered to be predictive of a price reversal. A head and shoulders top (which is considered predictive of a price decline) consists of a high price, a decline to a **support** level, a rally to a higher price than the previous high price, a second decline to the support level, and a weaker rally to about the level of the first high price. The reverse (upside-down) formation is called a head and shoulders bottom (which is considered predictive of a price rally).

Heavy

A market in which prices are demonstrating either an inability to advance or a slight tendency to decline.

Hedge Exemption

An exemption from **speculative position limits** for bona fide **hedgers** and certain other persons who meet the requirements of **exchange** and **CFTC** rules.

Hedge Fund

A private investment fund or pool that trades and invests in various assets such as **securities**, **commodities**, currency, and **derivatives** on behalf of its clients, typically wealthy individuals. Some **commodity pool operators** operate hedge funds.

Hedge Ratio

Ratio of the value of **futures contracts** purchased or sold to the value of the cash commodity being **hedged**, a computation necessary to minimize **basis risk**.

Hedger

A market participant who enters into positions in a **futures** or other **derivatives** market opposite to positions held in the **cash market** to minimize the risk of financial loss from an adverse price change; or who purchases or sells futures as a temporary substitute for a cash transaction that will occur later. One can hedge either a long cash market position (e.g., one owns the cash commodity) or a short cash market position (e.g., one plans on buying the cash commodity in the future).

Henry Hub

A natural gas pipeline hub in Louisiana that serves as the delivery point for New York Mercantile Exchange natural gas futures contracts and often serves as a benchmark for wholesale natural gas prices across the U.S.

Hidden Quantity Order

An order placed on an **electronic trading system** whereby only a portion of the order is visible to other market participants. As the displayed part of the order is filled, additional quantities become visible. Also called Iceberg, Max Show.

Historical Volatility

A statistical measure of the **volatility** (specifically, the annualized standard deviation) of a **futures contract**, **security**, or other instrument over a specified number of past trading days.

Hog-Corn Ratio

See **Feed Ratio**.

Horizontal Spread (also called Time Spread or Calendar Spread)
An option spread involving the simultaneous purchase and sale of options of the same **class** and **strike prices** but different **expiration dates**. See **Diagonal Spread**, **Vertical Spread**.

Hybrid Instrument
A **security** having one or more payments indexed to the value, level, or rate of, or providing for the delivery of, one or more **commodities**. See **7 USC 1a(29)**.

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IB
See **Introducing Broker**.

Iceberg
See **Hidden Quantity Order**.

Implied Repo Rate
The rate of return that can be obtained from selling a debt instrument **futures contract** and simultaneously buying a bond or note deliverable against that futures contract with borrowed funds. The bond or note with the highest implied repo rate is **cheapest to deliver**.

Implied Volatility
The **volatility** of a **futures contract**, **security**, or other instrument as implied by the prices of an **option** on that instrument, calculated using an **options pricing model**.

In Position
Refers to a commodity located where it can readily be moved to another point or delivered on a **futures contract**. Commodities not so situated are 'out of position.' Soybeans in Mississippi are out of position for delivery in Chicago, but in position for export shipment from the Gulf of Mexico.

In Sight
The amount of a particular commodity that arrives at terminal or central locations in or near producing areas. When a commodity is 'in sight,' it is inferred that reasonably prompt delivery can be made; the quantity and quality also become known factors rather than estimates.

In-The-Money
A term used to describe an **option** contract that has a positive value if exercised. A call with a **strike price** of $1100 on gold trading at $1150 is in-the-money 50 dollars. See **Intrinsic Value**.

Index Arbitrage
The simultaneous purchase (sale) of stock index futures and the sale (purchase) of some or all of the component stocks that make up the particular stock index to profit from sufficiently large intermarket spreads between the futures contract and the index itself. Also see **Arbitrage**, **Program Trading**.

Indirect Bucketing
Also referred to as indirect trading against. It occurs when a **floor broker** effectively trades opposite his customer in a pair of non-competitive transactions by buying (selling) opposite an accommodating trader to fill a customer order and by selling (buying) for his personal account opposite the same accommodating trader. The accommodating trader assists the floor broker by making it appear that the customer traded opposite him rather than opposite the floor broker.

Inflation-Indexed Debt Instrument
Generally a debt instrument (such as a bond or note) on which the payments are adjusted for inflation and deflation. In a typical inflation-indexed instrument, the principal amount is adjusted monthly based on an inflation index such as the Consumer Price Index.

Initial Deposit
See **Initial Margin**.

Initial Margin
Customers' funds put up as security for a guarantee of contract fulfillment at the time a futures market position is established. See **Original Margin**.

Instrument
A tradable asset such as a **commodity**, **security**, or **derivative**, or an index or value that underlies a derivative or could underlie a derivative.

Interaffiliate Trades
Trades made between counterparties that share the same majority-ownership.

Intercommodity Spread
A spread in which the **long** and **short** legs are in two different but generally related commodity

markets. Also called an **intermarket spread**. See **Spread**.

Interdealer Broker
A broker that facilitates bilateral trades between large market participants.

Interdelivery Spread
A spread involving two different months of the same commodity. Also called an **intracommodity spread**. See **Spread**.

Interest Rate Futures
Futures contracts traded on fixed income securities such as U.S. Treasury issues, or based on the levels of specified interest rates such as **LIBOR** (London Interbank Offered Rate). Currency is excluded from this category, even though interest rates are a factor in currency values.

Interest Rate Swap
A swap in which the two **counterparties** agree to exchange interest rate flows. Typically, one party agrees to pay a fixed rate on a specified series of payment dates and the other party pays a floating rate that may be based on **LIBOR** (London Interbank Offered Rate) on those payment dates. The interest rates are paid on a specified principal amount called the **notional principal**.

Intermarket Spread
See **Spread** and **Intercommodity Spread**.

Intermediary
A person who acts on behalf of another person in connection with futures trading, such as a **futures commission merchant**, **introducing broker**, **commodity pool operator**, **commodity trading advisor**, or **associated person**.

International Swaps and Derivatives Association (ISDA)
A New York-based group of major international **swap dealers**, that publishes the Code of Standard Wording, Assumptions and Provisions for **Swaps**, or Swaps Code, for U.S. dollar **interest rate swaps** as well as standard master interest rate, **credit**, and **currency swap** agreements and definitions for use in connection with the creation and trading of swaps.

Intracommodity Spread
See **Spread** and **Interdelivery Spread**.

Intrinsic Value
A measure of the value of an **option** or a warrant if immediately exercised, that is, the extent to which it is **in-the-money**. The amount by which the current price for the underlying commodity or futures contract is above the **strike price** of a **call** option or below the strike price of a **put** option for the commodity or futures contract.

Introducing Broker (IB)
A person (other than a person registered as an **associated person** of a **futures commission merchant**) who is engaged in soliciting or in accepting orders for the purchase or sale of any commodity for future delivery on an **exchange** who does not accept any money, securities, or property to **margin**, guarantee, or secure any trades or contracts that result therefrom. See **7 USC 1a(31)**.

Inverted Market
A futures market in which the nearer months are selling at prices higher than the more **distant months**; a market displaying 'inverse **carrying charges**,' characteristic of markets with supply shortages. See **Backwardation**.

Invisible Supply
Uncounted stocks of a commodity in the hands of wholesalers, manufacturers, and producers that cannot be identified accurately; stocks outside commercial channels but theoretically available to the market. See **Visible Supply**.

Invoice Price
The price fixed by the **clearing house** at which **deliveries** on futures are invoiced—generally the price at which the futures contract is settled when deliveries are made. Also called **Delivery Price**.

ISDA
See **International Swaps and Derivatives Association**.

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Job Lot
A form of contract having a smaller unit of trading than is featured in a regular contract.

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Kerb Trading or Dealing
See **Curb Trading**.

Knock-In
A provision in an **option** or other **derivative** contract, whereby the contract is activated only if the price of the underlying instrument reaches a specified level before a specified expiration date.

Knock-Out
A provision in an **option** or other **derivative** contract, whereby the contract is immediately canceled if the price of the underlying instrument reaches a specified level during the life of the contract.

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Large Traders
A large trader is one who holds or controls a position in any one future or in any one option expiration **series** of a commodity on any one exchange equaling or exceeding the exchange or CFTC-specified **reporting level**.

Last Notice Day
The final day on which **notices of intent to deliver** on **futures contracts** may be issued.

Latency
The amount of time that elapses between the placement of a **market order** or marketable **limit order** on an electronic trading system and the execution of that order.

Leaps
Long-dated, exchange-traded **options**. Stands for 'Long-term Equity Anticipation Securities.'

leverage
The ability to control large dollar amounts of a commodity or security with a comparatively small amount of capital.

LIBOR
The London Interbank Offered Rate. The rate of interest at which banks borrow funds (denominated in U.S. dollars) from other banks, in marketable size, in the London interbank market. Some **interest rate futures** contracts, including **Eurodollar** futures, are **cash settled** based on LIBOR. Also see **EURIBOR** and **TIBOR**.

Licensed Warehouse
A warehouse approved by an **exchange** from which a commodity may be delivered on a **futures contract**. See **Regular Warehouse**.

Life of Contract
Period between the beginning of trading in a particular **futures contract** and the expiration of trading. In some cases, this phrase denotes the period already passed in which trading has already occurred. For example, 'The life-of-contract high so far is $2.50.' Same as life of delivery or life of the future.

Limit (Up or Down)
The maximum price advance or decline from the previous day's **settlement price** permitted during one trading session, as fixed by the rules of an **exchange**. In some futures contracts, the limit may be expanded or removed during a trading session a specified period of time after the contract is **locked limit**. See **Daily Price Limit**.

Limit Move
See **Locked Limit**.

Limit Only
The definite price stated by a customer to a **broker** restricting the execution of an order to buy for not more than, or to sell for not less than, the stated price.

Limit Order
An order in which the customer specifies a minimum sale price or maximum purchase price, as contrasted with a **market order**, which implies that the order should be filled as soon as possible at the market price.

Liquid Market
A market in which selling and buying can be accomplished with minimal effect on price.

Liquidation
The closing out of a **long** position. The term is sometimes used to denote closing out a **short** position, but this is more often referred to as covering. See **Cover**, **Offset**.

Local

An individual with exchange trading privileges who trades for his own account, traditionally on an exchange floor, and whose activities provide market liquidity. See **Floor Trader**, **E-Local**.

Location
A **Delivery Point** for a futures contract.

Locked Limit
A price that has advanced or declined the permissible limit during one trading session, as fixed by the rules of an exchange. Also called **Limit Move**.

Locked-In
A hedged position that cannot be lifted without offsetting both sides of the hedge (spread). See **Hedging**. Also refers to being caught in a limit price move.

London Gold Market
Refers to the dealers in the London Bullion Market Association who set (fix) the gold price in London. See **Gold Fixing**.

Long
(1) One who has bought a **futures contract** to establish a market position; (2) a market position that obligates the holder to take delivery; (3) one who owns an inventory of commodities. See **Short**.

Long Hedge
See **Buying Hedge**.

Long the Basis
A person or firm that has bought the spot commodity and hedged with a sale of futures is said to be long the basis.

Lookalike Option
An **over-the-counter** option that is **cash settled** based on the **settlement price** of a similar exchange-traded futures contract on a specified trading day.

Lookalike Swap
An **over-the-counter** swap that is **cash settled** based on the **settlement price** of a similar exchange-traded futures contract on a specified trading day.

Lookback Option
An **exotic option** whose payoff depends on the minimum or maximum price of the underlying asset during some portion of the life of the option. Lookback options allow the buyer to pay or receive the most favorable underlying price during the lookback period.

Lot
A unit of trading. See **Even Lot**, **Job Lot**, and **Round Lot**.

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Macro Fund
A **hedge fund** that specializes in strategies designed to profit from expected macroeconomic events.

Made Available to Trade
Swaps trades that are subject to the **clearing mandate**, and that have been “Made Available to Trade” by a **DCM** or **SEF** must be executed on a DCM or SEF.

Maintenance Margin
See **Margin**.

Major Security-Based Swap Participant
see **Major Swap Participant** and **7 USC 1a(32)**.

Major Swap Participant (MSP)
A designation in the **Commodity Exchange Act** as amended by the **Dodd-Frank Act** for large traders in **swap** markets that are not **swap dealers**. There are three parts to the Dodd-Frank Act definition. A person that satisfies any one of them is an MSP:: 1) A person that maintains a 'substantial position' in any of the major swap categories, excluding positions held for hedging or mitigating commercial risk and positions maintained by certain employee benefit plans for hedging or mitigating risks in the operation of the plan.; (2) A person whose outstanding swaps create 'substantial counterparty exposure that could have serious adverse effects on the financial stability of the United States banking system or financial markets.'; (3) Any 'financial entity' that is 'highly leveraged relative to the amount of capital such entity holds and that is not subject to capital requirements established by an appropriate Federal banking agency' and that maintains a 'substantial position' in any of the major swap categories. A similar definition applies to security-based swaps. For details see 77 Fed. Reg. 30596 (May 23, 2012). See **7 USC 1a(33)**.

Managed Account

See **Controlled Account** and **Discretionary Account**.

Managed Money Trader (MMT)

A futures market participant who engages in futures trades on behalf of investment funds or clients. While MMTs are commonly equated with **hedge funds**, they may include **Commodity Pool Operators** and other managed accounts as well as hedge funds. While CFTC Form 40 does not provide a place to declare oneself a Managed Money Trader, a **large trader** can declare itself a "Hedge Fund (H)" or "Managed Accounts and Commodity Pools."

Manipulation

Any planned operation, transaction, or practice that causes or maintains an **artificial price**. Specific types include **corners** and **squeezes** as well as unusually large purchases or sales of a commodity or security in a short period of time in order to distort prices, and putting out false information in order to distort prices.

Manufacturer (AM)

A **large trader** that declares itself a "Manufacturer" on CFTC Form 40, which provides as examples "refiner, miller, crusher, fabricator, sawmill, coffee roaster, cocoa grinder."

Many-to-Many

Refers to a trading platform in which multiple participants have the ability to execute or trade commodities, **derivatives**, or other instruments by accepting **bids** and **offers** made by multiple other participants. In contrast to **one-to-many** platforms, many-to-many platforms are considered **trading facilities** under the **Commodity Exchange Act**. Traditional **exchanges** are many-to-many platforms.

Margin

The amount of money or collateral deposited by a customer with his **broker**, by a broker with a **clearing member**, or by a clearing member with a **clearing organization**. The margin is not partial payment on a purchase. Also called Performance Bond. (1) **Initial margin** is the amount of margin required by the broker when a futures position is opened; (2) **Maintenance margin** is an amount that must be maintained on deposit at all times. If the equity in a customer's account drops to or below the level of maintenance margin because of adverse price movement, the broker must issue a **margin call** to restore the customer's equity to the initial level. See **Variation Margin**. Exchanges specify levels of initial margin and maintenance margin for each futures contract, but **futures commission merchants** may require their customers to post margin at higher levels than those specified by the exchange. Futures margin is determined by the **SPAN margining system**, which takes into account all positions in a customer's portfolio.

Margin Call

(1) A request from a **brokerage firm** to a customer to bring **margin** deposits up to initial levels; (2) a request by the **clearing organization** to a **clearing member** to make a deposit of original margin, or a daily or intra-day **variation margin** payment because of adverse price movement, based on positions carried by the **clearing member**.

Mark-to-Market

Part of the daily cash flow system used by U.S. futures **exchanges** to maintain a minimum level of **margin** equity for a given futures or option contract position by calculating the gain or loss in each contract position resulting from changes in the price of the **futures** or **option** contracts at the end of each trading session. These amounts are added or subtracted to each account balance.

Market Maker

A professional securities dealer or person with trading privileges on an **exchange** who has an obligation to buy when there is an excess of sell orders and to sell when there is an excess of buy orders. By maintaining an offering price sufficiently higher than their buying price, these firms are compensated for the risk involved in allowing their inventory of securities to act as a buffer against temporary order imbalances. In the futures industry, this term is sometimes loosely used to refer to a **floor trader** or **local** who, in speculating for his own account, provides a market for commercial users of the market. Occasionally a futures exchange will compensate a person with exchange trading privileges to take on the obligations of a market maker to enhance liquidity in a newly listed or lightly traded futures contract. See **Specialist System**.

Market Microstructure

Refers to the means by which individual trades take place. An example of a broad class of market microstructures is an order book. Another such class covers the markets associated with most OTC derivative trading pre-Dodd-Frank Act in which transactions were negotiated bilaterally over the phone.

Market Order

An order to buy or sell a **futures contract** at whatever price is obtainable at the time it is entered in the **order book**, **ring**, **pit**, or other trading platform.

Market-if-Touched (MIT) Order

An order that becomes a **market order** when a particular price is reached. A sell MIT is placed above the market; a buy MIT is placed below the market. Also referred to as a board order. Compare to

Stop Order.

Market-on-Close
An order to buy or sell at the end of the trading session at a price within the **closing range** of prices. See **Stop-Close-Only Order**.

Market-on-Opening
An order to buy or sell at the beginning of the trading session at a price within the **opening range** of prices.

Marking the Close
A **manipulative** or **disruptive trading practice** whereby a trader buys or sells a large number of futures contracts during the **closing period** of a futures contract (that is, the period during which the futures settlement price is determined) in order to benefit an even larger position in an option, swap, or other derivative that is cash settled based on the futures settlement price on that day. Also called "Banging the Close."

Matching Algorithm
A set of rules (encoded in software in the case of electronic markets) for determining when and if bids and offers are matched to one another.

Maturity
Period within which a **futures contract** can be **settled** by delivery of the actual commodity.

Max Show
See **Hidden Quantity Order**.

Maximum Price Fluctuation
See **Limit (Up or Down)** and **Daily Price Limit**.

Member Rate
Commission charged for the execution of an order for a person who is a member of or has trading privileges at the exchange.

Mini
Refers to a **futures contract** that has a smaller **contract size** than an otherwise identical futures contract.

Minimum Price Contract
A hybrid commercial forward contract for agricultural products that includes a provision guaranteeing the person making delivery a minimum price for the product. For agricultural commodities, these contracts became much more common with the introduction of exchange-traded **options** on **futures contracts**, which permit buyers to hedge the price risks associated with such contracts.

Minimum Price Fluctuation (Minimum Tick)
Smallest increment of price movement possible in trading a given contract.

Minimum Tick
See **Minimum Price Fluctuation**.

Minimum Trading Functionality
Refers to standards for market microstructure that all **Swap Execution Facilities** (SEFs) must offer. Generally, Minimum Trading Functionality requires SEFs to allow traders to execute transactions using an **order book**.

Mixed Swap
A mixed swap is a **swap** that has characteristics of both a swap and a **security-based swap**. For example, a credit default swap on a single firm that includes contingencies based on the price of a commodity, would be considered a mixed swap. Mixed swaps are subject to joint oversight by the CFTC and the SEC. See **7 U.S.C. §1a(47)(D)**.

MMBTU
Million British Thermal Units, the unit of trading in the natural gas futures market.

MOB Spread
A spread between the municipal bond futures contract and the Treasury bond contract, also known as munis over bonds.

Momentum
In **technical analysis**, the relative change in price over a specific time interval. Often equated with speed or velocity and considered in terms of relative strength.

Money Market
The market for short-term debt instruments.

Multilateral Clearing Organization

See **Clearing Organization**.

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Naked Option

The sale of a **call** or **put option** without holding an equal and opposite position in the underlying instrument. Also referred to as an uncovered option, naked call, or naked put.

Narrow-Based Security Index

In general, the **Commodity Exchange Act** defines a narrow-based security index as an index of securities that meets one of the following four requirements (1) it has nine or fewer components; (2) one component comprises more than 30 percent of the index weighting; (3) the five highest weighted components comprise more than 60 percent of the index weighting, or (4) the lowest weighted components comprising in the aggregate 25 percent of the index's weighting have an aggregate dollar value of average daily volume over a six-month period of less than $50 million ($30 million if there are at least 15 component securities). However, the legal definition in Section 1a(35) of the **Commodity Exchange Act** contains several exceptions to this provision. See **Broad-Based Security Index**, **Security Future**. See **7 USC 1a(35)**.

National Futures Association (NFA)

National Futures Association (NFA): A **self-regulatory organization** whose members include **futures commission merchants**, **commodity pool operators**, **commodity trading advisors**, **introducing brokers**, **designated contract markets**, **swap execution facilities**, commercial firms, and banks, that is responsible—under **CFTC** oversight—for certain aspects of the regulation of FCMs, CPOs, CTAs, IBs, and their **associated persons**, focusing primarily on the qualifications and proficiency, financial condition, retail sales practices, and business conduct of these futures professionals. NFA also performs **arbitration** and dispute resolution functions for industry participants.

Nearby Delivery Month

The month of the futures contract closest to maturity; the **front month** or lead month.

Negative Carry

The cost of financing a financial instrument (the short-term rate of interest), when the cost is above the current return of the financial instrument. See **Carrying Charges** and **Positive Carry**.

Net Asset Value (NAV)

The value of each unit of participation in a **commodity pool**.

Net Position

The difference between the open **long** contracts and the open **short** contracts held by a trader in any one commodity.

Netting

The process of calculating aggregate risk exposures across the portfolios of market participant. For example, if a trader has entered one trade in which she is long $100 worth of corn and another where she is short $90 of corn, her risk exposure after netting would be long $10 worth of corn. The rules by which netting occurs can have important ramifications for margin requirements. If, in the example above, the traders' two positions were on different exchanges without any arrangement for netting, she might be required to post collateral as if she had not hedged her position by entering into off-setting agreements.

Next Day

A **spot** contract that provides for delivery of a commodity on the next calendar day or the next business day. Also called day ahead.

NFA

National Futures Association.

NOB (Note Against Bond) Spread

A futures spread trade involving the buying (selling) of a **Treasury note futures contract** and the selling (buying) of a **Treasury bond** futures contract.

Nominal Price (or Nominal Quotation)

Computed price quotation on a futures or option contract for a period in which no actual trading took place, usually an average of **bid** and **asked** prices or computed using historical or theoretical relationships to more active contracts.

Notice Day

Any day on which **notices of intent to deliver** on futures contracts may be issued.

Notice of Intent to Deliver

A notice that must be presented by the seller of a **futures contract** to the **clearing organization** prior to delivery. The clearing organization then assigns the notice and subsequent delivery instrument to a buyer. Also notice of delivery.

Notional Principal

In an **interest rate swap**, **forward rate agreement**, or other derivative instrument, the amount or, in a **currency swap**, each of the amounts to which interest rates are applied in order to calculate periodic payment obligations. Also called the notional amount, the contract amount, the reference amount, and the currency amount.

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OCO

See **One Cancels the Other Order**.

Off Exchange

See **Over-the-Counter**.

Offer

An indication of willingness to sell at a given price; opposite of **bid**, the price level of the offer may be referred to as the **ask**.

Offset

Liquidating a purchase of futures contracts through the sale of an equal number of contracts of the same delivery month, or liquidating a short sale of futures through the purchase of an equal number of contracts of the same delivery month. See **Closing Out** and **Cover**.

Omnibus Account

An account carried by one **futures commission merchant**, the carrying FCM, for another FCM, the originating FCM, in which the transactions of two or more persons, who are customers of the originating FCM, are combined and carried by the carrying FCM. Omnibus account titles must clearly show that the funds and trades therein belong to customers of the originating FCM. An originating broker must use an omnibus account to execute or clear trades for customers at a particular exchange where it does not have trading or clearing privileges.

On Track (or Track Country Station)

(1) A type of deferred delivery in which the price is set f.o.b. seller's location, and the buyer agrees to pay freight costs to his destination; (2) commodities loaded in railroad cars on tracks.

One Cancels the Other (OCO) Order

A pair of orders, typically **limit orders**, whereby if one order is filled, the other order will automatically be cancelled. For example, an OCO order might consist of an order to buy 10 calls with a **strike price** of 50 at a specified price or buy 20 calls with a strike price of 55 (with the same expiration date) at a specified price.

One-to-Many

Refers to a proprietary trading platform in which the platform operator posts **bids** and **offers** for commodities, derivatives, or other instruments and serves as a **counterparty** to every transaction executed on the platform. In contrast to **many-to-many** platforms, one-to-many platforms are not considered **trading facilities** under the **Commodity Exchange Act**.

Open Interest

The total number of **futures contracts long** or **short** in a **delivery month** or market that has been entered into and not yet liquidated by an **offsetting** transaction or fulfilled by **delivery**. Also called open contracts or open commitments.

Open Order (or Orders)

An order that remains in force until it is canceled or until the futures contracts expire. See **Good Till Canceled** and **Good This Week** orders.

Open Outcry

A method of public auction, common to most U.S. commodity exchanges during the 20th century, where trading occurs on a trading floor and traders may bid and offer simultaneously either for their own accounts or for the accounts of customers. Transactions may take place simultaneously at different places in the trading pit or ring. At most exchanges open outcry has been replaced or largely replaced by electronic trading platforms. See **Specialist System**.

Open Trade Equity

The unrealized gain or loss on open futures positions.

Opening

The period at the beginning of the trading session officially designated by the exchange during which all transactions are considered made 'at the opening'

Opening Price (or Range)

The price (or price range) recorded during the period designated by the exchange as the official

opening.

Option
A contract that gives the buyer the right, but not the obligation, to buy or sell a specified quantity of a commodity or other instrument at a specific price within a specified period of time, regardless of the market price of that instrument. Also see **Put** and **Call**.

Option Buyer
The person who buys calls, puts, or any combination of calls and puts.

Option Delta
See **Delta**.

Option Writer
The person who originates an option contract by promising to perform a certain obligation in return for the price or premium of the option. Also known as option grantor or option seller.

Order Book
A market structure, electronic or through other means of communication, whereby **bids** and **offers** are matched exclusively based on their price and/or the time that they arrived at the market.

Original Margin
Term applied to the initial deposit of **margin** money each **clearing member** firm is required to make according to clearing organization rules based upon positions carried, determined separately for customer and proprietary positions; similar in concept to the initial margin or security deposit required of customers by exchange rules. See **Initial Margin**.

OTC
See **Over-the-Counter**.

Out of Position
See **In Position**.

Out Trade
A trade that cannot be cleared by a clearing organization because the trade data submitted by the two **clearing members** or two traders involved in the trade differs in some respect (e.g., price and/or quantity). In such cases, the two clearing members or traders involved must reconcile the discrepancy, if possible, and resubmit the trade for clearing. If an agreement cannot be reached by the two clearing members or traders involved, the dispute would be settled by an appropriate exchange committee.

Out-Of-The-Money
A term used to describe an option that has no intrinsic value. For example, a call with a **strike price** of $400 on gold trading at $390 is out-of-the-money 10 dollars.

Outright
An order to buy or sell only one specific type of futures contract; an order that is not a **spread** order.

Over-the-Counter (OTC)
The trading of commodities, contracts, or other instruments not listed on any exchange. OTC transactions can occur electronically or over the telephone. Also referred to as **Off-Exchange**.

Overbought
A technical opinion that the market price has risen too steeply and too fast in relation to underlying fundamental factors. Rank and file traders who were bullish and long have turned bearish.

Overnight Trade
A trade which is not liquidated during the same trading session during which it was established.

Oversold
A technical opinion that the market price has declined too steeply and too fast in relation to underlying fundamental factors; rank and file traders who were bearish and short have turned bullish.

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P&S (Purchase and Sale Statement)
A statement sent by a **futures commission merchant** to a customer when any part of a futures position is offset, showing the number of contracts involved, the prices at which the contracts were bought or sold, the gross profit or loss, the commission charges, the net profit or loss on the transactions, and the balance. Futures commission merchants also send P&S Statements whenever any other event occurs that alters the account balance including when the customer deposits or withdraws margin and when the FCM places excess margin in interest bearing instruments for the customer's benefit.

Paper Profit or Loss

The profit or loss that would be realized if open contracts were liquidated as of a certain time or at a certain price.

Par

(1) Refers to the standard **delivery point(s)** and/or quality of a commodity that is deliverable on a futures contract at contract price. Serves as a benchmark upon which to base discounts or premiums for varying quality and delivery **locations**; (2) in bond markets, an index (usually 100) representing the face value of a bond.

Path Dependent Option

An option whose valuation and payoff depends on the realized price path of the underlying asset, such as an **Asian option** or a **Lookback option**.

Pay/Collect

A shorthand method of referring to the payment of a loss (pay) and receipt of a gain (collect) by a **clearing member** to or from a **clearing organization** that occurs after a futures position has been marked-to-market. See **Variation Margin**.

Pegging

Effecting transactions in an instrument underlying an option to prevent a decline in the price of the instrument shortly prior to the option's **expiration date** so that previously written put options will expire worthless, thus protecting **premiums** previously received. See **Capping**.

Performance Bond

See **Margin**.

Permitted Transaction

This term is used in rules for **swap execution facilities** to describe illiquid or bespoke **swaps** and swaps transactions that are not subject to the trade execution mandate. Unlike **required transactions**, permitted transactions can be executed on SEFs using any method of execution.

Physical

A contract or derivative that provides for the physical delivery of a commodity rather than **cash settlement**. See **Financial**.

Physical Commodity

A tangible commodity rather than a **financial commodity**, typically an agricultural commodity, energy commodity or a metal.

Physical Delivery

A provision in a futures contract or other derivative for delivery of the actual commodity to satisfy the contract. In the context of a financial derivative, that means delivering the actual underlying asset (often bonds). Compare to **cash settlement**.

Pip

The smallest price unit of a commodity or currency.

Pit

A specially constructed area on the trading floor of some exchanges where trading in a futures contract or option is conducted. On certain other exchanges, the term **ring** designates the trading area for commodity contract.

Point Balance

A statement prepared by **futures commission merchants** to show profit or loss on all open contracts using an official closing or settlement price, usually at calendar month end.

Point-and-Figure

A method of charting that uses prices to form patterns of movement without regard to time. It defines a price trend as a continued movement in one direction until a reversal of a predetermined criterion is met.

Ponzi Scheme

Named after Charles Ponzi, a man with a remarkable criminal career in the early 20th century, the term has been used to describe pyramid arrangements whereby an enterprise makes payments to investors from the proceeds of a later investment rather than from profits of the underlying business venture, as the investors expected, and gives investors the impression that a legitimate profit-making business or investment opportunity exists, where in fact it is a mere fiction.

Pork Bellies

One of the major cuts of the hog carcass that, when cured, becomes bacon.

Portfolio Compression Service

A service that helps market participants identify positions in a portfolio of OTC derivatives that are redundant after netting across a pool of other portfolios of OTC derivatives. After identifying redundant trades, Portfolio Compression Service providers will suggest ways to substitute overlapping and redundant positions for a smaller position in notional terms that provides the same net risk exposure. In general, portfolio compression services are intended to reduce the outstanding trade count and outstanding gross notional value of two or more market participants' portfolios. See **Risk Mitigation Service**.

Portfolio Insurance

A trading strategy that uses stock index futures and/or stock index options to protect stock portfolios against market declines.

Portfolio Margining

A method for setting **margin** requirements that evaluates positions as a group or portfolio and takes into account the potential for losses on some positions to be offset by gains on others. Specifically, the margin requirement for a portfolio is typically set equal to an estimate of the largest possible decline in the net value of the portfolio that could occur under assumed changes in market conditions. Sometimes referred to as risked-based margining. Also see **Strategy-Based Margining**.

Position

An interest in the market, either **long** or **short**, in the form of one or more open contracts.

Position Accountability

A rule adopted by an exchange in lieu of position limits requiring persons holding a certain number of outstanding contracts to report the nature of the position, trading strategy, and hedging information of the position to the exchange, upon request of the exchange. See **Speculative Position Limit**.

Position Limit

See **Speculative Position Limit**.

Position Trader

A commodity trader who either buys or sells contracts and holds them for an extended period of time, as distinguished from a **day trader**, who will normally initiate and offset a futures position within a single trading session.

Positive Carry

The cost of financing a financial instrument (the short-term rate of interest), where the cost is less than the current return of the financial instrument. See **Carrying Charges** and **Negative Carry**.

Post-Trade Transparency

Describes markets where basic data on recent transactions (such as the price and terms of the transactions) is promptly and routinely reported to the market participants and the public. See **Pre-Trade Transparency** and **Transparency**.

Pre-Trade Transparency

Describes markets where basic data on proposed transactions (such as the prices and quantities of the best bid and offer) are generally available to market participants. See **Post-Trade Transparency** and **Transparency**.

Prearranged Trading

Trading between brokers in accordance with an expressed or implied agreement or understanding, which is a violation of the **Commodity Exchange Act** and CFTC regulations.

Premium

(1) The payment an option buyer makes to the **option writer** for granting an option contract; (2) the amount a price would be increased to purchase a better quality commodity; (3) refers to a futures delivery month selling at a higher price than another, as 'July is at a premium over May' Price Banding: A CME Group and ICE-instituted mechanism to ensure a fair and orderly market on an electronic trading platform. This mechanism subjects all incoming orders to price verification and rejects all orders with clearly erroneous prices. Price bands are monitored throughout the day and adjusted if necessary.

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Price Basing

A situation where producers, processors, merchants, or consumers of a commodity establish commercial transaction prices based on the futures prices for that or a related commodity (e.g., an offer to sell corn at 5 cents over the December futures price).

Price Discovery

The process of determining the price level for a commodity through the interaction of buyers and sellers and based on supply and demand conditions.

Primary Market

(1) For producers, their major purchaser of commodities; (2) to processors, the market that is the major supplier of their commodity needs; and (3) in commercial marketing channels, an important center at which spot commodities are concentrated for shipment to terminal markets.

Producer (AP)
A large trader that declares itself a “Producer” on CFTC Form 40, which provides as examples, “farmer” and “miner.” A firm that extracts crude oil or natural gas from the ground would also be considered a Producer.

Program Trading
The purchase (or sale) of a large number of stocks contained in or comprising a portfolio. Originally called program trading when index funds and other institutional investors began to embark on large - scale buying or selling campaigns or 'programs' to invest in a manner that replicates a target stock index, the term now also commonly includes computer-aided stock market buying or selling programs, and **index arbitrage**.

Prompt Date
The date on which the buyer of an **option** will buy or sell the underlying commodity (or **futures contract**) if the option is exercised.

Prop Shop
A **proprietary trading group**, especially one where the group's traders trade electronically at a physical facility operated by the group.

Proprietary Account
An account that a **futures commission merchant** (FCM) carries for itself or a closely related person, such as a parent, subsidiary or affiliate company, general partner, director, **associated person**, or an owner of 10 percent or more of the capital stock. The FCM must segregate customer funds from funds related to proprietary accounts.

Proprietary Trading Group
An organization whose owners, employees, and/or contractors trade in the name of accounts owned by the group and exclusively use the funds of the group for all of their trading activity.

Public
In trade parlance, non-professional **speculators** as distinguished from **hedgers** and professional speculators or traders.

Public Elevators
Grain elevators in which bulk storage of grain is provided to the public for a fee. Grain of the same **grade** but owned by different persons is usually mixed or commingled as opposed to storing it 'identity preserved.' Some elevators are approved by exchanges as regular for delivery on futures contracts, see **Regular Warehouse**.

Purchase and Sale Statement
See **P&S**.

Put
An **option** contract that gives the holder the right but not the obligation to sell a specified quantity of a particular commodity, security, or other asset or to enter into a short futures position at a given price (the **strike price**) prior to or on or prior to a specified expiration date.

Pyramiding
The use of profits on existing positions as **margin** to increase the size of the position, normally in successively smaller increments.

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Qualified Eligible Person (QEP)
The definition of QEP is too complex to summarize here; please see **Qualified Eligible Person (QEP)** CFTC Regulation 4.7(a)(2) and (a)(3), 17 CFR 4.7(a)(2) and (a)(3),for the full definition.

Quotation
The actual price or the bid or ask price of either cash commodities or futures contracts.

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Rally
An upward movement of prices.

Random Walk
An economic theory that market price movements move randomly. This assumes an **efficient market**. The theory also assumes that new information comes to the market randomly. Together, the

two assumptions imply that market prices move randomly as new information is incorporated into market prices. The theory implies that the best predictor of future prices is the current price, and that past prices are not a reliable indicator of future prices. If the random walk theory is correct, **technical analysis** cannot work.

Range

The difference between the high and low price of a commodity, futures, or option contract during a given period.

Ratio Hedge

The number of options compared to the number of futures contracts bought or sold in order to establish a hedge that is neutral or **delta neutral**.

Ratio Spread

This strategy, which applies to both puts and calls, involves buying or selling options at one **strike price** in greater number than those bought or sold at another strike price. Ratio spreads are typically designed to be **delta neutral**. **Back spreads** and **front spreads** are types of ratio spreads.

Ratio Vertical Spread

See **Front Spread**.

Reaction

A downward price movement after a price advance.

Real-Time Reporting

The reporting of basic data on most **swaps** transactions (including price and volume to **swap data repositories** in real time, as required under the Commodity Exchange Act).

Reference Asset

An asset, such as a corporate or sovereign debt instrument, that underlies a **credit derivative**.

Registered Entity

Any of several types of organizations that facilitate activity in derivatives markets and are registered with the CFTC, including **designated contract markets** (DCMs), **derivatives clearing organizations** (DCOs), **swap execution facilities** (SEFs), and **swap data repositories** (SDRs). SEFs and SDRs were created by the **Dodd-Frank Act**. See **7 USC 1a(40)**.

Regular Warehouse

A processing plant or warehouse that satisfies exchange requirements for financing, facilities, capacity, and location and has been approved as acceptable for delivery of commodities against futures contracts. See **Licensed Warehouse**.

Replicating Portfolio

A portfolio of assets for which changes in value match those of a target asset. For example, a portfolio replicating a standard option can be constructed with certain amounts of the asset underlying the option and bonds. Sometimes referred to as a synthetic asset.

Repo or Repurchase Agreement

A transaction in which one party sells a security to another party while agreeing to repurchase it from the counterparty at some date in the future, at an agreed price. Repos allow traders to short-sell securities and allow the owners of securities to earn added income by lending the securities they own. Through this operation the counterparty is effectively a borrower of funds to finance further. The rate of interest used is known as the repo rate.

Reporting Level

Sizes of positions set by the exchanges and/or the CFTC at or above which commodity traders or brokers who carry these accounts must make daily reports about the size of the position by commodity, by **delivery month**, and whether the position is controlled by a **commercial** or non-commercial trader. See the **Large Trader Reporting Program**.

Request for Quote

A trading system or platform whereby market participants transmit a request for buy or sell prices for a specific instrument and transaction size to other market participants, similar to a competitive bidding process.

Required Transaction

Refers to those **swaps** transactions on **swap execution facilities** that are subject to the trade execution mandate and thus must be traded on a SEF or DCM. CFTC rules require SEFs to offer certain methods of execution for required transactions. See **Permitted Transaction**.

Resistance

In **technical analysis**, a price area where new selling will emerge to dampen a continued rise. See **Support**.

Resting Order

A **limit order** to buy at a price below or to sell at a price above the prevailing market that is being held by a floor broker. Such orders may either be day orders or open orders.

Retail Customer

A customer that does not qualify as an **eligible contract participant** under Section 1a(18) of the **Commodity Exchange Act**, 7 USC 1a(18). An individual with total assets that do not exceed $10 million, or $5 million if the individual is entering into an agreement, contract, or transaction to manage risk, would be considered a retail customer.

Retender

In specific circumstances, some exchanges permit holders of futures contracts who have received a **delivery notice** through the **clearing organization** to sell a futures contract and return the notice to the clearing organization to be reissued to another long; others permit transfer of notices to another buyer. In either case, the trader is said to have retendered the notice.

Retracement

A **reversal** within a major price trend.

Reversal

A change of direction in prices. See **Reverse Conversion**.

Reverse Conversion or Reversal

With regard to options, a position created by buying a call option, selling a put option, and selling the underlying instrument (for example, a futures contract). See **Conversion**. Reverse Crush Spread: The sale of soybean futures and the simultaneous purchase of soybean oil and meal futures. See **Crush Spread**.

Reverse Crush Spread

The sale of soybean futures and the simultaneous purchase of soybean oil and meal futures. See **Crush Spread**.

Riding the Yield Curve

Trading in an interest rate futures contract according to the expectations of change in the yield curve.

Ring

See pit.

Risk Factor

See **Delta**.

Risk Mitigation Service

Similar to Portfolio Compression Services, Risk Mitigation Service providers evaluate the portfolio of a **swaps** market participant and enter into new trades with counterparties in the service providers' network based on the overall risk profile of their client's portfolio. However, unlike **Portfolio Compression Services**, Risk Mitigation Services are not restricted to netting out redundant positions. Risk Mitigation Services may result in new positions that modify the overall risk profile of the client.

Risk/Reward Ratio

The relationship between the probability of loss and profit. This ratio is often used as a basis for trade selection or comparison.

Risked-Based Margining

See **Portfolio Margining**.

Roll-Over

A trading procedure involving the shift of one month of a **straddle** into another future month while holding the other contract month. The shift can take place in either the long or short straddle month. The term also applies to lifting a near futures position and re-establishing it in a more deferred delivery month.

Round Lot

A quantity of a commodity equal in size to the corresponding futures contract for the commodity. See **Even Lot**.

Round Trip Trading

See **Wash Trading**.

Round Turn

A completed transaction involving both a purchase and a liquidating sale, or a sale followed by a covering purchase.

Rules

The principles for governing an exchange. In some exchanges, rules are adopted by a vote of the membership, while in others, they can be imposed by the governing board.

Runners
Messengers or clerks on a trading floor who deliver orders received by phone clerks to brokers for execution in the pit.

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Sample Grade
Usually the lowest quality of a commodity, too low to be acceptable for delivery in satisfaction of futures contracts.

Scale Down (or Up)
To purchase or sell a scale down means to buy or sell at regular price intervals in a declining market. To buy or sell on scale up means to buy or sell at regular price intervals as the market advances.

Scalper
Traditionally, a **speculator**, often with exchange trading privileges (a local), who buys and sells rapidly, with small profits or losses, holding his positions for only a short time during a trading session. Typically, a scalper will stand ready to buy at a fraction below the last transaction price and to sell at a fraction above, e.g., to buy at the bid and sell at the offer or ask price, with the intent of capturing the spread between the two, thus creating market liquidity. See **Day Trader**, **Position Trader**.

Sealed Bid Auction
A form of auction where buyers submit one concealed bid (or sellers submit one concealed offer, in the case of a reverse auction). After a round of bidding has closed, submitted bids are compared and the person with the highest bid wins the award and pays the amount of his bid to the seller. (Again this process is reversed in the case of a reverse auction.) In a sealed bid, market participants cannot see their competitors' price submissions so they must base their own submission exclusively on their own willingness-to-pay for the auctioned item.

Seat
An instrument granting trading privileges on an exchange. If the exchange has a mutual ownership structure, a seat may also represent an ownership interest in the exchange.

Securities and Exchange Commission (SEC)
SEC: The Federal regulatory agency established in 1934 to administer Federal securities laws.

Security
Generally, a transferable **instrument** representing an ownership interest in a corporation (equity security or stock) or the debt of a corporation, municipality, or sovereign. Other forms of debt such as mortgages can be converted into securities. Certain **derivatives** on securities (e.g., options on equity securities and security based swaps) are also considered securities for the purposes of the securities laws. **Security futures products** are considered to be both securities and futures products. Futures contracts on **broad-based securities indexes** are not considered securities. See 7 USC 1a(41).

Security Deposit
See **Margin**.

Security Future
A contract for the sale or future delivery of a single security or of a **narrow-based security index**. See 7 USC 1a(31). See **7 USC 1a(44)**.

Security Futures Product
A **security future** or any put, call, straddle, option, or privilege on any security future. See **7 USC 1a(45)**.

Security-Based Swap
Any agreement, contract, or transaction that otherwise meets the definition of a **swap** but is also designated a security by the Securities Exchange Act of 1934. In practice, security-based swaps base their payments on variables that are closely tied to the major categories of securities that are regulated by the SEC, including swaps based on a single equity or debt security, single name credit default swaps, or swaps based on narrow-based security indexes. See **7 USC 1a(42)**.

Security-Based Swap Dealer
A swap dealer that deals in security based swaps under SEC regulation. See **7 USC 1a(43)**.

Security-Based Swap Execution Facility
A **swap execution facility** regulated by the SEC where security-based swaps are executed.

Segregation of Funds
The requirement that FCMs keep customer funds such as margin deposits separate from the firms' own funds.

Self-Regulatory Organization (SRO)
Exchanges and registered futures associations that enforce financial and sales practice requirements for their members. See **Designated Self-Regulatory Organizations**.

Seller's Call
Seller's call, also referred to as call purchase, is the same as the buyer's call except that the seller has the right to determine the time to fix the price. See **Buyer's Call**.

Seller's Market
A condition of the market in which there is a scarcity of goods available and hence sellers can obtain better conditions of sale or higher prices. See **Buyer's Market**.

Seller's Option
The right of a seller to select, within the limits prescribed by a contract, the quality of the commodity delivered and the time and place of **delivery**.

Selling Hedge (or Short Hedge)
Selling futures contracts to protect against possible decreased prices of commodities. See **Hedging**.

Series (of Options)
Options of the same type (i.e., either puts or calls, but not both), covering the same underlying futures contract or other underlying instrument, having the same **strike price** and **expiration date**.

Settlement
The act of fulfilling the **delivery** requirements of the **futures contract**.

Settlement Price
The daily price at which the **clearing organization** clears all trades and settles all accounts between **clearing members** of each **contract month**. Settlement prices are used to determine both **margin calls** and **invoice prices** for **deliveries**. The term also refers to a price established by the exchange to even up positions which may not be able to be liquidated in regular trading.

Shipping Certificate
A negotiable instrument used as the **futures delivery** instrument for certain physical commodities. The shipping certificate is issued by exchange-approved facilities and represents a commitment by the facility to deliver the commodity to the holder of the certificate under the terms specified therein. Unlike an issuer of a **warehouse receipt**, who has physical product in store, the issuer of a shipping certificate may honor its obligation from current production or through-put as well as from inventories.

Shock Absorber
A temporary restriction in the trading of certain stock index futures contracts that becomes effective following a significant intraday decrease in stock index futures prices. Designed to provide an adjustment period to digest new market information, the restriction bars trading below a specified price level. Shock absorbers are generally market specific and at tighter levels than **circuit breakers**.

Short
(1) The selling side of an open futures contract; (2) a trader whose net position in the futures market shows an excess of open sales over open purchases. See **Long**.

Short Covering
See **Cover**.

Short Hedge
See **Selling Hedge**.

Short Selling
Selling a futures contract or other instrument with the idea of delivering on it or offsetting it at a later date.

Short Squeeze
See **Squeeze**.

Short the Basis
The purchase of futures as a hedge against a commitment to sell in the cash or spot markets. See **Hedging**.

Single Dealer Platform
An electronic trading venue in which one dealer is the counterparty to and market maker for all trades. Unlike **trading facilities**, the firm involved in every trade is itself a dealer, looking to profit from its trading.

Single Stock Future
A futures contract on a single stock as opposed to a stock index. Single stock futures were illegal in the U.S. prior to the passage of the Commodity Futures Modernization Act of 2000. See **Security Future**, **Security Futures Product**.

Small Traders
Traders who hold or control positions in futures or options that are below the **reporting level** specified by the exchange or the CFTC.

Soft
(1) A description of a price that is gradually weakening; or (2) this term also refers to certain 'soft' commodities such as sugar, cocoa, and coffee.

Soft Commodities
Certain agricultural commodities such as sugar, cocoa, and coffee.

SPAN (Standard Portfolio Analysis of Risk®)
As developed by the Chicago Mercantile Exchange, the industry standard for calculating performance bond requirements (**margins**) on the basis of overall portfolio risk. SPAN calculates risk for all enterprise levels on derivative and non-derivative instruments at numerous exchanges and clearing organizations worldwide.

Spark Spread
The differential between the price of electricity and the price of natural gas or other fuel used to generate electricity, expressed in equivalent units. See **Gross Processing Margin**.

Specialist System
A type of trading commonly formerly used for the exchange trading of securities in which one individual or firm acts as a market-maker in a particular security, with the obligation to provide fair and orderly trading in that security by offsetting temporary imbalances in supply and demand by trading for the specialist's own account. Like **Open Outcry**, the specialist system was supplanted by electronic trading during the early 21st century. In 2008, the New York Stock Exchange replaced the specialist system with a competitive dealer system. Specialists were converted into Designated Market Makers who have a different set of privileges and obligations than specialists had.

Speculative Bubble
A rapid run-up in prices caused by excessive buying that is unrelated to any of the basic, underlying factors affecting the supply or demand for a commodity or other asset. Speculative bubbles are usually associated with a 'bandwagon' effect in which speculators rush to buy the commodity (in the case of futures, 'to take positions' before the price trend ends, and an even greater rush to sell the commodity (unwind positions) when prices reverse.

Speculative Limit
See **Speculative Position Limit**.

Speculative Position Limit
The maximum position, either net long or net short, in one commodity future (or option) or in all futures (or options) of one commodity combined that may be held or controlled by one person (other than a person eligible for a **hedge exemption**) as prescribed by an exchange and/or by the CFTC.

Speculator
In commodity futures, a trader who does not **hedge**, but who trades with the objective of achieving profits through the successful anticipation of price movements.

Split Close
A condition that refers to price differences in transactions at the close of any market session.

Spoofing
See **Disruptive Trading Practice**.

Spot
Market of immediate delivery of and payment for the product.

Spot Commodity
(1) The actual commodity as distinguished from a futures contract; (2) sometimes used to refer to cash commodities available for immediate delivery. See **Actuals** or **Cash Commodity**.

Spot Month
The futures contract that matures and becomes deliverable during the present month. Also called **Current Delivery Month**.

Spot Price
The price at which a physical commodity for immediate delivery is selling at a given time and place. See **Cash Price**.

Spread (or Straddle)
The purchase of one **futures delivery month** against the sale of another futures delivery month of the same commodity; the purchase of one delivery month of one commodity against the sale of that same delivery month of a different commodity; or the purchase of one commodity in one market

against the sale of the commodity in another market, to take advantage of a profit from a change in price relationships. The term spread is also used to refer to the difference between the price of a futures month and the price of another month of the same commodity. A spread can also apply to **options**. See **Arbitrage**.

Squeeze

A market situation in which the lack of supplies tends to force shorts to cover their positions by offset at higher prices. Also see **Congestion**, **Corner**.

SRO

See **Self-Regulatory Organization**.

Stop Limit Order

A stop limit order is an order that goes into force as soon as there is a trade at the specified price. The order, however, can only be filled at the stop limit price or better. Compare to **Stop Order**.

Stop Logic Functionality

A provision applicable to futures traded on the CME's Globex electronic trading system designed to prevent excessive price movements caused by cascading **stop orders**. Stop Logic Functionality introduces a momentary pause in matching (Reserved State) when triggered stops would cause the market to trade outside predefined values. The momentary pause provides an opportunity for additional bids or offers to be posted.

Stop Loss Order

See **Stop Order**.

Stop Order

This is an order that becomes a market order when a particular price level is reached. A sell stop is placed below the market, a buy stop is placed above the market. Sometimes referred to as **stop loss order**. Compare to **market-if-touched order**.

Stop-Close-Only Order

A **stop order** that can be executed, if possible, only during the closing period of the market. See also **Market-on-Close Order**.

Straddle

(1) See **Spread;** (2) an option position consisting of the purchase of **put** and **call** options having the same **expiration date** and **strike price**.

Straight Through Processing

A term for a fully electronic administrative system backstopping financial trades. Currently, trades may involve some data reentry or manual processing. This may lengthen the time between when a trade is made and when it can be settled. Straight Through Processing offers a reduction in settlement and clearing risk.

Strangle

An option position consisting of the purchase of **put** and **call** options having the same **expiration date**, but different **strike prices**.

Strategy-Based Margining

A method for setting **margin** requirements whereby the potential for gains on one position in a portfolio to offset losses on another position is taken into account only if the portfolio implements one of a designated set of recognized trading strategies as set out in the rules of an exchange or **clearing organization**. Also see **Portfolio Margining**.

Street Book

A daily record kept by **futures commission merchants** and **clearing members** showing details of each futures and option transaction, including date, price, quantity, market, commodity, future, **strike price**, option type, and the person for whom the trade was made.

Strike Price (Exercise Price)

The price, specified in the **option** contract, at which the underlying **futures contract**, security, or commodity will move from seller to buyer.

Strip

A sequence of futures **contract months** (e.g., the June, July, and August natural gas **futures contracts**) that can be executed as a single transaction.

STRIPS (Separate Trading of Registered Interest and Principal Securities)

A book-entry system operated by the Federal Reserve permitting separate trading and ownership of the principal and coupon portions of selected Treasury securities. It allows the creation of **zero coupon** Treasury securities from designated whole bonds.

Support

In **technical analysis**, a price area where new buying is likely to come in and stem any decline. See **Resistance**.

Swap
The statutory definition of "swap" is detailed and comprehensive, though certain agreements, contracts, and transactions are excluded from the definition. It includes, for example, **interest rate swaps**, commodity swaps, **currency swaps**, equity swaps and **credit default swaps**. Congress directed both the Commission and the Securities and Exchange Commission to further define the term "swap" (and **security-based swap**) jointly. The Commissions in 2012 adopted rules and interpretations to clarify that a few types of transactions in particular are swaps. These include foreign currency options, commodity options, non-deliverable forwards in foreign exchange, cross-currency swaps, **forward rate agreements**, contracts for differences, **options to enter into swaps** and forward swaps. See **7 U.S.C. §1a(47)** and 17 C.F.R. 1.3.

Swap Data Repository (SDR)
Swap data repositories (SDRs) are **registered entities** created by the **Dodd-Frank Act** that collect and maintain information or records with respect to transactions or positions in, or the terms and conditions of, swaps entered into by third parties for the purpose of providing a centralized recordkeeping facility for **swaps**. See **7 U.S.C. §1a(48)**.

Swap Dealer
The **Dodd-Frank Act** and subsequent CFTC rules, in general, identify a "swap dealer" as any person who:1. holds itself out as a dealer in **swaps**, 2. makes a market in swaps; 3. regularly enters into swaps with counterparties as an ordinary course of business for its own account, or 4. engages in activity causing itself to be commonly known in the trade as a dealer or **market maker** in swaps.The CFTC requires that persons engaged in these activities register as swaps dealers after they have reached a "de minimis" threshold, meaning that, the aggregate gross notional amount of the swaps, with certain exceptions, that the person enters into over the prior 12 months in connection with dealing activities exceeds $3 billion. (This threshold is currently set at $8 billion, as part of a phase-in period.) See **7 USC 1a(49)**

Swap Execution Facility (SEF)
A trading system or platform created by the **Dodd-Frank Act** in which multiple participants have the ability to execute or trade **swaps** by accepting bids and offers made by multiple participants in the facility or system, through any means of interstate commerce. The Dodd-Frank Act imposed different statutory provisions on SEFs than on **designated contract markets**. See **7 USC 1a(50)**.

Swaps Guarantee
A guarantee of a **swap** is a collateral promise by a guarantor to answer for the debt or obligation of a counterparty obligor under a swap.

Swaption
An **option** to enter into a **swap** - i.e., the right, but not the obligation, to enter into a specified type of swap at a specified future date.

Switch
Offsetting a position in one **delivery month** of a commodity and simultaneous initiation of a similar position in another delivery month of the same commodity, a tactic referred to as 'rolling forward'.

Synthetic Futures
A position created by combining **call** and **put options**. A synthetic **long futures contract** is created by combining a long call option and a short put option for the same **expiration date** and the same **strike price**. A synthetic **short** futures contract is created by combining a long put and a short call with the same expiration date and the same strike price.

Systematic Risk
Market risk due to factors that cannot be eliminated by diversification.

Systemic Risk
The risk that a default by one market participant will have repercussions on other participants due to the interlocking nature of financial markets. For example, Customer A's default in X market may affect Intermediary B's ability to fulfill its obligations in Markets X, Y, and Z.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

T-Bond
See **Treasury Bond**.

Technical Analysis
An approach to forecasting commodity prices that examines patterns of price change, rates of change, and changes in volume of trading and **open interest**, without regard to underlying fundamental market factors. Technical analysis can work consistently only if the theory that price movements are a **random walk** is incorrect. See **Fundamental Analysis**.

Ted Spread
(1) The difference between the interest rate on three-month U.S. **Treasury bills** and three-month **LIBOR**; (2) traditionally, the difference between the price of the three-month U.S. Treasury bill futures contract and the price of the three-month **Eurodollar** time deposit futures contract with the same expiration month (Treasury Over Eurodollar).

Tender
To give notice to the clearing organization of the intention to initiate delivery of the physical commodity in satisfaction of a short futures contract. Also see **Retender**.

Tenderable Grades
See **Contract Grades**.

Terminal Elevator
An elevator located at a point of greatest accumulation in the movement of agricultural products that stores the commodity or moves it to processors.

Terminal Market
Usually synonymous with commodity exchange or futures market, specifically in the United Kingdom.

TIBOR (Tokyo Interbank Offered Rate)
A daily reference rate based on the interest rates at which banks offer to lend unsecured funds to other banks in the Japan wholesale money market (or interbank market). See **EURIBOR**, **LIBOR**.

Tick
Refers to a minimum change in price up or down. An up-tick means that the last trade was at a higher price than the one preceding it. A down-tick means that the last price was lower than the one preceding it. See **Minimum Price Fluctuation**.

Time Decay
The tendency of an **option** to decline in value as the **expiration date** approaches, especially if the price of the underlying instrument is exhibiting low **volatility**. See **Time Value**.

Time Spread
The selling of a nearby **option** and buying of a more deferred option with the same strike price. Also called **Horizontal Spread**.

Time Value
That portion of an **option's premium** that exceeds the **intrinsic value**. The time value of an option reflects the probability that the option will move into-the-money. Therefore, the longer the time remaining until expiration of the option, the greater its time value. Also called **Extrinsic Value**.

To-Arrive Contract
A transaction providing for subsequent delivery within a stipulated time limit of a specific grade of a commodity.

Total Return Swap
A type of **credit derivative** in which one counterparty receives the total return (interest payments and any capital gains or losses) from a specified **reference asset** and the other counterparty receives a specified fixed or floating cash flow that is not related to the creditworthiness of the reference asset. Also called total rate of return swap, or TR swap.

Trade Option
A commodity **option** transaction in which the purchaser is reasonably believed by the **writer** to be engaged in business involving use of that commodity or a related commodity.

Trader
(1) A merchant involved in cash commodities; (2) a professional **speculator** who trades for his own account and who typically holds exchange trading privileges.

Trading Ahead
See **Front Running**.

Trading Arcade
A facility, often operated by a **clearing member** that clears trades for **locals**, where **e-locals** who trade for their own account can gather to trade on an electronic trading facility (especially if the exchange is all-electronic and there is no **pit** or **ring**).

Trading at Settlement (TAS)
An exchange rule which permits the parties to a futures trade during a trading day to agree that the price of the trade will be that day's **settlement price** (or the settlement price plus or minus a specified differential).

Trading Facility
In general, a person or group of persons that provides a physical or electronic facility or system in

which multiple participants have the ability to execute or trade agreements, contracts, or transactions by accepting **bids** and **offers** made by other participants in the facility or system or through the interaction of multiple bids or multiple offers within a system with a pre-determined non-discretionary automated trade matching and execution algorithm. See **Many-to-Many**. See **7 USC 1a(51)**.

Trading Floor
A physical **trading facility** where traders make **bids** and **offers** via **open outcry** or the **specialist system**.

Transaction
The entry or liquidation of a trade.

Transfer Notice
A term used on some exchanges to describe a **notice of delivery**. See **Retender**.

Transfer Trades
Entries made upon the books of **futures commission merchants** for the purpose of: (1) transferring existing trades from one account to another within the same firm where no change in ownership is involved; (2) transferring existing trades from the books of one futures commission merchant (FCM) to the books of another FCM where no change in ownership is involved.

Transferable Option (or Contract)
A contract that permits a position in the **option** market to be offset by a transaction on the opposite side of the market in the same contract.

Transparency
Transparency in financial markets refers to the ability of a wide group of market participants and the public to access basic information describing market activity including the price at which a product, service, or asset is trading. **Post-trade transparency** refers to information about trades that have recently occurred, including execution price and transaction information. **Pre-trade transparency** refers to information about **bids** and **offers**, including **bid-ask spreads** and quantities available.

Treasury Bills (or T-Bills)
Short-term **zero coupon** U.S. government obligations, generally issued with various maturities of up to one year.

Treasury Bonds (or T-Bonds)
Long-term (more than ten years) obligations of the U.S. government that pay interest semiannually until they mature, at which time the principal and the final interest payment is paid to the investor.

Treasury Notes
Same as **Treasury bonds** except that Treasury notes are medium-term (more than one year but not more than ten years).

Trend
The general direction, either upward or downward, in which prices have been moving.

Trendline

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Unable
All orders not filled by the end of a trading day are deemed 'unable' and void, unless they are designated GTC (**Good Till Canceled**) or **open**.

Uncovered Option
See **Naked Option**.

Underlying Commodity
The **cash commodity** underlying a **futures contract**. Also, the commodity or futures contract on which a commodity option is based, and which must be accepted or delivered if the option is exercised.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Variable Price Limit
A **price limit** schedule, determined by an exchange, that permits variations above or below the normally allowable price movement for any one trading day.

Variation Margin
Payment made on a daily or intraday basis by a **clearing member** to the **clearing organization** based on adverse price movement in positions carried by the clearing member, calculated separately for customer and proprietary positions.

Vault Receipt
A document indicating ownership of a commodity stored in a bank or other depository and frequently used as a **delivery** instrument in precious metal **futures contracts**.

Vega
Coefficient measuring the sensitivity of an **option** value to a change in volatility.

Vertical Spread
Any of several types of option spread involving the simultaneous purchase and sale of options of the same class and **expiration date** but different **strike prices**, including **bull vertical spreads**, **bear vertical spreads**, **back spreads**, and **front spreads**. See **Horizontal Spread** and **Diagonal Spread**.

Visible Supply
Usually refers to supplies of a commodity in licensed warehouses. Often includes floats and all other supplies 'in sight' in producing areas. See **Invisible Supply**.

Voice Broker
An interdealer broker who brokers derivatives transactions via telephone, instant message, or similar means of communication.

Volatility
A statistical measurement (the annualized standard deviation of returns) of the rate of price change of a **futures contract**, security, or other instrument underlying an **option**. See **Historical Volatility**, **Implied Volatility**.

Volatility Quote Trading
Refers to the quoting of bids and offers on **option** contracts in terms of their **implied volatility** rather than as prices.

Volatility Spread
A **delta-neutral option spread** designed to speculate on changes in the **volatility** of the market rather than the direction of the market.

Volatility Trading
Strategies designed to speculate on changes in the **volatility** of the market rather than the direction of the market.

Volcker Rule
Named for former United States Federal Reserve Chairman Paul Volcker, the Volcker Rule is a section of the **Dodd-Frank Act** that generally prohibits banking entities from engaging in proprietary trading or certain other high risk investments or strategies.

Volume
The number of contracts traded during a specified period of time. It is most commonly quoted as the number of contracts traded, but for some **physical commodities** may be quoted or as the total of physical units, such as bales, or bushels, pounds or dozens or barrels.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Warehouse Receipt
A document certifying possession of a commodity in a licensed warehouse that is recognized for **delivery** purposes by an exchange.

Warrant
An issuer-based product that gives the buyer the right, but not the obligation, to buy (in the case of a **call**) or to sell (in the case of a **put**) a stock or a commodity at a set price during a specified period.

Warrant or Warehouse Receipt for Metals
Certificate of physical deposit, which gives title to physical metal in an exchange-approved warehouse.

Wash Sale
See **Wash Trading**.

Wash Trading
Entering into, or purporting to enter into, transactions to give the appearance that purchases and sales have been made, without incurring market risk or changing the trader's market position. The **Commodity Exchange Act** prohibits wash trading. Also called **Round Trip Trading**, **Wash Sales**.

Weather Derivative
A **derivative** whose payoff is based on a specified weather event, for example, the average temperature in Chicago in January. Such a derivative can be used to **hedge** risks related to the demand for heating fuel or electricity.

Wild Card Option
Refers to a provision of any physical delivery **Treasury bond** or **Treasury note futures contract** that permits **shorts** to wait until as late as 8:00 p.m. Chicago time on any **notice day** to announce their intention to **deliver** at invoice prices that are fixed at 2:00 p.m., the close of futures trading, on that day.

Winter Wheat
Wheat that is planted in the fall, lies dormant during the winter, and is harvested beginning about May of the next year.

Work-Up
A procedure common in **derivatives** markets that allows negotiated transactions to expand. In a work-up, after a price and quantity for a bilateral deal have been set, the parties involved can offer to expand the quantity of the deal, until the other party objects. In the case of brokered deals, third parties can similarly offer (through the broker) to expand the size of the trade until the appetite on one side of the trade has been exhausted.

Writer
The issuer, grantor, or seller of an **option** contract.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

No entries defined

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Yield Curve
A graphic representation of market yield for a fixed income security plotted against the maturity of the security. The yield curve is positive when long-term rates are higher than short-term rates.

Yield to Maturity
The rate of return an investor receives if a fixed income security is held to maturity.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Zero Coupon
Refers to a debt instrument that does not make coupon payments, but, rather, is issued at a discount to par and redeemed at **par** at maturity.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Legal Definition of Board of Trade
7 USC 1a(6): The term board of trade means any organized exchange or other trading facility.

Legal Definition of Commodity
7 USC 1a(9) Commodity The term 'commodity' means wheat, cotton, rice, corn, oats, barley, rye, flaxseed, grain sorghums, mill feeds, butter, eggs, Solanum tuberosum (Irish potatoes), wool, wool tops, fats and oils (including lard, tallow, cottonseed oil, peanut oil, soybean oil, and all other fats and oils), cottonseed meal, cottonseed, peanuts, soybeans, soybean meal, livestock, livestock products, and frozen concentrated orange juice, and all other goods and articles, except onions (as provided by section 13–1 of this title) and motion picture box office receipts (or any index, measure, value, or data related to such receipts), and all services, rights, and interests (except motion picture box office receipts, or any index, measure, value or data related to such receipts) in which contracts for future delivery are presently or in the future dealt in.

Legal Definition of Commodity Pool
7 USC 1a(10) Commodity pool (A) In general The term 'commodity pool' means any investment trust, syndicate, or similar form of enterprise operated for the purpose of trading in commodity interests, including any - (i)commodity for future delivery, security futures product, or swap; (ii)agreement, contract, or transaction described in section 2(c)(2)(C)(i) of this title or section 2(c)(2)(D)(i) of this title;(iii)commodity option authorized under section 6c of this title; or (iv)leverage transaction authorized under section 23 of this title.(B) Further definition The Commission, by rule or regulation, may include within, or exclude from, the term commodity pool any investment trust, syndicate, or similar form of enterprise if the Commission determines that the rule or regulation will effectuate the purposes of this chapter.

Legal Definition of Commodity Pool Operator
7 USC 1a(11) Commodity pool operator (A) In general The term commodity pool operator means any person - (i)engaged in a business that is of the nature of a commodity pool, investment trust, syndicate, or similar form of enterprise, and who, in connection therewith, solicits, accepts, or receives from others, funds, securities, or property, either directly or through capital contributions, the

sale of stock or other forms of securities, or otherwise, for the purpose of trading in commodity interests, including any (I)commodity for future delivery, security futures product, or swap; (II)agreement, contract, or transaction described in section 2(c)(2)(C)(i) of this title or section 2(c)(2)(D)(i) of this title; (III)commodity option authorized under section 6c of this title; or (IV)leverage transaction authorized under section 23 of this title; or (ii)who is registered with the Commission as a commodity pool operator. (B) Further definition The Commission, by rule or regulation, may include within, or exclude from, the term commodity pool operator any person engaged in a business that is of the nature of a commodity pool, investment trust, syndicate, or similar form of enterprise if the Commission determines that the rule or regulation will effectuate the purposes of this chapter.

Legal Definition of Derivatives Clearing Organization

(15) Derivatives clearing organization (A) In general The term “derivatives clearing organization” means a clearinghouse, clearing association, clearing corporation, or similar entity, facility, system, or organization that, with respect to an agreement, contract, or transaction— (i)enables each party to the agreement, contract, or transaction to substitute, through novation or otherwise, the credit of the derivatives clearing organization for the credit of the parties; (ii)arranges or provides, on a multilateral basis, for the settlement or netting of obligations resulting from such agreements, contracts, or transactions executed by participants in the derivatives clearing organization; or (iii)otherwise provides clearing services or arrangements that mutualize or transfer among participants in the derivatives clearing organization the credit risk arising from such agreements, contracts, or transactions executed by the participants. (B) Exclusions The term “derivatives clearing organization” does not include an entity, facility, system, or organization solely because it arranges or provides for — (i)settlement, netting, or novation of obligations resulting from agreements, contracts, or transactions, on a bilateral basis and without a central counterparty; (ii)settlement or netting of cash payments through an interbank payment system; or (iii)settlement, netting, or novation of obligations resulting from a sale of a commodity in a transaction in the spot market for the commodity.

Legal Definition of Electronic Trading Facility

(16) Electronic trading facility The term “electronic trading facility” means a trading facility that— (A)operates by means of an electronic or telecommunications network; and (B)maintains an automated audit trail of bids, offers, and the matching of orders or the execution of transactions on the facility.

Legal Definition of Excluded Commodity

(19) Excluded commodity The term “excluded commodity” means— (i)an interest rate, exchange rate, currency, security, security index, credit risk or measure, debt or equity instrument, index or measure of inflation, or other macroeconomic index or measure; (ii)any other rate, differential, index, or measure of economic or commercial risk, return, or value that is— (I)not based in substantial part on the value of a narrow group of commodities not described in clause (i); or (II)based solely on one or more commodities that have no cash market; (iii)any economic or commercial index based on prices, rates, values, or levels that are not within the control of any party to the relevant contract, agreement, or transaction; or (iv)an occurrence, extent of an occurrence, or contingency (other than a change in the price, rate, value, or level of a commodity not described in clause (i)) that is— (I)beyond the control of the parties to the relevant contract, agreement, or transaction; and (II)associated with a financial, commercial, or economic consequence.

Legal Definition of Exempt Commodity

(20) Exempt commodity The term “exempt commodity” means a commodity that is not an excluded commodity or an agricultural commodity.

Legal Definition of Floor Broker

22) Floor broker (A) In general The term “floor broker” means any person— (i)who, in or surrounding any pit, ring, post, or other place provided by a contract market for the meeting of persons similarly engaged, shall purchase or sell for any other person— (I)any commodity for future delivery, security futures product, or swap; or (II)any commodity option authorized under section 6c of this title; or (ii)who is registered with the Commission as a floor broker. (B) Further definition The Commission, by rule or regulation, may include within, or exclude from, the term “floor broker” any person in or surrounding any pit, ring, post, or other place provided by a contract market for the meeting of persons similarly engaged who trades for any other person if the Commission determines that the rule or regulation will effectuate the purposes of this chapter.

Legal Definition of Floor Trader

23) Floor trader (A) In general The term “floor trader” means any person— (i)who, in or surrounding any pit, ring, post, or other place provided by a contract market for the meeting of persons similarly engaged, purchases, or sells solely for such person’s own account— (I)any commodity for future delivery, security futures product, or swap; or (II)any commodity option authorized under section 6c of this title; or (ii)who is registered with the Commission as a floor trader. (B) Further definition The Commission, by rule or regulation, may include within, or exclude from, the term “floor trader” any person in or surrounding any pit, ring, post, or other place provided by a contract market for the meeting of persons similarly engaged who trades solely for such person’s own account if the Commission determines that the rule or regulation will effectuate the purposes of this chapter.

Legal Definition of Foreign Exchange Forward

(24) Foreign exchange forward The term “foreign exchange forward” means a transaction that solely

involves the exchange of 2 different currencies on a specific future date at a fixed rate agreed upon on the inception of the contract covering the exchange.

Legal Definition of Foreign Exchange Swap

(25) Foreign exchange swap The term "foreign exchange swap" means a transaction that solely involves— (A)an exchange of 2 different currencies on a specific date at a fixed rate that is agreed upon on the inception of the contract covering the exchange; and (B)a reverse exchange of the 2 currencies described in subparagraph (A) at a later date and at a fixed rate that is agreed upon on the inception of the contract covering the exchange.

Legal Definition of Futures Commission Merchant

(28) Futures commission merchant (A) In general The term "futures commission merchant" means an individual, association, partnership, corporation, or trust— (i)that— (I)is— (aa)engaged in soliciting or in accepting orders for— (AA)the purchase or sale of a commodity for future delivery; (BB)a security futures product; (CC)a swap; (DD)any agreement, contract, or transaction described in section 2(c)(2)(C)(i) of this title or section 2(c)(2)(D)(i) of this title; (EE)any commodity option authorized under section 6c of this title; or (FF)any leverage transaction authorized under section 23 of this title; or (bb)acting as a counterparty in any agreement, contract, or transaction described in section 2(c)(2)(C)(i) of this title or section 2(c)(2)(D)(i) of this title; and (II)in or in connection with the activities described in items (aa) or (bb) of subclause (I), accepts any money, securities, or property (or extends credit in lieu thereof) to margin, guarantee, or secure any trades or contracts that result or may result therefrom; or (ii)that is registered with the Commission as a futures commission merchant. (B) Further definition The Commission, by rule or regulation, may include within, or exclude from, the term "futures commission merchant" any person who engages in soliciting or accepting orders for, or acting as a counterparty in, any agreement, contract, or transaction subject to this chapter, and who accepts any money, securities, or property (or extends credit in lieu thereof) to margin, guarantee, or secure any trades or contracts that result or may result therefrom, if the Commission determines that the rule or regulation will effectuate the purposes of this chapter.

Legal Definition of Hybrid Instrument

(29) Hybrid instrument The term "hybrid instrument" means a security having one or more payments indexed to the value, level, or rate of, or providing for the delivery of, one or more commodities.

Legal Definition of Introducing Broker

(31) Introducing broker (A) In general The term "introducing broker" means any person (except an individual who elects to be and is registered as an associated person of a futures commission merchant)— (i)who— (I)is engaged in soliciting or in accepting orders for— (aa)the purchase or sale of any commodity for future delivery, security futures product, or swap; (bb)any agreement, contract, or transaction described in section 2(c)(2)(C)(i) of this title or section 2(c)(2)(D)(i) of this title; (cc)any commodity option authorized under section 6c of this title; or (dd)any leverage transaction authorized under section 23 of this title; and (II)does not accept any money, securities, or property (or extend credit in lieu thereof) to margin, guarantee, or secure any trades or contracts that result or may result therefrom; or (ii)who is registered with the Commission as an introducing broker. (B) Further definition The Commission, by rule or regulation, may include within, or exclude from, the term "introducing broker" any person who engages in soliciting or accepting orders for any agreement, contract, or transaction subject to this chapter, and who does not accept any money, securities, or property (or extend credit in lieu thereof) to margin, guarantee, or secure any trades or contracts that result or may result therefrom, if the Commission determines that the rule or regulation will effectuate the purposes of this chapter.

Legal Definition of Major Security Based Swap Participant

32) Major security-based swap participant The term "major security-based swap participant" has the meaning given the term in section 3(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)).

Legal Definition of Mixed Swap

(D) Mixed swap The term "security-based swap" includes any agreement, contract, or transaction that is as described in section 3(a)(68)(A) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(68)(A)) and also is based on the value of 1 or more interest or other rates, currencies, commodities, instruments of indebtedness, indices, quantitative measures, other financial or economic interest or property of any kind (other than a single security or a narrow-based security index), or the occurrence, non-occurrence, or the extent of the occurrence of an event or contingency associated with a potential financial, economic, or commercial consequence (other than an event described in subparagraph (A)(iii)).

Legal Definition of Registered Entity

(40) Registered entity The term "registered entity" means— (A)a board of trade designated as a contract market under section 7 of this title; (B)a derivatives clearing organization registered under section 7a–1 of this title; (C)a board of trade designated as a contract market under section 7b–1 of this title; (D)a swap execution facility registered under section 7b–3 of this title; (E)a swap data repository registered under section 24a of this title; and (F)with respect to a contract that the Commission determines is a significant price discovery contract, any electronic trading facility on which the contract is executed or traded.

Legal Definition of Security Future

(44) Security future The term “security future” means a contract of sale for future delivery of a single security or of a narrow-based security index, including any interest therein or based on the value thereof, except an exempted security under section 3(a)(12) of the Securities Exchange Act of 1934 [15 U.S.C. 78c(a)(12)] as in effect on January 11, 1983 (other than any municipal security as defined in section 3(a)(29) of the Securities Exchange Act of 1934 [15 U.S.C. 78c(a)(29)] as in effect on January 11, 1983). The term “security future” does not include any agreement, contract, or transaction excluded from this chapter under section 2(c), 2(d), 2(f), or 2(g) of this title (as in effect on December 21, 2000) or sections 27 to 27f of this title.

Legal Definition of Security Futures Product

(45) Security futures product The term “security futures product” means a security future or any put, call, straddle, option, or privilege on any security future.

Legal Definition of Security-Based Swap

(42) Security-based swap The term “security-based swap” has the meaning given the term in section 3(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)).

Legal Definition of Security-Based Swap Dealer

(43) Security-based swap dealer The term “security-based swap dealer” has the meaning given the term in section 3(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)).

Legal Definition of Swap Data Repository

(48) Swap data repository The term “swap data repository” means any person that collects and maintains information or records with respect to transactions or positions in, or the terms and conditions of, swaps entered into by third parties for the purpose of providing a centralized recordkeeping facility for swaps.

Legal Definition of Swap Dealer

(49) Swap dealer (A) In general The term “swap dealer” means any person who— (i)holds itself out as a dealer in swaps; (ii)makes a market in swaps; (iii)regularly enters into swaps with counterparties as an ordinary course of business for its own account; or (iv)engages in any activity causing the person to be commonly known in the trade as a dealer or market maker in swaps, provided however, in no event shall an insured depository institution be considered to be a swap dealer to the extent it offers to enter into a swap with a customer in connection with originating a loan with that customer. (B) Inclusion A person may be designated as a swap dealer for a single type or single class or category of swap or activities and considered not to be a swap dealer for other types, classes, or categories of swaps or activities. (C) Exception The term “swap dealer” does not include a person that enters into swaps for such person’s own account, either individually or in a fiduciary capacity, but not as a part of a regular business. (D) De minimis exception The Commission shall exempt from designation as a swap dealer an entity that engages in a de minimis quantity of swap dealing in connection with transactions with or on behalf of its customers. The Commission shall promulgate regulations to establish factors with respect to the making of this determination to exempt.

Legal Definition of Swap Execution Facility

(50) Swap execution facility The term “swap execution facility” means a trading system or platform in which multiple participants have the ability to execute or trade swaps by accepting bids and offers made by multiple participants in the facility or system, through any means of interstate commerce, including any trading facility, that— (A)facilitates the execution of swaps between persons; and (B)is not a designated contract market.