

The Passionate Shepherd

In the long run, we are all dead.

I. Choose the words that best fit the gaps.

Securities are financial instruments issued by entities for the purpose of **(1)** finance through the markets. The major categories of securities include equities (shares), debt (bonds), and derivatives.

Equities are shares. Companies can access market finance by **(2)** shares to raise cash. Equity investments give investors an ownership share in the issuer or company. Dividends and capital **(3)** will accrue to the investor if the financial position of the company remains healthy, if the share price rises, and if the company decides to issue dividends—it may not.

A share in a company is an item of personal property. While statute defines a share as personal property, it does not define what rights are **(4)** by the share. Thus, shares are in principle transferable, as objects of property usually are, but that general principle is subject to modification by the company's constitution.

Thus, a share is a participatory interest in a company. That means the holder of the share will have the rights to vote, and to receive dividends and distributions of capital, in accordance with the constitution of the company. Those rights may vary from company to company, and may even be **(5)** entirely. For example, it is possible to create voting or non-voting shares; shares which carry fixed, or variable, or even no rights to dividends, or no rights to capital.

In summary, a share is(a) a species of **(6)** personal property in its own right, which may be dealt with as such, save as restricted by its own particular terms; (b) a measure of the holder's interest in the company as an association and the basis of his right to become a member and enjoy the advantages of membership; and (c) a fraction of capital, denoting and defining the holder's proportionate financial stake in the company.

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|---|---|-------------|---|-------------|---|-----------|---|-----------|
| 1 | A | acquiring | B | raising | C | getting | D | rising |
| 2 | A | releasing | B | subscribing | C | floating | D | issuing |
| 3 | A | gains | B | bonuses | C | flows | D | sums |
| 4 | A | transferred | B | accrued | C | given | D | conferred |
| 5 | A | annulled | B | abrogated | C | nullified | D | abolished |
| 6 | A | tangible | B | intangible | C | moveable | D | chattel |

II. Use the words to form derivatives.

What is a rights issue?

A rights issue is an offer of new shares to **(7)** shareholders, usually in a particular proportion to existing **(8)** To ensure the issue is sold the shares are offered

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<p>at a discount to current market price. If the new issue is (9)this is governed by a standby. The transferable (10)to buy shares given to the existing holders is normally known as <i>rights</i> in the UK and (11)<i>warrants</i> in the USA. Such short-dated securities have the (12) of an option or warrant on the company's stock.</p>	<p>WRITE TITLE SCRIBE CHARACTER</p>
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III. Fill the gaps with one word only.

And what are bonds?

Bonds are securities in the form of a debt owed (13)the issuing entity to the holder of the debt (the bondholder). The issuer raises finance by raising a loan from the bondholders and promising to repay the loan (the principal) (14) a defined term (when the bond is 'redeemed') and to pay an interest rate. Bonds represent, (15) effect, a very large loan split (16) the bondholders. A bond issue for £100 million, for example, (17) have hundreds of investors.

Unlike a share, a bond does not give an ownership stake in the issuing company—bonds, or debt securities, (18) a form of credit. Also (19) shares, bonds can be issued by a wide range of entities (20) companies, governments, and public authorities. Bond investors are typically institutional investors, although bonds are popular with retail investors in continental Europe.

Derivatives are not used to (21) finance, but they provide a key risk-management device in the finance-raising process. At its (22) basic, a derivative security sets out the obligation of the issuer of the derivative to deliver, and the right of the holder or investor (23) receive assets at some point in the future. The obligation to deliver/right to receive, and the security's value, 'derive' from the possible occurrence of future events specified in the derivative contract. These events and assets 'underlying' the derivative (24) become almost infinite in variety as derivatives have become ever more complex. The more common events are changes in the price of a security or commodity, exchange and interest rate movements, the weather, and the performance of loans.

Credit derivatives, for example, are based on the (25) of a default on a loan, and are currently extremely popular and a cause of some concern to regulators. They are used to manage credit risk 'Swaps' are often (26) by companies to limit their interest rate/currency exposure when borrowing. Typical derivatives also include futures (an obligation to buy or sell in the future) and options—options to buy (call options) and options to sell (put options).