



Glossary

Anti-money laundering (AML)

Anti-money laundering (AML) refers to a set of procedures, laws and regulations governments and financial regulation authorities have designed to stop the practice of generating income through illegal actions.

Automated Clearing House (ACH)

A US-based organisation that processes massive amounts of debit and credit transactions such as direct deposit, payroll and vendor USD payments in the USA.

Bid Rate

The bid rate is the rate quoted to you when you're about to buy a currency.

Correspondent bank

Banks are financial institutions that are licensed to provide financial services, such as deposit taking, lending, currency exchange and payment services. A correspondent bank is a financial institution that provides services on behalf of another financial institution.

Cross-border payment

Cross-border payment is a transaction in which a payer in one country transfers money to a payee operating in a different country via the foreign exchange market, using a bank or third party payment processor.

Crosses

In foreign exchange, crosses refer to the exchange rate of currencies being traded in a country that does not utilise either of those currencies. For example, a trader in the UK dealing in Mexican Pesos and Euros will trade them at the 'cross rate'.

Currencies

Currencies are a system of money accepted within a country, for example the US Dollar in the US, or the Euro across the Eurozone.

Currency pairs

A currency pair is the quotation and pricing structure of the currencies being traded. The value of a currency is a rate and is determined by its comparison to another currency.

Delivery Date

The delivery date is the date on which the purchased funds are available for payment.

Exchange rate

An exchange rate is the price of one country's currency expressed in another country's currency. An exchange rate has two components, the domestic currency and a foreign currency (see currency pairs), and can be quoted either directly or indirectly.

Faster Payments

The UK's banking initiative to reduce payment times between different domestic banks' customer GBP accounts.

Forward Conversion

A forward conversion is a conversion with a settlement date greater than two days later - this can be anything from three days to one year hence.

ISO Currency Code

The ISO Currency Code is the three letters also used in exchange rates. Devised by the International Organization for Standardization it is a country's two characters and a letter denoting the country's currency. For example, in Hong Kong the currency is Dollars and so the ISO code is HKD.

Know Your Client (KYC)

Know Your Client (KYC) is a requirement that protects both financial institutions and their clients. Financial institutions are required to formally verify the identity of all clients and understand the purpose of trading, expected volumes and jurisdictions their clients will use.

Local payment schemes

Local payment schemes are payment initiatives set up in a domestic market to make the payment process between banks more efficient. Schemes include ACH, Faster Payments and SEPA.

Margin

Margin is financial collateral used to cover credit risk and is set aside as a good will deposit as collateral to hold a position against future trades as security to cover any potential losses the provider may incur as a result of non-settlement of the trade.

Margin call

A margin call means that the exchange rate has moved sufficiently so that the initial margin held is no longer sufficient to support the “open” or unsettled trades and additional deposit is required to cover the risk to the provider.

Measuring rates

Since most currencies are quoted to a maximum of 4 decimal places, movement in currency rates, no matter how small, will have an impact on the price you pay. Rates are measured in three factors. These are spreads, pips and basis points. The spread is the difference between ‘bid’ and ‘offer’ prices.

Mid-market rate

The mid-market rate is the average rate between the bid and offer rates agreed upon when conducting a foreign exchange transaction.

Offer rate

The offer rate is the rate quoted to you when you’re about to sell currency. Also known as the ask price or sell price.

Payee

A payee is an entity receiving payments through any form of money transfer method. Also known as the beneficiary.

Payer

A payer is an entity, either an individual or organisation, that makes a payment to another entity.

Payment networks

A payment network is an electronic system used to settle financial payments between institutions, individuals or organisations. These are also known as 'rails'.

Quote rates

The quote rate is the most recent market price that a currency was traded on, meaning a buyer and seller agreed to trade at that price.

Regulated entities

Regulated entities are the service providers governed by financial regulation, such as banks, brokers and payments companies.

Sanctions

Economic sanctions are commercial and financial penalties and restrictions applied by one or more countries against a targeted country, group, or individual. Sanctions may include various forms of trade barriers, tariffs, and restrictions on financial transactions.

Settlement date

The settlement date is the day on which a trade or a contract must be reconciled. The buyer must make payment of the sold currency before the conversion is processed and the purchased currency is available for payment.

Single Euro Payments Area (SEPA)

The European's domestic clearing scheme for simplifying the European banking transaction network and processing EUR payments within the SEPA region.

Spot Conversion

A spot conversion is a conversion that will settle in two days (T+2).

SWIFT

SWIFT stands for Society for Worldwide Interbank Financial Telecommunications. Set up in 1973, it's a member-owned cooperative that developed a communication platform to transmit secure financial transaction information between the financial institutions it represents.

Third-Party Payments Processor

A third-party payments processor lets businesses handle transactions from various channels such as credit cards and debit cards, without having to establish their own banking relationships or set up a merchant bank account of their own.

TOD Conversion

A TOD conversion is a conversion that will settle today.

TOM Conversion

A TOM conversion is a conversion that will settle tomorrow (T+1). The T stands for Transaction Date.

Wholesale Rate

The wholesale market used by banks, governments, investment funds and large corporates to buy and sell foreign currency is called the Spot Market. Spot means "on the spot" prices for soonest delivery possible. For most currencies, the standard settlement period for spot trades is two business days.

Wire transfer

Wire transfer is the means of transferring money electronically around the world. This can be institutions, individuals or organisations. Also known as a 'SWIFT payment' as wires are dependent on SWIFT messaging and correspondent banking.