

## Conclusion

The brokers, bankers et al of the City of London go about their business insulated from the harsh realities of the world outside, realities for which they are themselves responsible. The human tragedy and ecological destruction on which their profit is based cannot be found in the numbers on screens that flash past with ever-greater speed 24 hours a day.

It took the New York Stock Exchange index, (the Dow Jones Industrial Average), 66 years to climb from 100 to 1,000, but only 16 years to reach 10,000. Now the markets hungrily eye up the next milestone: 100,000. But every last person making a mint from the markets cannot see or refuses to acknowledge these basic truths: that eternal economic growth is impossible with a finite resource (ie. this planet), and that vast profit for the few means vast social and ecological devastation. Thus capital knows little of its own consequences.

Or perhaps the truth is even more damning, that those profiting from this system know full well the consequences of their actions - boast of them even - as they jump into the Jeep and motor down to 'the country' for the weekend. We can't afford to let that mentality triumph.

It is not the intention of this guide to spell out alternatives to this system, or even to suggest new, socially and ecologically sound uses for that lump of overpriced real estate known as the Square Mile. All we know is that we must understand it in order to rid ourselves of it; please use the information contained within wisely...

## Websites:

- [www.cityoflondon.gov.uk/coll/keyorg/index.htm](http://www.cityoflondon.gov.uk/coll/keyorg/index.htm) - links to all the key exchanges and other financial institutions
- [www.apcims.org/brief.html](http://www.apcims.org/brief.html) - a brief introduction to types of investment
- <http://dSPACE.dial.pipex.com/jhalsey/associations/assuk.htm> - links to financial trade associations
- [www.cityoflondon.gov.uk/coll/index.htm](http://www.cityoflondon.gov.uk/coll/index.htm) - facts about the City of London
- [www.londonstockex.co.uk/glossary.htm](http://www.londonstockex.co.uk/glossary.htm) - glossary of stock market terms
- [www.ipe.uk.com/about/glossary.html](http://www.ipe.uk.com/about/glossary.html) - glossary of futures and options terms
- <http://pronet.ca/stockexchanges> - list of stock exchanges and therefore financial centres worldwide
- [www.j18.org](http://www.j18.org) & [www.agp.org](http://www.agp.org) - Globalising resistance to free trade and global finance!

## Further reading

- The Investor's Guide to How the Stock Market REALLY Works*, by Leo Gough, pub. Pitman Publishing, 1994.
- The Money Machine - How the City works*, by Philip Coggan, Penguin (1995 [3rd ed])
- Rogue Trader*, by Nick Leeson, Warner Books (1996).
- The Shareholder Action Handbook*, by Craig Mackenzie, New Consumer (1993).
- When Corporations Rule the World*, by David Korten, Earthscan (1995).

**New Internationalist magazine:** e.g. Sept '95 p.20 (coffee), March '98 p.22 (metals), Aug '98 p.28 (cocoa).

**Who Drinks Where** ed. Piesse & Westmacott, Black Book Publishing (1999).

**Post-Imperialism & the Internationalisation of London**, Anthony King, Routledge (1991).

**The Case Against the Global Economy & for a Turn towards the Local**, ed. Goldsmith & Mander, Sierra Club Books (1996).

**An Activists Guide to Lobbying Financial Markets**, by Nick Hildyard, Mark Mansley and Monique Baker, pub. The Corner House, available summer 1999.

*"The collapse of the Global marketplace would be a traumatic event with unimaginable consequences. Yet I find it easier to imagine than the continuance of the present regime."*

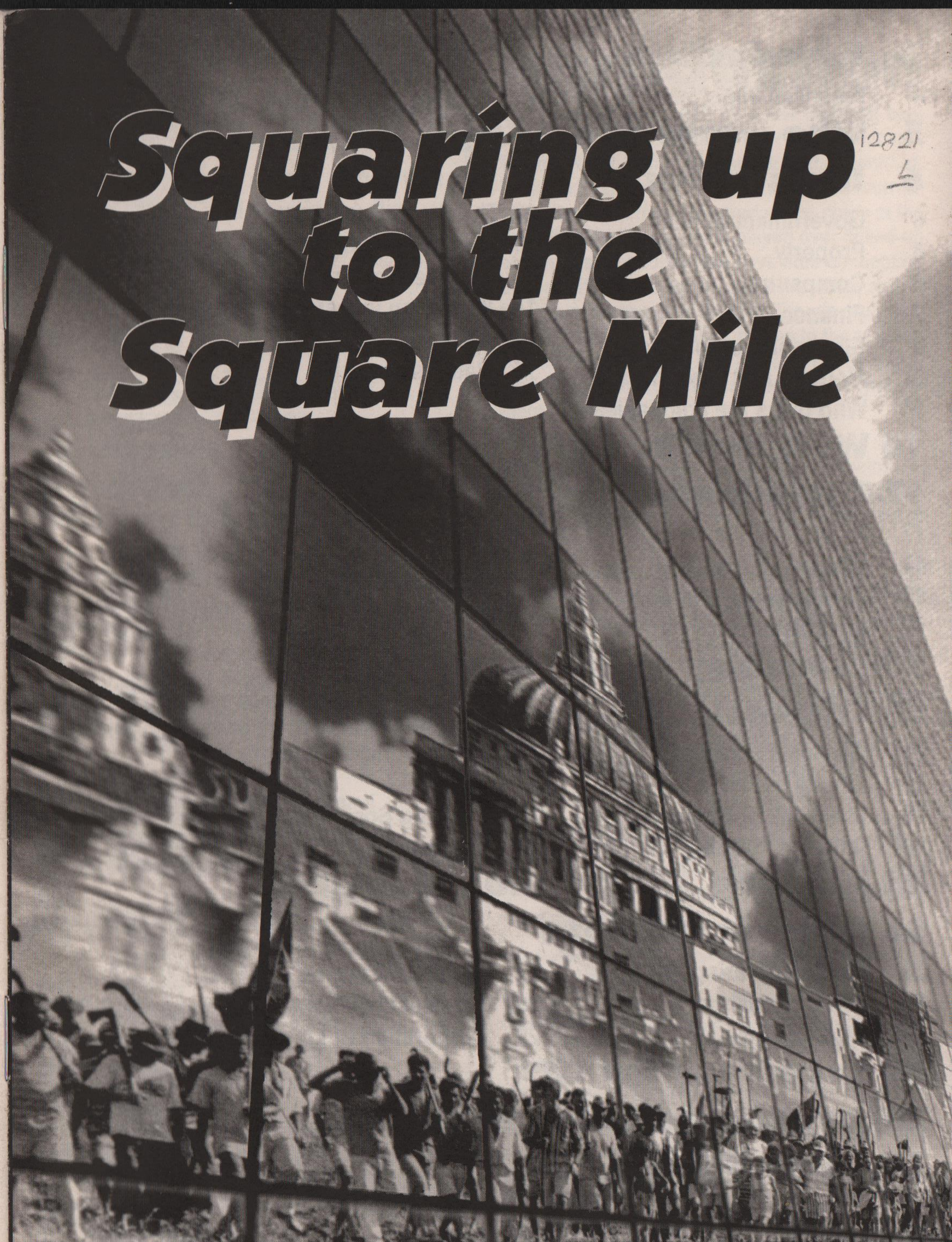
*George Soros, financial speculator.*

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of this booklet, send an SAE (31p stamps) to "J18 Info, Box E, 111 Magdalen Road, Oxford OX4 1RQ." The booklet comes with a map of the City of London, showing locations of major financial institutions.

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# Squaring up to the Square Mile



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# Squaring up to the Square Mile

## A rough guide to the City of London

### What happens in the City?

There are 3 categories of things that are bought and sold in the City:

- **Investments** - in companies, governments and land.
- **Commodities** - raw materials like coffee, grain, oil and metals.
- **Currencies** - dollars for yen, pounds for francs etc...

In this guide we look at these three areas, how they work and what they do.

The game is gambling, and the adrenaline levels are high. But in this casino, it's other people's lives on the table. A bad bet on the London Commodities Exchange, and thousands of sugar cane farmers will be starving. But the greater the risks, the greater the potential rewards. Different players go for different levels of risk: some will prefer a steady, reliable, small income; others go for broke.

### Where is the City?

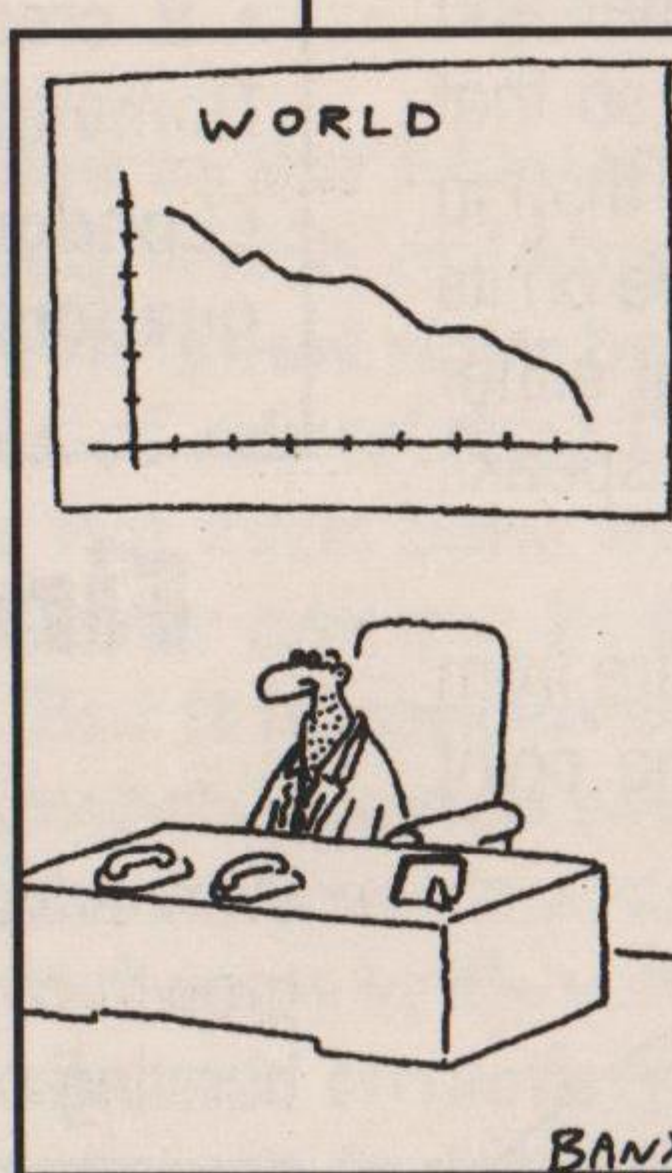
The Square Mile (actually more than a square mile in area) is defined by London's old medieval walls. It is north of the River Thames, stretching from Blackfriars Bridge to Tower Bridge, and as far north as Smithfield Market and Liverpool Street Station. (Check out the Map that comes with this booklet!)

However London's financial centre is no longer a sharply defined region. About 40% of London's financial sector operates outside the Square Mile, especially at Canary Wharf in Docklands (which is now booming, and recently valued at £2.2 bn), London Bridge City in Southwark or Victoria Plaza in Victoria.

### Introduction

Our planet is controlled by a few financial centres - principally London, New York, Chicago, Tokyo, Hong Kong, Singapore and Frankfurt. Here shares, bonds, commodities and currencies - lives, in effect - are traded like chips at the roulette table. The game is played over linked-up computers by people who have little conception of what life is like for those at the other end of the chain, whose lives and livelihoods are made or broken at their hands. A hiccup in the markets can close a business and put thousands out of work; a lack of 'confidence' can bring a government to its knees.

Capital (and the profit it demands), lies at the root of the world's social and ecological crises. Whether it's casualisation in the Merseyside docks or rising sea levels in Bangladesh, a path can be traced back to the City.



Campaigners rarely target finance, intimidated perhaps by its steel and glass towers, its digital trading systems, its upmarket watering holes and its blanket CCTV. But beneath the facade, its institutions and individuals are simply members of an undignified yet highly overpaid herd - sometimes a herd of bulls\*, sometimes of bears\*, but most commonly of lemmings. This guide hopes to be a first step towards unlocking the City's mystique. With the right information and a little imagination, it could be rocked. So read

on, and good luck in your endeavours... (\*see phrasebook - p.30)

This booklet was written and researched by Corporate Watch and London Reclaim the Streets, published by J18 publications (UK) c/o PO Box 9656, London, N4 4JY (April 1999) and designed by Gaffers.

Corporate Watch is an Oxford-based research group, providing information on companies for activists who are challenging them; it publishes a quarterly magazine, 'Corporate Watch'.

London Reclaim the Streets is a popular movement seeking the liberation of city streets and public spaces using direct action. It is now the Western European Conveners of Peoples' Global Action Against 'Free' Trade and the World Trade Organisation.

Gaffers, the Green Arts Federation of Oxford, provides creative support to grassroots activists.

Thank you to the many people who gave us their help and advice in this project.

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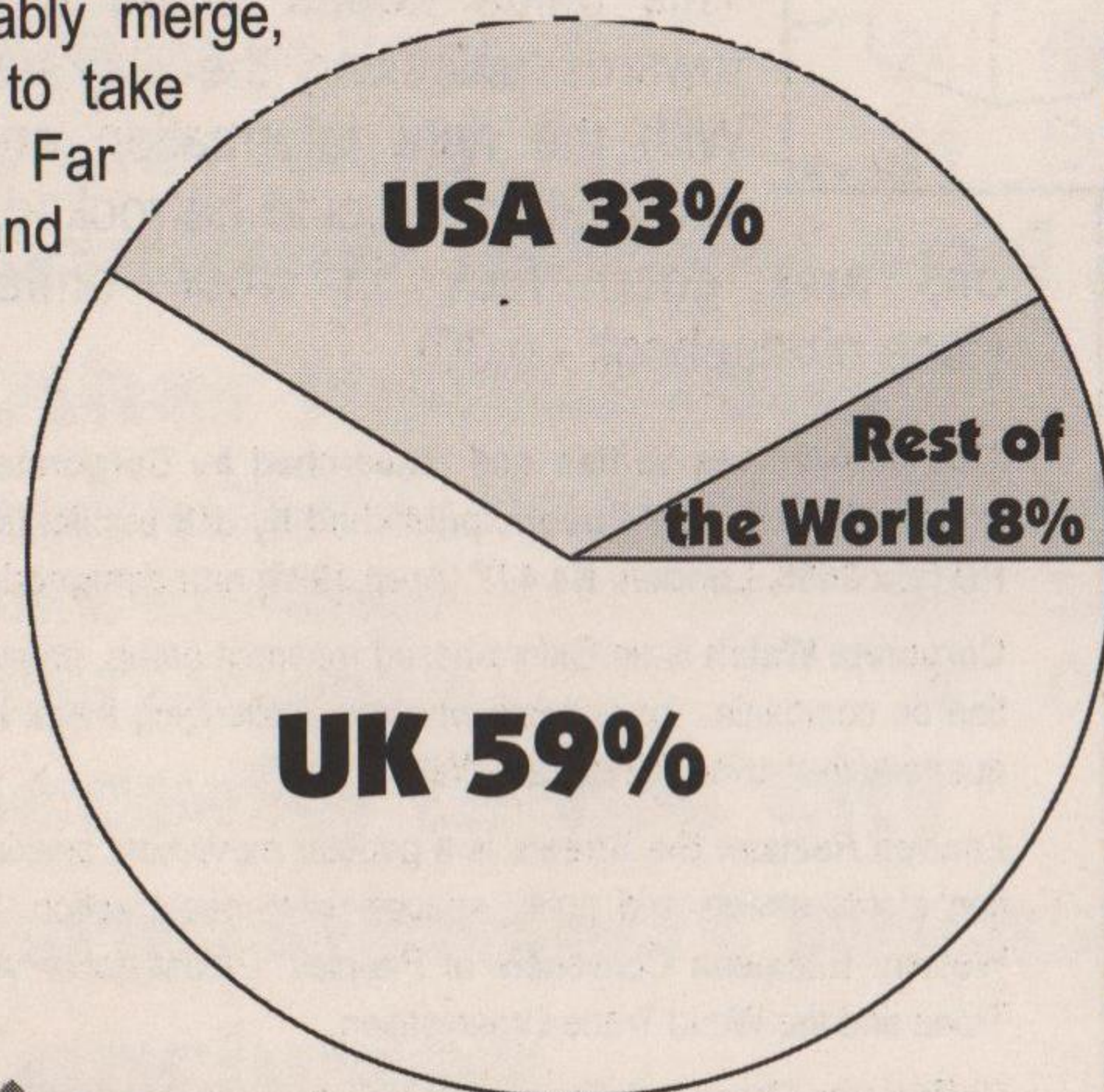
# Financial Importance of the City of London

**If the city were an independent country it would be ranked the 20th richest in the world, just ahead of Belgium!**

In the nineteenth century Britain's imperial power meant that much of world trade was conducted in sterling, and the government had a huge range of overseas assets which brought vast amounts of money into the country. It is with this legacy that the City of London has become powerful.

World trade is now conducted in dollars, as the USA is by far the world's biggest economic and political power. But London is still the biggest financial centre in the world. It has hung on to its significance, in part by relaxing controls on cashflows further and faster than the rest of the world, so much so that more dollars are now exchanged in the City than in New York. London has Greenwich Mean Time on its side, allowing its working day to intersect at either end with Tokyo and New York. London also speaks English, still the major language of finance.

London faces competition as a financial centre from mainland Europe, mainly Frankfurt. At some point though, Europe's exchanges will probably merge, in a bid to take on the Far East and the US.



**Foreign Equities Turnover 1997**

## London's claims to fame:

- It has 555 foreign banks, more than any other city in the world;
- It handles more foreign exchange than anywhere else (\$637bn a day);
- It is the world's most important insurance centre;
- It has more foreign equity (share) dealing than anywhere else;
- It creates almost 20% of the UK's Gross Domestic Product, about £160bn a year.
- London as a whole has more corporate headquarters than any other European city.

## Finance in a global context...

With advances in information technology and the growth of 'free market' economic policies, capital is bursting out of the restrictions imposed by national governments. Increasingly it flows where it likes, at greater and greater speeds. If any government tries to enact safeguards, capital will simply go where there is weaker environmental protection and lower wages. This process is being developed and enforced by the World Trade Organisation, World Bank & International Monetary Fund.

The financial dealing that goes on in the City plays a role that far exceeds Britain's economic and geographical boundaries. Indeed, 40% of City workers have a foreign employer. UK investors can put their money into Japanese and American companies just as easily as into those based in the UK. They can buy the shares during the day in London, or sell them over the phone or the internet in Tokyo or New York during the night.

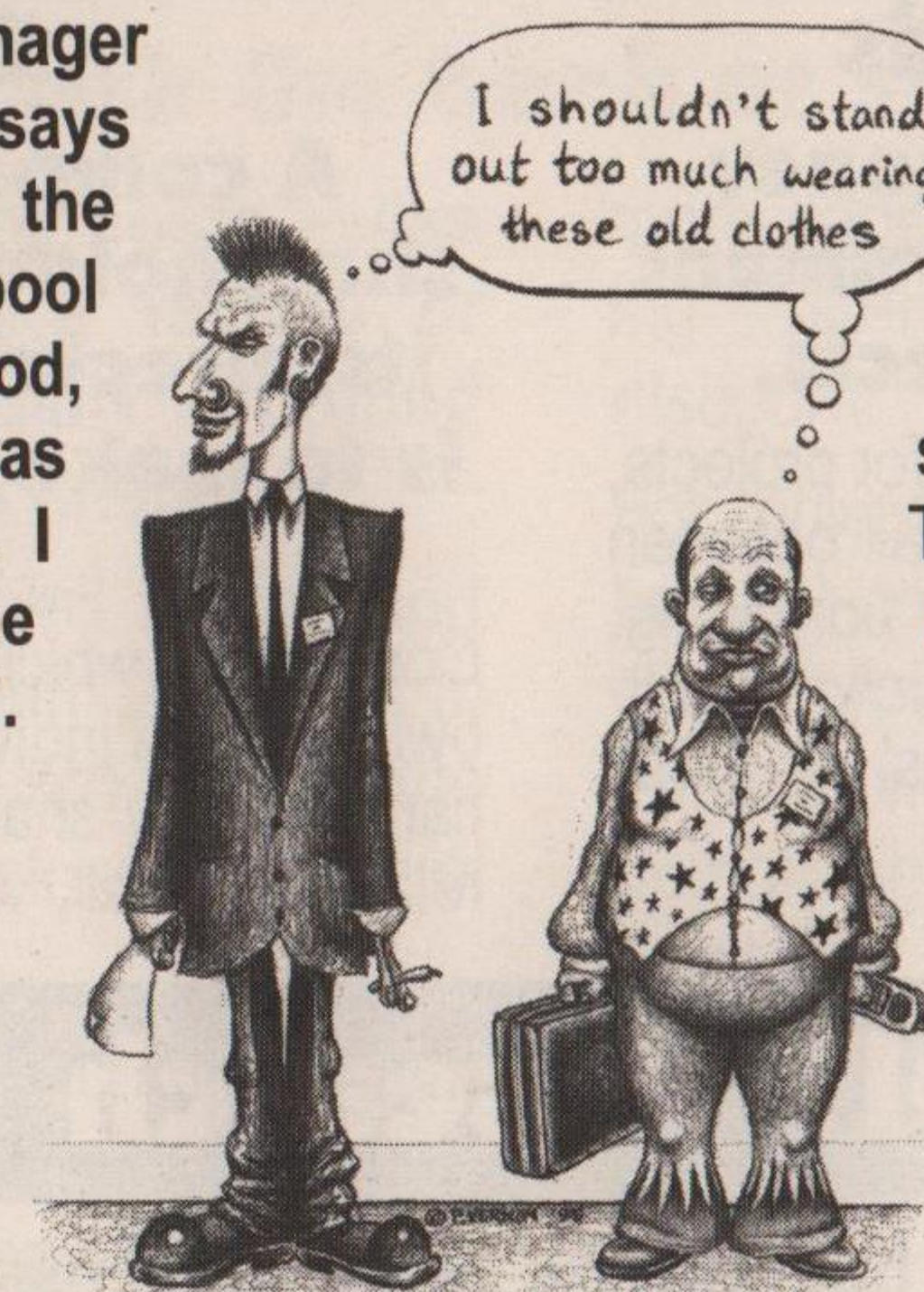
# Who works in the City?

One 26-year-old IT project manager with a global investment bank, says "When I first began working in the City, I used to go down to Liverpool Street station and think – my God, there are real people here! It was like stepping out of a bubble. I don't feel that now – so I must be in the bubble all the time". [Evening Standard, 22/2/99.]

Of 600 executive directors of the FTSE 100 companies, just 10 are women. Many female bankers say sexism in the City is endemic. "It would absolutely kill my career if I had children", says one female economist [Financial Times, 9/3/99].

According to one 24-year old, female former fund manager, "Women are few and far between and they're either career women or they're kind of plodders, the mumsy types who've had their kids and come back to work" [Evening Standard, 1/12/98].

While upper-middle and upper class Oxbridge graduates get jobs as fund managers or merchant bankers, the brokers – enormous stress, equally enormous payoffs – are often working class people, with most burning out within a few years.



**"I live in the Managerial Age, in a world of 'Admin'. The greatest evil is not now done in those 'sordid dens of crime' that Dickens loved to paint. It is not even done in concentration camps and labour camps, in those we see its final result. But it is conceived and ordered (moved, seconded, carried and minuted) in clean, carpeted, warmed and well-lighted offices, by quiet men with white collars and cut fingernails and smooth-shaven cheeks who do not need to raise their voices"**

CS Lewis, quoted in 'Company Man', by Anthony Sampson, 1995.

As jailed ex-trader Nick Leeson recounts in his biography, (see further reading, p.32) "I would walk up the stairs (at the head office) and see all these family portraits staring serenely into space above my head. They had the faraway look of men who had seen the world, bought what they wished of it, and were content to rule their far-flung empires from a calm distance. They needn't muddy their hands anymore. They had people like me, Nick Leeson, 22 years old and up from Watford, to do it for them."

Peter Baring, chairman of Barings Bank, once commented at a meeting at the Bank of England in 1993 that "the recovery in profitability has been amazing following the reorganisation, leaving Barings to conclude that it was not actually terribly difficult to make money in the securities business". Leeson responds, "As I stood in the box and grabbed phones, signalled to George or Fat Boy, bought and sold, watched the market lurch about - I imagined Peter Baring's quiet voice in some splendid, lofty office in the Bank of England as he sat back on a leather sofa and stirred his Earl Grey tea and admired his brightly polished toe caps."

## Faces in the Crowd

**... technicians, chauffeurs, cycle couriers, waiters and waitresses, taxi-drivers, delivery drivers, security guards, policemen, cleaners, builders, sandwich sellers, road sweepers, tourists and (mostly) MEN IN SUITS**

# Investments

## Government Bonds

**Government borrows money through the sale of government bonds to pay for projects.**

Like companies, the State needs money for projects, be it hospitals or warheads. The shortfall between expenditure and tax income is met by borrowing. The State raises finance in the City, mainly by selling government bonds, known as 'gilts' or 'bills', which work in the same way as an IOU.

Government bonds are generally considered safe investments, as governments rarely default on loans. But in the '80s Mexico hugely increased foreign borrowing. Its Stock Market shot up, but only 10% of the incoming money went into creating goods to make money to repay it all. The rest went to debt repayments, and the pockets of Mexico's elite. In 1994, the bubble burst, and Mexican markets crashed. The peso was devalued and the poor were hit hard. American investors holding Mexican bonds received a \$50bn bailout from taxpayers. Nothing went to poor Mexicans.

## Property

**Investors buy land and then make money from developing or renting it.**

**This is the oldest form of investment. When a community gets thrown off its land for a new supermarket, set of luxury flats, or business park, it's because the investors are demanding higher profits than their rents can provide.**

Members of the General Council of the British Property Federation (which keeps trying to abolish the planning system) include Norwich Union, Prudential and Scottish Widows.

## Companies

**A company is owned by its shareholders, and controlled by its directors. Its main objective is to make PROFIT for the shareholders.**

Companies which have 'Ltd' after their name are owned by an individual, family or group, and people can only buy shares by invitation. They are mostly relatively small, with a few exceptions (eg. Cargill, Virgin).

## DIY Research

**You can find out the home addresses of company directors from Companies House, at 21 Bloomsbury St, London WC1, or in Birmingham, Glasgow, Leeds, Manchester, Cardiff or Edinburgh. (Telephone 01222 380 801). Details of all the directors of a company costs £1**

When there isn't enough private money to finance more growth, the company raises more by allowing anyone to buy its shares: it 'floats' on the Stock Exchange and gets 'plc' (public limited company) after its name.

The 'limited' refers to limited liability: if the company goes bust, directors and shareholders are

only liable for a limited amount of the company's outstanding debts. Thus workers, suppliers (and sometimes taxpayers) take the risk for the directors and shareholders. But if the risk pays off, it's the shareholders who get the dividends. Limited liability encourages directors to take bigger risks – and rake in bigger profits.

While a company is owned by its shareholders, day-to-day decisions are made by its directors. They can be fired by the shareholders if they don't make enough profit. This happened at BP in 1992, when chairman and chief executive Bob Horton was sacked. His replacement, David Simon, turned the company round over the next 5 years, reducing its workforce from 117,000 to 56,000 and making it the darling of the City. In 1997 he moved to the House of Lords as *Lord Simon*, Minister for Competitiveness in Europe.



# Finance

**To raise money for a project, companies either ask the bank or sell shares**

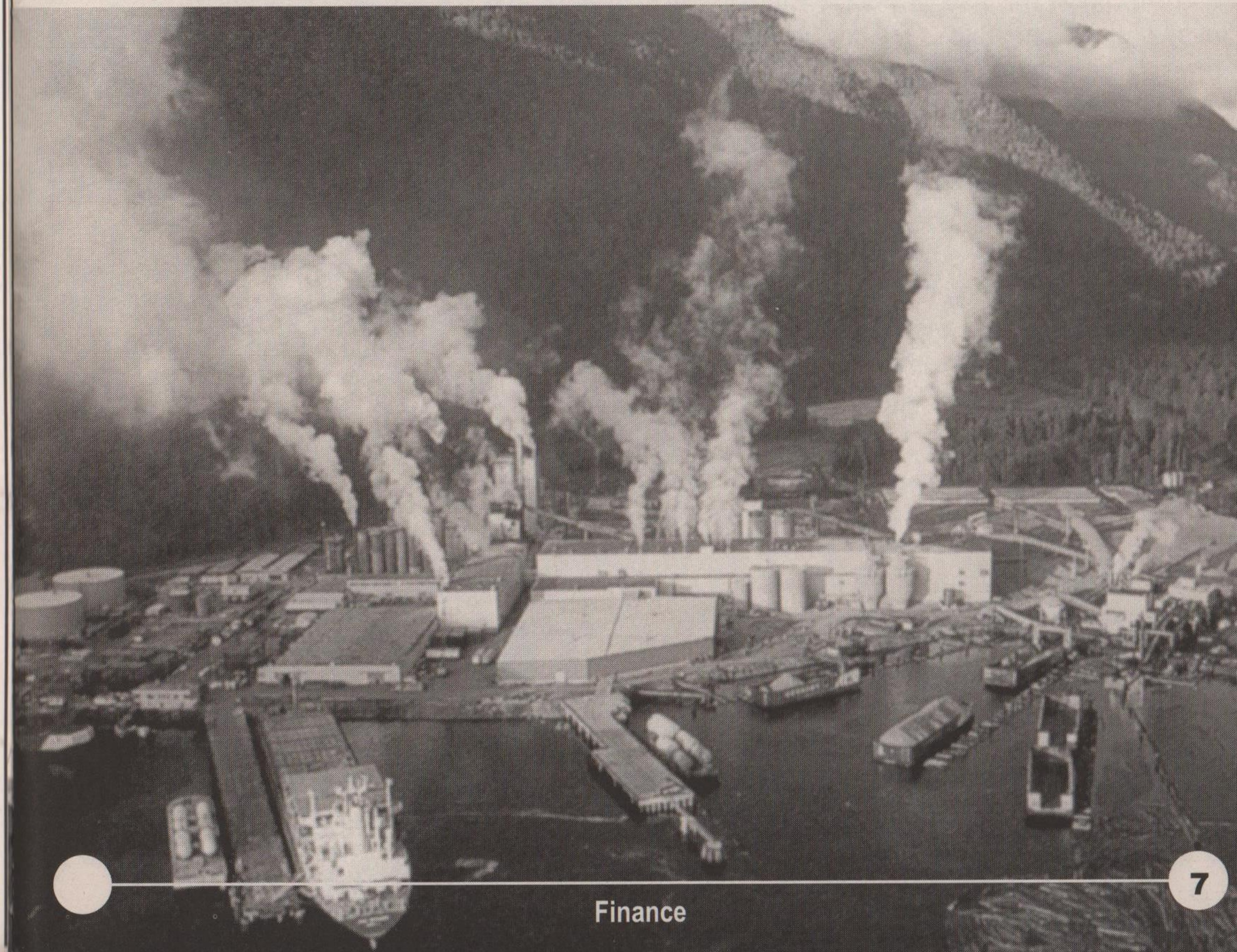
**To do anything with upfront costs - like drilling an oilwell, building a factory or researching a new genetically modified organism - a company needs finance.**

High Street banks (see p.23) will make short term loans usually for a maximum 2-3 years in the UK. But if a company gets into trouble, the bank will demand its money back - the cause of most bankruptcies.

So for longer-term finance, a company will issue shares or raise project finance. Companies sell shares when they first start up, or when they float on a Stock Exchange. When a company is already listed on the Stock Exchange, it can make a rights issue if it needs

more capital to expand. This means that existing shareholders are offered new shares at a discount.

For project finance, a company goes to its bank(s) to raise money. Take Premier Oil, a major player in Burma, Indonesia, China and Tunisia, with a long list of environmental and human rights abuses to its name. When they want to finance another rainforest-razing pipeline, they turn to their bankers - Chase Manhattan, Barclays and J. Henry Schroder Wagg & Co - to come up with the finance. In return the banks get a stake in the project (ie. the pipeline is jointly owned by Premier and the banks).



# Shares in companies

**A share is like part-ownership of a company.**

**The holder gets a share in the company's profits (a dividend).**

Shares are initially sold by a company to raise finance. An investor gives the company money, and gets a share certificate which entitles them to dividends (a share in company profits) and voting rights on a few management issues. This share can then be sold on to someone else. Much of the trading that takes place in the City is the buying and selling of these 'secondhand' shares. This is what share prices (like the FTSE 100) are about.

If a company has a profitable year, dividends will be high and the share price will rise. If it performs badly, it will only give small dividends, so investors won't want the shares, and the price will fall. Optimism and pessimism are contagious if start to buy a share others will want it and the price will rise, if people start to sell everyone will rush to sell, driving the price down. The market is often in a state of either euphoria or panic and expectations are self-fulfilling. Sometimes even the smallest tremor can trigger a landslide.

Expectations are influenced by a host of factors. Prices could be pushed up by, say, news of an oilstrike, or merger rumours. Or they can be pushed down by, say, the failure of a new drug to be licensed for public use, a poor harvest or internal company strife.

On the day NATO started bombing Serbia in March 1999, shares in British Aerospace rose faster than any other company on the index. Three weeks into the war, GKN, BAe and other British arms companies were still rising. The FT commented "there may be a 'war dividend' if countries reassess their military needs in light of the conflict".

The market is also told what to expect of a company by analysts and ratings agencies (p.15) With computer-based trading, investors can now know in an instant how share prices are changing. Increasingly share-dealing is tied more to the profit that can be extracted *now* than to providing money to invest for the long-term.

## DIY Case study

A recent sustained campaign that all but destroyed a company was that waged against the arch-vivisectionists Huntingdon Life Sciences. When TV documentary "It's a dog's life" expose was televised, Huntingdon's shares dropped by 33%. The company ran a successful PR campaign in the City to pick prices up, and survived, quite possibly because no campaigners went in to deliver the counter-arguments.

# Mergers

**A merger is the union of two companies fairly equal in size and power.**

Mergers and acquisitions are very popular at the moment. Three of the ten biggest companies on the London Stock Exchange were involved in mergers in the first few months of 1999: the BP-Amoco deal, creating the third largest oil company in the world, with the subsequent takeover of Arco (announced in April '99) triggering yet further job cuts; Vodafone's takeover of the US company AirTouch; and the purchase by Zeneca of Astra Pharmaceuticals. Also in 1998, the two insurance giants Commercial Union and General Accident merged to form CGU, concentrating their control over financial markets (see p.10). Globally, the ten biggest mergers in history all happened in 1998, mostly involving American companies.

What this means is more corporate power – more political power and more control over markets. BP Amoco's turnover is now greater than Colombia's GDP. There are few that can compete with this kind of financial muscle, and it allows a company to make both bigger, riskier and therefore often more destructive investments. Also, governments bend over backwards to attract their jobs and money, by offering incentives (bribes) like lax regulations and tax breaks.

Takeovers are often dressed up as mergers to avoid negative press for the larger company.

## Takeovers (acquisitions)

**A takeover is the purchase of one company**

Corporate short-termism and profiteering are re-inforced by the fear of being taken over. If a company is taken over, the *managers will lose their jobs. This fear acts as a great spur to keep dividends and share prices high.*

Otherwise the company could be bought out (have some other company buy over 50% of its shares). This could either be another company in the same business which wants to expand, or a 'corporate raider', whose only business is buying companies and selling them off for a profit.

If a company's share price is below the amount that could be made by selling off its assets - its factories, machinery, computer networks, brands etc - (its "break-up value"), "predators" will buy the company, restructure it, and then sell it for a profit.

by another  
one.



This could well happen if the company is looking to the long term – it is profit, now, in the short-term, which makes the dividend, and hence share price, high. This means there is no choice but a race to the bottom when it comes to ethics, workers rights and environmental sustainability. Trying to persuade corporate management to reform ethically is a non-starter. If a corporation paid too much heed to people and the environment, its management / directors would be sacked, or it would be raided, asset-stripped and sold.

A hostile takeover is one that the smaller company's directors don't want. The larger company offers all the shareholders more money for their shares than their stock market value. If a majority of the shareholders vote in favour, the takeover goes ahead.

Michael Armstrong, smiling CEO of AT&T, and John Malone, CEO of TCI, at 'merger celebrations' in 1998



# Who owns the companies?

**Companies are mostly owned by institutional investors - insurance companies, pension funds and investment companies.**

Institutional investors own over two thirds of shares in large British companies. They have 'portfolios' of investments in different shares, bonds and property. They generally invest other people's money - pensions, insurance contributions or private investments. According to one City fund manager, "The workers took ownership of capital twenty years ago, it's just that no one ever told them". Pensions were a victory of the socialist movements of the 19th century. Now they are central to capitalism. The workers however have no control over the capital. That's left to fund managers, who decide when to sell one company, or buy more of another. Most fund managers are legally bound to maximise profits, whatever the ecological or social cost.

It's a gambler's dream. People give you their money, you gamble with it, give them a proportion of the takings, and keep the rest yourself. And if you lose: well, it's not your money, so it's not your problem.

The institutions have immense power. Most don't go to company annual general meetings, but instead send proxy votes, and are granted private audiences with managers about what they should be doing. At Shell's 1997 AGM an ethical motion was presented, calling for external audit of company social and environmental policies.

**17% of US biotech giant Monsanto is owned by just 5 institutions: Janus Capital (4.7%), Oppenheimer Group (4.1%), Capital Research & Management (3%), Fidelity (2.7%) and Barclays (2.6%).**

The debate in the AGM was largely irrelevant, as board chairman John Jennings had been given more than 50% of the votes by the biggest institutional shareholders, to use as he saw fit (ie. to defeat the motion).

During the Thalidomide scandal of the early 1970's, the company in question - United Distillers - took no notice of shareholder protests until the big institutions saw their shares slipping and said 'Give them a settlement or we pull out'.

Company directors often hold shares in the companies they work for. They are also given share options in their company, which means the right to buy a number of shares at a fraction of their market price (they can later be sold for a big profit). These both act as an incentive to keep company profits high. For example, in 1996 RTZ's chairman Robert Wilson exercised about 90,000 share options, buying them at about £5 and selling at about £10, so he made £450,000 out of this. In March 1997 he had over £600,000-worth of company shares. All this is on top of his salary of £575,000, bonus of £238,000 and other incentives of £350,000. Directors' holdings however make up a tiny portion of a company (well below 1% of its shares, between all the directors), except in special cases such as private Ltd companies (see p.6), or old family firms which have been floated.

**Commercial General Union building**

In fact, most of the big institutional investment companies run lots of different forms of investment scheme, providing insurance, pensions, investment trust and unit trusts within the same company.

## Insurance and Life Assurance Companies

People pay regular premiums either for a lump sum in the future (life assurance) or for cover in the event of accidents, death, damage to property, etc (insurers). As people have more and more property to insure, insurance companies are building up more and more cash to invest.

The 3 biggest insurers in the UK are CGU, Allied Zurich and Royal & Sun Alliance.

The UK's biggest life assurance company is the Prudential. Pick just about any ethically-challenged corporation, and you'll find the Pru is a major shareholder. It holds 3.5% of Shell, 4% of Rio Tinto, 3% of Lloyd's TSB, 4.8% of HSBC, 3% of Mersey Docks and Harbour Company, 5% of Unilever, 3.8% of BAA, 3.4% of Tesco etc...

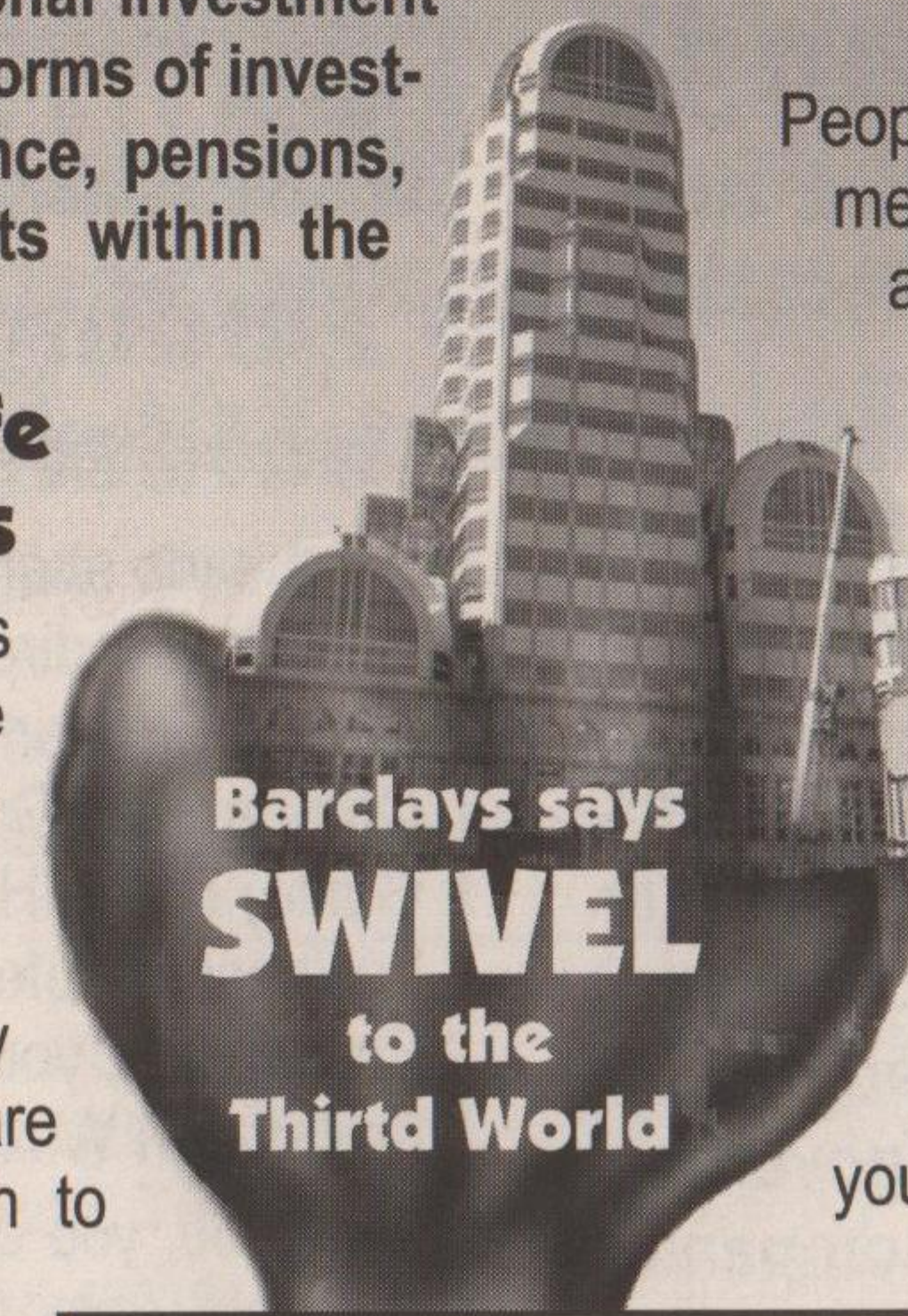
## Pension Funds

Most working people contribute to a pension fund, through work or a private scheme. These investments are generally looked after by fund managers, like Mercury Asset Management or Schroder Investment Management.

In 1998, USS, the pension fund for university lecturers and staff, held shares in Shell (£234 million), BP (£227m), tobacco company BAT (£112m), gene manipulators Zeneca (£95m), HSBC (£152m) and Rio Tinto (£75m). People & Planet, (a student movement) is campaigning to make USS use it's financial clout for ethical ends.

## Unit Trusts

People put money into a collective investment fund and receive 'units' in return. This accumulated fund is then invested and people buy or sell units. The value of a unit goes up or down with the value of the investments. The money is held by a Trustee (e.g. a bank or an insurance company), and the rules of fund management are laid out in a Trust Deed. There are over 1000 trusts in the UK managed by around 200 companies. Unit Trust Advisory Services monitor them, and will give you detailed reports on their investments. The first report is free.



## Ethical Investments?

Most investment companies also run ethical investment funds designed to lure the individual punter who is unhappy with particular sectors of the system, such as arms, tobacco, or animal experimentation, but still keen to make a profitable investment. There is over £1bn now invested in this area. However, it's kind of like buying a veggie burger in McDonald's, and the role of ethical funds is limited. For example, you'd be unlikely to find a fund which didn't invest in oil or mining.

So you can't withdraw from investing in a way of doing business, nor from any of the less popular 'causes', such as exploitative food or commodities companies. There are some funds which only deal in smaller companies, but don't have any ethical criteria. A recent development is the introduction of funds which *only* deal in specifically positive projects (such as ecological building, radical cooperatives, or environmental projects), rather than trying to avoid the negative. These are about as ethical as investment gets, but are tiny, even compared to the mainstream "ethical". You won't find these in the City of London.

## Investment Trusts

These are similar to unit trusts, but are registered as companies and floated on the Stock Exchange. You buy shares in the company, not units. The value of the shares rises or falls with the value of its holdings.

The top investment trusts in the UK are 3i Group, Foreign & Colonial and Scottish Mortgage & Trust.

## Other Funds

Other large investors include churches, local authorities health authorities, universities, trade unions and charitable trusts. It's rarely openly stated where the funds invest. Workers could easily be fighting pay cuts and layoffs, while their own union's fund managers push behind the scenes for the company to maximise profits by cutting wages and workers!

Several supposedly 'clean' institutions have huge shares in UK arms companies, such as: health organisations with over £19m, charities with over £70m, local authorities in for £754m and religious bodies with £34m.

# The Stock Exchange

...is where companies issue and sell bonds, and where people buy and sell shares.

([www.londonstockex.co.uk](http://www.londonstockex.co.uk))

On the Stock Exchange (SE), companies issue and sell new shares to raise finance, and people buy and sell existing shares. Companies can only be publicly traded (ie. advertised, and bought by anyone) once they have been "listed" (or quoted) on the SE. There are lots of regulations governing the listed companies. Listed companies appear in the Financial Times.

Established in 1773, the Stock Exchange is worked by brokers, who act on behalf of the investors who own the money, and market makers, who are 'wholesale' share dealers. Market makers actually buy shares from each other, and then sell them on to the brokers. There are also the SE employees and the regulatory bodies.

Since 1986 the SE has been computerised. The market makers' role used to be fulfilled by 'jobbers', the ones who actually stood on the trading floors, waving their arms madly. The brokers would be at the side, on the phone to their clients. But now market makers sit in front of screens and trading takes place at the touch of a button. Dealers in the exchange follow the progress of individual share prices on big screens, which flash blue when a share rises and red when it falls.

## DIY Research

### Finding out the shareholders in a company:

For the top shareholders (holding above 3%), use a business directory – such as The MacMillan Stock Exchange Yearbook, the FT Major Companies Guide (and Smaller Companies Guide) or the HemScott Company Guide - in the business or reference section of your local library. Failing that, you could use City Business Library on London Wall (tel. 0171 638 8215).

For £3.50, you can get a full search on a company overnight from Companies House (see p.6). The results will be on microfiche - most libraries have reader machines. It will include annual reports and accounts, and a FULL LIST of shareholders. Often, the real owner of shares is 'represented' by a fund manager or "Nominee", but each nominee entry will have a code for the client before the number of shares. You can look them up in The Index of Nominees and Beneficial Owners, which will tell you who each code stands for. It's published by Fulcrum Research (tel. 0171 253 0353) and costs about £300 – ask your library to order it.

It is more difficult the other way round, ie getting details of an institution's investments. The big companies usually have a wide range of funds, and most won't tell you their investments. However, many big investment companies have unit trusts. Every three months, fund managers produce a report on their investments and if you phone an investment company and ask about one of their trusts they will send you a copy of this report. This report will give a reasonably good picture of how the other trusts within that company are invested.

### The biggest companies on the London Stock Exchange in 1998 were:

1. Glaxo Wellcome
2. BP (now BP Amoco - the largest in 1999)
3. British Telecom
4. SmithKline Beecham
5. Lloyd's TSB
6. Shell Transport & Trading (40% of the Royal Dutch/Shell group, which as a whole was the biggest company in Europe)
7. HSBC (owner of Midland Bank)
8. Vodafone
9. Diageo (formerly Guinness & GrandMet)
10. Zeneca (once part of ICI)

## Providing financial services for companies

- bankers, advisors, brokers, lawyers, accountants.

Major companies have their own financial staff – including lawyers, accountants, brokers etc – but they get advice, consultancy and project management from the many specialist service companies in the City who offer expertise in their field.

You often see their names as sponsors of upmarket cultural events, such as Ernst & Young's support for the recent Monet exhibition in London. The motivation for this is not philanthropy, but rather to gain access to the "C-suite": the chief executives, chief financial officers and chief information officers of the world's top companies. It's all down to how you're seen by the corporate world, and getting your name on the poster underneath the right painter or conductor can make all the difference.

Every company has bankers, who provide the similar services that banks provide for individuals: holding accounts, paying cheques, providing loans and overdrafts etc. These are generally high street banks (Lloyds, NatWest etc - see p.23), but some are investment banks (such as Chase Manhattan, Kleinwort Benson)

Financial advisors provide advice on the markets and share movements, on issuing new shares, and on mergers and take-overs (which is where the big money is). It is mostly investment banks who fulfil this role (such as Kleinwort Benson or Lazard Bros), but the accountants (eg PwC) are now joining in.

## DIY Research

You can find out who's providing what services for what companies by looking in the major financial business directories – see p.12.

A company's brokers invest its surplus cash in shares, and will advise on the company's and its competitors' share movements. When one company wants to take over another, its brokers can give it a head-start by surreptitiously buying up some of the target's shares.

They also help get a better price by massaging up the company's share price, and massaging down the target's (by buying and selling shares). These may be specialist brokers such as Cazenove, or investment banks like SBC Warburg Dillon Read.

There are over 2,000 legal firms in the City that deal with company and financial law, advising on share dealings, mergers and takeovers, and financial regulations etc. The big ones include Allen & Overy,

Clifford Chance, Freshfields, Linklaters & Paines, Slaughter & May and Wilde Sapte.

Another key role is played by accountants – Price-waterhouseCoopers, Ernst & Young, KPMG etc. They provide advice on financial control of a company's accounts. Their role is becoming much broader. They work as management consultants, and general financial advisors.

The top ten investment banks worldwide are: Goldman Sachs, Morgan Stanley Dean Witter, Merrill Lynch, Saloman Smith Barney, Credit Suisse First Boston, Warburg Dillon Read, Deutsche Bank, JP Morgan, Chase Manhattan and Lehman Brothers.

## Bloomberg and Reuters

### The corporatisation of information.

These two arch-rivals are immersed in 'the business of information', as Reuters' ad byline goes. In total, the City spent £2.2 bn on information technology in 1996. The provision of split-second market, business and general news is an intimate part of the globalisation process, where information really is power. Bloomberg is run by billionaire media mogul Michael Bloomberg, who was described recently by Sunday Business as "the Colonel Sanders of financial information services".

In the City, his company offers a computerised service for about £2000 per month, covering every aspect of commerce and beyond. A trader or fund manager can key in an area in which they have an interest, and the information appears on screen in moments. Any interruption to either of these services could seriously impair the smooth running of the City.

## What's an investment bank? (aka merchant bank)

They're the middle-men between companies and the institutions which own them. They deal with all aspects of financial services.

- They can be contracted to provide finance for companies, or for particular projects through managing share issues, or rallying support from elsewhere on the financial markets
- They provide financial advice on share performance, trading, and most importantly mergers and takeovers.
- They act as fund managers for large investment portfolios, mainly for big institutions such as pensions and trusts.
- They employ the brokers and market-makers on the Stock Exchange, and do all the dealing on many commodities exchanges.
- They provide banking services for companies, such as factoring (giving cash advances on money owed by customers), or holding interest bearing deposits.

Different investment banks put more emphasis on different roles. For example, Goldman Sachs, Schroders and Rothschild, are big on advice. Credit Suisse First Boston focuses more on broking.

Hoare Govett is the broking arm of ABN Amro, and works for British Aerospace, Rio Tinto and British Energy, amongst others.

### Kleinwort-Benson Investment Bankers

## Analysts

...advise investors on whether to buy or sell a company.

Analysts play one of the most important roles in the City. They advise investors on whether to buy or sell a company, based on a detailed assessment of it. Fund managers will shift vast blocks of cash into or out of a company on their say so.

So companies are keen to keep a good relationship with theirs, and will invite them to presentations all over the world where they will explain their strategy, (naturally providing five star bed and board into the bargain). Malaysian leader Mahathir Mohammed travelled to the City in 1997 specifically to address a meeting of analysts about Ekran, the company previously embroiled in the destructive Bakun Dam project.

Analysts work for brokers' companies, and make their money as a percentage of share turnover. They tend to specialise in 6 or 7 companies, in an industrial sector like telecoms or defence, or in a small number of very large companies, about whom they compile extremely detailed quarterly reports. They base their analysis of a company on contracts, market position, the viability of its strategy, the quality of its management etc. Often the analysts know more about a company than its directors!

While that assessment would pay no heed to social or environmental implications, it could potentially be swayed by a powerful and well-argued campaign being waged against a company or an issue, eg. genetic engineering or rainforest destruction, as any damage to a company's carefully greenwashed reputation can easily mean a low blow to the share price.



## Ratings agencies

...advise investors on how reliable an investment will be.

Rating Agencies exist to give investors some idea of how reliable an investment will be. The two most famous and influential agencies are Moody's and Standard & Poor's. These are both American but with substantial bases in the City. There are also agencies which specialise in particular industrial sectors, or types of countries.

When a company or a government makes an issue to raise finance, investors will pay a ratings agency to rate the issue. Standard & Poor's ratings range from AAA (very sound) to D (do not touch). Only issues rated BBB and above are considered sound enough for banks to invest in. The criteria for rating countries' governments are based on political risk, the agency making an assessment of the country's underlying social and political stability. Standard & Poor's Credit Week describes the most important factors as "The degree of political participation, the orderliness of successions in government, the extent of governmental control and the responsiveness of the system...Signals of high political risk include such events as periodic social disorder and rioting, military coups or radical ideological shifts in government."

They also make an economic analysis by comparing a country's debt to its spending. Standard of living is also considered; the higher it is, the more governments can cut back if need be. What this means is

that Third World Countries, particularly those with left-wing governments, are rated as being much more risky than Western 'democracies'. Agencies have the power to alter a country's rating, with potentially devastating implications on its economy, putting millions out of work.

### DIY Research

To find particular analysts, look in the FT (often quoted on the back page of the 'Companies & Markets' section). Or search for the company's name, along with 'companies report', on the FT CD-ROM at City Business Library (see p.12), or on [www.ft.com](http://www.ft.com) - it's free to search the archive (which covers lots of papers, not just the FT) and get lists of articles and dates. You have to pay to read them, or you can go find them in the library. A carefully worded call to selected brokers' companies could also bear fruit. Quick wits, determination & imagination are all you need.



# Work and pay in the City

## Work

A 27 year-old solicitor with corporate lawyers Norton Rose describes his work: "There is no typical day. They can swing wildly. Generally I start work at 9am and go on till 8.30pm. But one day I waved goodbye to my girlfriend on a Tuesday morning and at the office ran into completion on an acquisition worth £70 million. I didn't get home until Friday. My girlfriend brought me fresh shirts every day and I slept for three hours in a stretcher in the sick bay. I worked 56 hours straight. You must enjoy your work? Love it!" [Evening Standard magazine, 15/1/99.]

A City drugs clinic notes that heroin use among well-paid City professionals is on the increase. One 26-year-old City worker, on £85,000 a year, said "I felt as if my life in the City was empty, I hated getting up in the morning. As a symbol, I deliberately used my posh tie as a tourniquet. Others are under a lot of pressure in their jobs. Heroin is a way of forgetting.... My boss knew I was on heroin. He didn't care as long as I was making money for the company and didn't shoot up at my desk. But he saw my needle scars and asked me to cover my wrists and hands when we went to see clients... I would shoot up before work, during lunch and a couple of times during the evening. I was blitzed all night just to avoid being sick all day". [FT Weekend, 21/11/98.]

## Pay

There are over a quarter of a million people employed in the City, with average earnings of £750 per week (£39,000 p/a). Of that, nearly £70 per week is bonus, as a reward for personal performance or company profit. By contrast, the average national weekly earnings are £385 a week.

The group chief executive of Standard Chartered Bank earns £455,000 annual salary, plus £685,000 bonus. A senior partner at merchant bank Goldman Sachs earns £125,000 salary and

between £1 million and £1.9 m bonus. A junior foreign exchange trader at Chase Manhattan earns £30,000, plus a bonus of about £130,000. [Evening Standard magazine, 15/1/99.]

Meanwhile, the City has the lowest wage levels for office ancillary staff, (cleaners, temps etc.) of any comparable European financial centre. (From Post-Imperialism & the Internationalisation of London, Anthony King, Routledge 1991).

**"People buy and sell blips on an electronic screen. They deal with people they never see, they talk to people on the 'phone in rooms that have no windows. They sit and look at screens. It is almost like modern warfare where people sit in bunkers and look at screens and push buttons and make things happen."**

**Anthony Sampson, in 'The Midas Touch: Money, power and East', 1989**



# Commodities

**A commodity is a raw material such as coffee, or oil.**

## What are commodities?

**Commodities are things. They are the basic raw materials the world uses, fore example wheat, coffee, oil, sugar, metals, etc.**

The next commodity likely to hit the markets, though, will be a little less tangible: permits to emit carbon dioxide (under the Kyoto Protocol on climate change). Profiting from pollution - and the London International Petroleum Exchange is leading the field.

## Who owns them?

**A commodity is owned by either a company or a speculator.**

Commodities are bought and sold by the companies that produce, export/import, distribute and process them. But in the commodity exchanges of London, alongside the representatives of these companies, you will also find speculators. They buy and sell the commodities with no intention of ever using or even seeing them.

## Companies

Necessity dictates where raw materials are produced. Minerals are only found in certain parts of the world, and agricultural commodities like coffee and tobacco must be grown where the climate (political as well as meteorological!) is suitable. In most cases, this means the global South.

Commodity prices are unstable, and over the last few decades they have been persistently falling. Income from processing commodities, on the other hand, is much more secure. For processing, capital will go wherever it can make the highest return with the lowest risk, which is often the industrialised countries, where the industrial infrastructure is in place, the country is politically stable, and the workforce is trained.

The fall in commodity prices has handed control from the countries or governments that own the mines and plantations, to the companies that provide the technology. Meanwhile, companies make their profits in manufacturing from the (now cheap) raw material. For example, Nestle receives 40% of the retail price of Nescafe, just for processing and packaging.

One of the major pressures keeping commodity prices down is third world debt (see p.23).

## Speculators

Speculators gamble the markets, betting on short-term price fluctuations. The vast majority of trade that takes place in any market or exchange is speculative. The annual London Metals Exchange turnover in copper is 20m tonnes, about twice the world's copper output, and only 2-3% of cocoa futures contracts (see below) ever end up in physical delivery.

If a speculator bets that a price will rise and instead it falls, he must sell quickly, thus accelerating the drop in price. In this way speculators increase the volatility of the market. Indeed, they have a vested interest in volatility, for while a producer depends on prices being high, speculators bet on price changes.



**Gold-panning in west-papua for \$7 a day**

## Futures and Options

...are insurance policies, where the supplier and the purchaser agree to a price of a commodity.

The price of commodities fluctuate due to natural, political, economic and financial factors. To get around this uncertainty, the traders invented the 'commodity future'. This is a contract to deliver an agreed quantity and quality of a product at an agreed time in the future, for an agreed price.

'Options' are like futures except they are not a binding contract, but simply the option to buy or sell at an agreed price in the future; if the market price is better they can opt for that instead.

Only around 5% of contracts at the London Metals Exchange result in a delivery. Most are simply financial, and are bought or sold back before falling due.

Futures and Options act as insurance. 'Hedgers' are the companies which produce or distribute a commodity. They want to reduce their risk of being hit by a price change. Speculators take on that risk, buying and selling futures contracts in order to profit from price changes, and from the premiums paid to them by the hedgers.

Hedging is a way of protecting against risk, tending to make investors more reckless. In practice it means that if, for example, the price of sugar drops to almost nothing, the guy selling the sugar at the commodities exchange has already hedged against it. He has an agreed price and is protected against the price slump. The sugar cane farmer in the Philippines of course is not...

## Where are commodities traded?

Commodities are traded worldwide. In London they have their own specialised exchange markets, at 56 Leadenhall Street.

66% of developing country exports are destined for developed country markets in the USA, Europe and Japan.

Much of the dealing in these products is carried out between companies by fax or 'phone in corporate offices. However their prices are set in commodity markets.

Commodity dealing in the global marketplace is what sets the price that a farmer can get for his sack of, say, coffee beans. In order to trade you need expertise and financial resources (for example, a seat in the Cocoa pit at the London Commodities Exchange costs a cool £30,000), and up-to-the-minute information.

Most of the commodity exchanges operate some degree of open outcry, with traders gesticulating in a pit, but supplemented by computerised information.

Coloured trading jackets are worn, so staff in the booths and Exchange officials can identify traders in a crowded pit. Similarly, trading badges worn by each trader will show: his photograph; a three letter symbol for his company's name; the trading permit for the exchange; and the categories of contract that he is qualified to trade.

As well as announcing their bids and offers to the pit orally, traders clarify their intentions using hand signals. Pits are subject to video surveillance throughout the trading day. All telephones on the trading floor are audio logged by the Exchange.

Every day, high in the Peruvian Andes, coffee growers who have no electricity listen on solar-powered radios to reports of the days' trading in New York. They are powerless to do anything about it, and until recently did not even know it was there. Yet what goes on in distant financial centres sets the value of a crop. The price can go up or down by 10% in a day and despite the distance local prices tend to follow international fluctuations closely. Between 1989 and 1992 the price of coffee fell from \$1.30 to under 50 cents a pound. The immediate effect on farmers was catastrophic, the coffee beans on the trees in Peru becoming literally worthless.

**Speed is so important that one firm recently spent \$35 million to buy a super computer simply to gain a two-second advantage on the futures market in Tokyo**

**[David Korten, When Corporations Rule the World]**

**"We are not a market, first and foremost we are a people"**

**La Falda Declaration, South American Chemical and Paper industry workers**

## International Petroleum Exchange ([www.ipe.uk.com/](http://www.ipe.uk.com/))

The IPE, at St Katherine's Dock, by Tower Bridge, is one of three oil futures exchanges in the world (the others are in New York and Singapore. So between them they can cover 24 hours a day; when London closes, New York opens etc). It trades over \$1bn dollars worth of contracts every day, in three main energy products: Brent crude oil, gas oil and natural gas. Only the 125 registered members may trade at the IPE. These include merchant banks and speculators, who may trade for external customers, and oil and gas producers, refiners and distributors, who buy and sell for themselves.

## The London Commodities Exchange ([www.liffe.com/liffe/news/newslice3.htm](http://www.liffe.com/liffe/news/newslice3.htm))

The London Commodity Exchange, at Commodity Quay, just across the road from the IPE, deals in Robusta coffee (which comes from Africa or Asia; Arabica, from Latin America, is traded in New York), cocoa, sugar, wheat, barley, potato and Baltic freight. It merged with LIFFE in 1996.

Computer programmes are set to react to information while people sleep. The speed of the communications and advanced technology that operate the 24 hour exchanges and markets can have devastating effects.

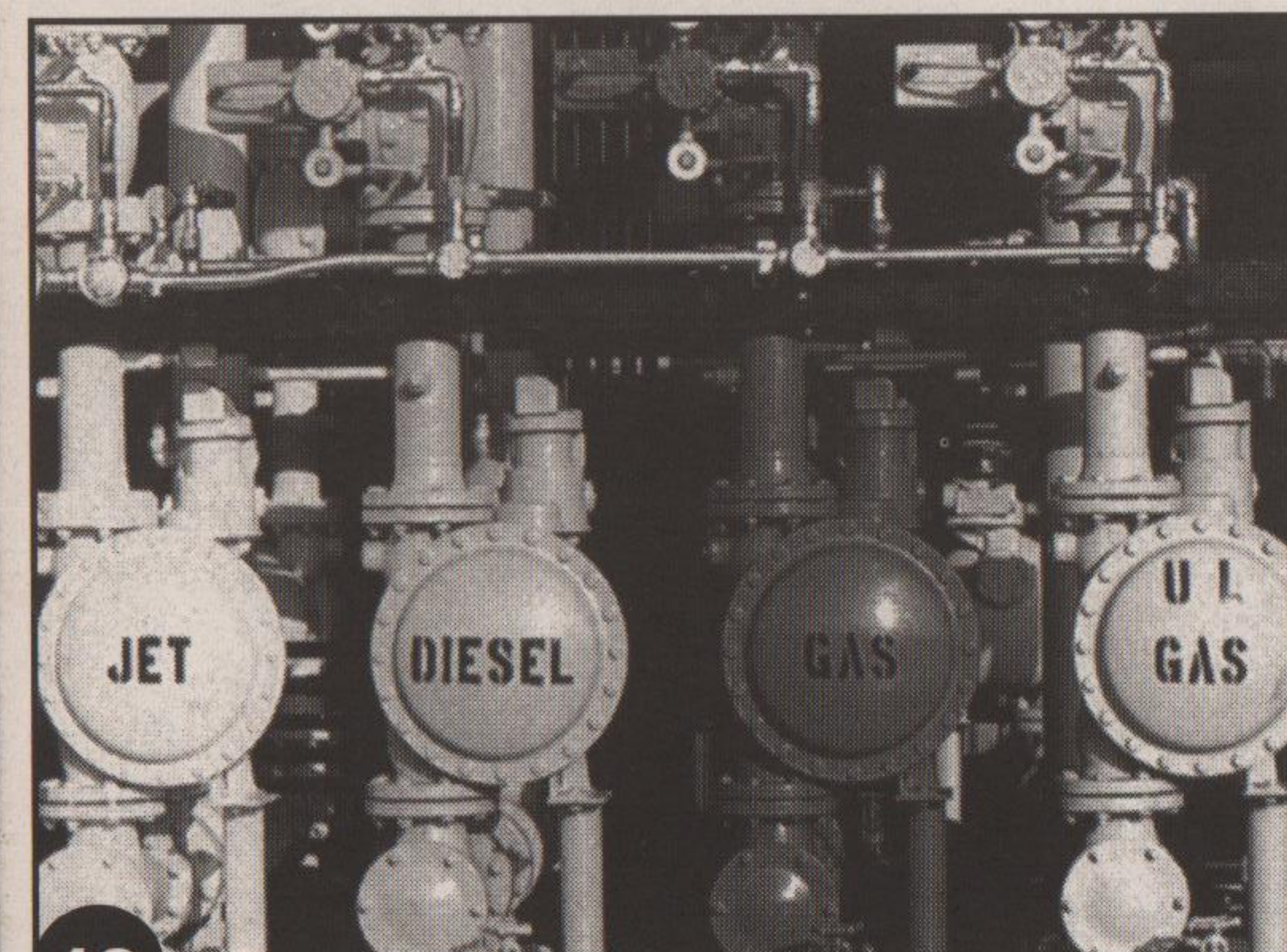
## London Metals Exchange ([www.lme.co.uk](http://www.lme.co.uk))

The centre of the world's trading in base metals is the London Metals Exchange (LME). It accounts for 95% or more of the trade in the main industrially used non-ferrous metals - copper, aluminium, lead, nickel, tin and zinc - worth US\$10bn per day. The LME spans the time zones by operating 24-hour trading services. It has a membership of over 100 companies, merchant banks and speculators.

The LME funds at least some of its Contracts on tangible deliveries. To meet this physical aspect of trade, large stocks of metal are held in warehouses approved, but not owned, by the LME. Today there are over 400 approved warehouses and compounds in some 40 locations covering the USA, Europe and the Far East.



Where are commodities traded



# Travelling to and from work

Most City workers get in and out on public transport. Liverpool Street and Bank are the busiest hubs. Both are on the Central Line, and bring people in from areas like Notting Hill in west London, a particular favourite for young execs with disposable incomes. London Bridge station is also busy. Huge swathes of black & grey-clad commuters swarm over the bridge to the City morning and evening.

Other key points are Fenchurch St and Cannon Street overland stations, as well as St. Paul's, Moorgate, Barbican, Aldgate and Mansion House tubes. The almost exclusively white-collar Waterloo & City line runs from Waterloo to Bank at key weekday times.

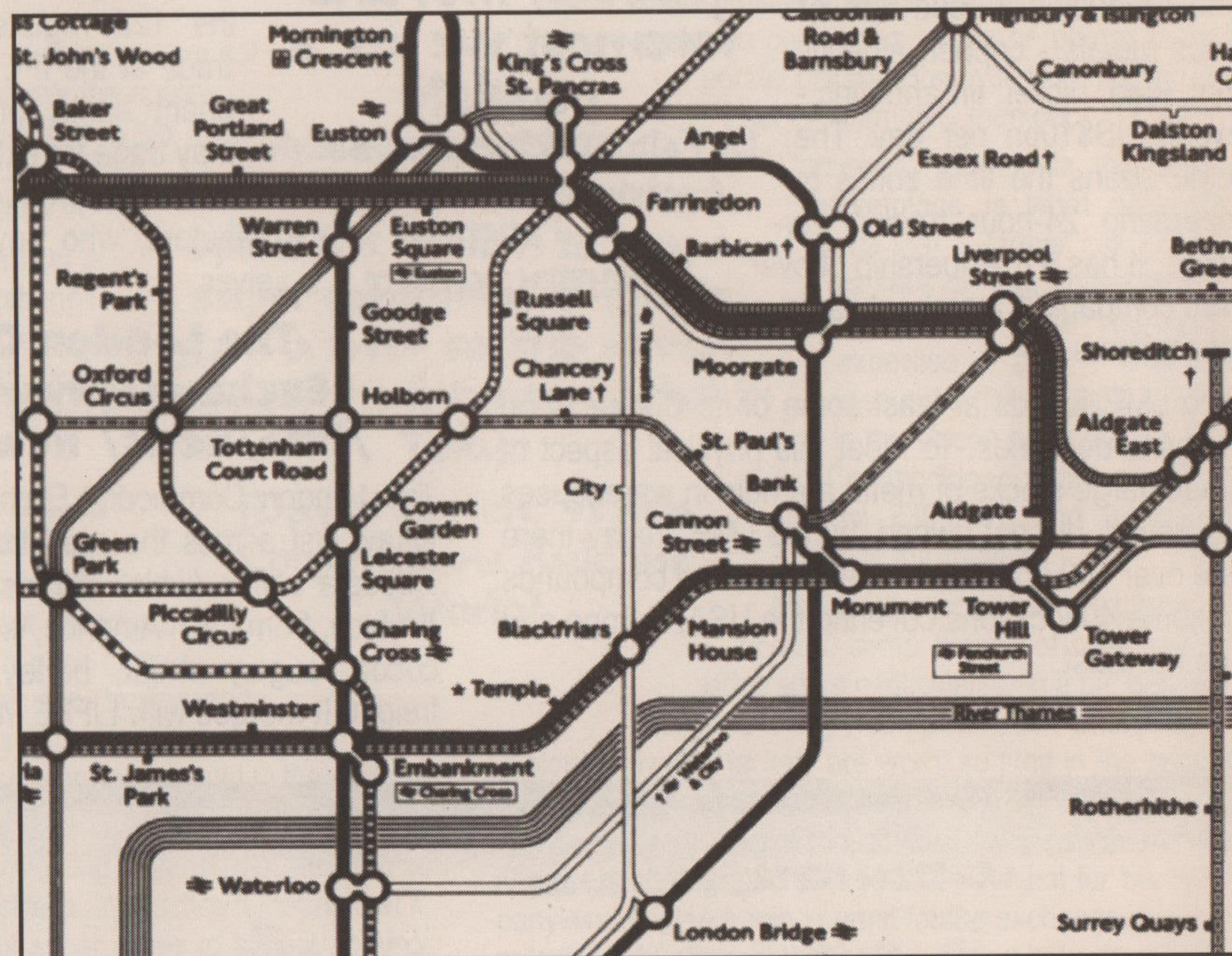
A few with luxury flats overlooking the river may walk to work. Single flats have sprung up recently, as have hotels. With the increasing globalisation of finance, employees of banks and companies require local accommodation when they fly in to Heathrow or City Airports for a couple of days' troubleshooting. Thus local communities are torn up and relocated for the sake of providing prestigious crashpads to be used only sporadically through the year.

Buses are packed at rush hour with jaded-looking workers mostly from the lower-end of the City salary spectrum, while a few cycle or roller-blade. There are precious few cyclists, apart from the countless black-clad couriers.

You won't see the most powerful executives, like heads of the major financial institutions, when you're in the City. They travel by car, from a locked underground carpark at their flat, to an underground carpark at their office, or to an underground carpark at their gentleman's club. Not for them our common soil.

In 1993 the Corporation of London introduced a traffic management system controlling the flow of traffic in and out of a central area of the City. It is into this traffic system that the security checkpoints and CCTV for the Ring of Steel (see p.29) have been incorporated.

## London Underground



Key to lines	Line Name	Line Style
⊖	Bakerloo	⊖
⊖	Central	⊖
⊖	Circle	⊖
⊖	District	⊖
⊖	East London	⊖
⊖	Hammersmith & City	⊖
⊖	Jubilee	⊖
⊖	Metropolitan	⊖
⊖	Northern	⊖
⊖	Piccadilly	⊖
⊖	Victoria	⊖
⊖	Docklands Light Railway	⊖
⊖	Network Southeast	⊖

- Interchange stations
- ⊖ Connections with British Rail
- ⊖ Connections within walking distance
- ⊖ Closed Sundays
- ⊖ Closed Saturdays and Sundays
- ▲ Served by Piccadilly line early mornings and late evenings Monday to Saturday and all day Sundays
- ↑ For opening times see poster journey planners
- ⊖ Certain stations are closed during public holidays

# Currencies

## What is a currency?

**A currency is a particular national form of money.**

A currency is the type of money a country uses. Like shares, commodities and other financial products, currencies rise and fall according to the laws of supply and demand. If lots of people want a currency, the price goes up. If lots of people sell their holding in a currency, the price goes down. The value of a currency is measured relative to other currencies - eg how many dollars or euros you can exchange a pound for. If the value of the currency is lower, it means exporters get less money (in their home currency), and imports become more expensive.

**"In this new market...billions can flow in or out of an economy in seconds. So powerful has this force of money become that some observers now see the hot-money set becoming a sort of shadow world government."**

*Business Week, March 20th 1995. pg 46*

## Whose money is it?

**Money is used by companies, countries, speculators, and individuals.**

Like commodities, currencies are bought and sold by two groups: the companies and countries who use them, and the speculators who gamble with them. Any company involved in international trade has to change currency to operate in different countries. About \$800bn changes hands every day in the international currency markets. By contrast, the trade in goods and services (ie. 'real things') is only about \$20bn.

Companies hold their cash reserves in a currency they consider safe. They don't change their choice of reserve currency often, but when they do they can cause the exchange value of the currency to fall.

This may lead speculators to pull out because they believe a currency is unstable, and it falls further. At some point the big players will begin to move out, often triggering a stampede, and often crippling economies, as took place in Thailand at the start of the 'Asian flu' in 1997, and Russia in 1998. A major crash can lead to the population being unable to afford basic essentials - such as food - while those working for exporters lose their jobs.

So financial investors have immense power over governments, holding them to ransom with the threat of withdrawal if they disapprove of their politics (eg high social spending). If a country's currency drops too far in value, the IMF (see p.23 and 30) will give them a loan, on the condition that the government implements right wing, monetarist policies, usually cutting public spending on welfare.

In 1976 this happened to the Labour government in Britain. They faced a run on the pound and a persistent crisis of market confidence. Eventually the government had to apply to the IMF for a massive loan to prop up the currency. The conditions attached to this loan demanded £5bn worth of public spending cuts & the sell-off of £2bn of the government's holding in BP (known as the first act of privatisation). Gavyn Davies MP later complained that "The markets wanted blood...We didn't understand that at the time, we didn't know what they wanted was humiliation."

More recently Arminio Fraga, one-time Managing Director of Soros Fund Management, was appointed as President of Brazil's Central Bank. Brazil's left-wing opposition commented that "the government has let the fox in to look after the chickens".



## The Bank of England

**...is banker to the Government. It regulates the high street banks and controls currency fluctuations. The bank has the power to raise interest rates.**

Every country has a central bank. Here it's the Bank of England. It holds the government's bank accounts, and those of select others, including the IMF, the World Bank, the Chancellor of the Exchequer and the Lord Mayor of London. It is the only institution allowed to print English money.

It oversees the activities of the other banks and lends to banks that get into difficulties. It lends at the base rate of interest, which influences the other banks' own interest rates, as they must neither lose money by charging too little, nor lose business to other banks by charging too much.

After only a week in power in 1997, Gordon Brown handed over to the Bank the right to determine the base rate of interest. This surrendered control over the economy (and in turn over jobs, wages and prices) from elected politicians to a body which is supposedly independent of political ideology. Eddie George, the Governor of the Bank of England, made himself unpopular this year when he made the (political) judgement that unemployment in the north of England was a fair price to pay for low interest rates in the south.

The bank is also responsible for regulating the currency. This is done through:

- Changing the amount of money banks must deposit in the Bank of England, which stops them lending too much (see p.23).
- Using the 'exchange equalisation account' - the government's gold reserves (which are, curiously, kept in New York). If the pound is growing weak, the Bank will buy lots of Sterling on the currency markets to push the price back up.

However, in reality the government or central bank have very little control over their economy. A co-ordinated effort by several central banks to protect a currency from speculative attack might raise \$14bn per day, not much compared to the \$800bn total circulating in the currency markets every day.

## Currency trading

### Most currency trading takes place in (high street) banks

More currency is exchanged in London than in any other city in the world. Most of this is in the banks (see p.23). But like commodities, much of the trade in currencies is in futures (see p.18), which allow companies to reduce their risk from currency value changes. Speculators take on this risk, and profit from it. The centre of currency futures trading is LIFFE (see p.24).

## High Street banks (aka retail banks or clearing banks)

**High street banks provide personal and business finance, and also trade in currencies.**

**These are the well known names: Lloyd's, Midland (HSBC), NatWest and Barclays, Bank of Scotland, Royal Bank of Scotland and the former building societies. (Halifax is now the UK's 3rd biggest bank, and Abbey National is 5th).**

As well as lending and borrowing services for individuals, they also hold business accounts for companies, large and small, and give loans and overdrafts for short-term finance. Their most important role in the City, though, is in currency exchange. Companies call their bank's currency division when they need currency for importing or exporting. Most banks have a currency division which consists of rows of telephones and dealers who buy and sell large amounts of currencies for their clients, like a big, electronic Bureau de Change. There are more foreign banks in the City of London than anywhere else in the world, and their main role is currency trading.

Banks lend far more money than they have deposited at them. It works something like this: the government requires banks to hold a reserve at the Bank of England, say 10% of their cash. If Brian saves £100 at Lloyds, Lloyds keeps 10% at the Bank of England, and lends the remaining £90 to Peter. Peter then spends it, giving it to Bill, who pays the £90 into his account at Midland. Midland keeps £9 and lends £81 to Bob, and it ends up in NatWest, which keeps 90p and lends out £8.10, etc... The result is that in total, about £900 has been spent, from just £100 real money!

This money did not previously exist, but it must at some stage be 'paid back', plus interest, and for loans to be repaid, more money must be borrowed. This is why banks are so keen to lend you money. The system must continually grow, whatever the costs, or debt repayments will drain all money from circulation. Under our present system, growth is not an option - it's a necessity.

This means that there is far more money around than actually exists. If everyone who had savings in the bank asked for their money back at once, the money just wouldn't be there. This is known as a 'run on the bank'. The banks rely on people trusting them, a trust which may well be shaken by the millennium bug.

## Third World Debt

**Many 'developing countries' are crippled by enormous debt repayments to rich countries. These are for debts that were lent by banks many years ago, often spent by unaccountable dictatorships, and have generally already been repaid several times over due to excessive interest rates.**

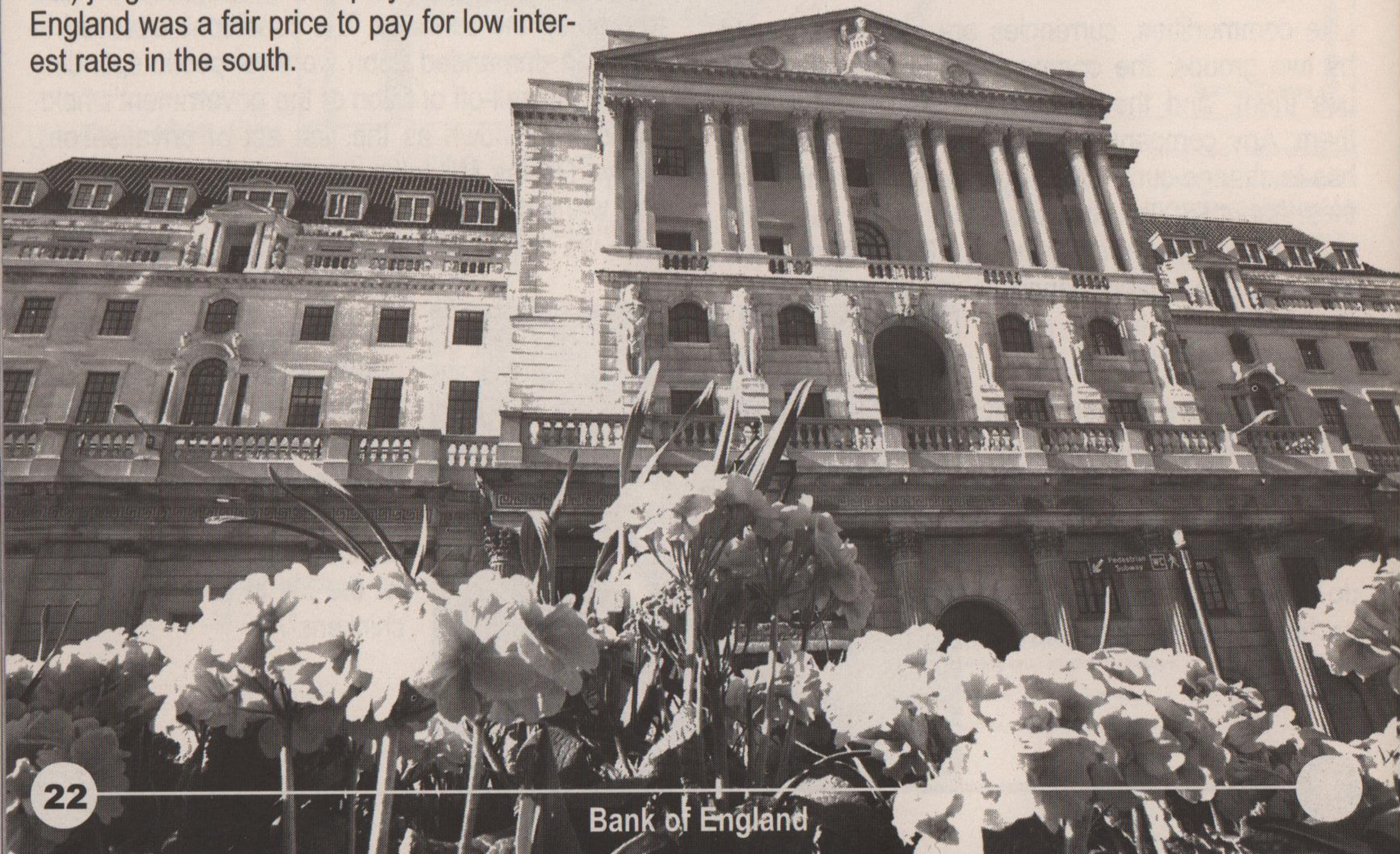
In the 1970's, when oil prices rocketed, oil-producing nations saved their windfalls in banks, who then lent vast amounts to developing countries. Much of this money went not to the people of those countries, but into the pockets of their dictators, or into weapons or prestige projects. Rising interest rates at the end of the 1970s made many debtor nations unable to repay the loans, or even the interest on them. Old loans started to be repaid with new borrowings, and debt levels escalated.

Now nine times as much money flows in debt repayments from poor countries to rich countries, as flows in the other direction in aid. This, of course, takes away from what could be spent on health, education, welfare, food subsidies etc.

Under increasing pressure, in 1982 Mexico announced a suspension of debt repayments. This was "the debt crisis", a term coined to refer not to the starvation of millions of people, but to the threat of banks not getting all their money. In the end the International Monetary Fund (a lending agency owned and run by the countries of the world, but with the richest countries having the most control) stepped in to bail out the banks, as it began lending money to the debtor nations to repay their loans.

The IMF (see p.30) imposes conditions (structural adjustment plans) on the countries it lends to, dictating how their economies should be run, in theory to increase their chances of being able to repay the debt. It demands cuts in public spending, reduced wages, reduced imports, increased exports and opening up of markets to allow Western transnationals ("investment") in. The results are devastating: incomes of the population are slashed, while food prices rocket (due to more expensive imports, and removal of subsidies). Inevitably this means starvation, deterioration of health, and collapse of local economies. The measures fail even on their own terms. As all IMF debtors are required to increase imports, gluts are created on the commodity markets, so the prices fall, and income from exports gets lower, even though production is higher. Of course, this suits the resource-hungry developed world.

The high street banks have now sold most of their third world debt. The majority is now held by countries (via eg the Bank of England), and by multilateral institutions such as the IMF.



# LIFFE

...deals in futures (see psg 18) in currencies and other financial instruments. (www.liffe.com)

Situated yards from Cannon Street station and the Thames, the London International Financial Futures (& Options) Exchange (LIFFE) is where much of the real action is to be found in the world of money. Here people trade financial risk: the buying and selling of futures. LIFFE has grown by over 40% a year since it was founded in 1982 and is now one of the top three futures exchanges in the world, (Chicago being the largest). They are fast losing business to Eurex (the Frankfurt-based, computerised equivalent), and are computerising and modernising so fast in response that they made a huge loss in 1998.

LIFFE operates by floor-based open outcry trading, supplemented by Automated Pit Trading (APT), an electronic system that replicates the open outcry on screen. This changeover to 100% digitalised trading will sound a death knell for the frayed but brightly-coloured jacket-wearing floor traders whose frantic faces grace almost every press article on turmoil in financial markets.

## Building Societies

**Building Societies are involved in mortgage borrowing and savings accounts.**

Building societies were set up to lend money to buy property. They are owned and controlled by the holder of their mortgages (this is called mutuality), unlike banks, which are owned and controlled by shareholders. However, recently many building societies have demutualised and become banks. Much bigger profits can be made as a bank, as house mortgages by comparison are borrowed at low-interest (because the risk is low). So profiteers known as 'carpet baggers' propose demutualisation at the annual general meeting, with the offer of a large 'windfall' payout to the mortgage holders as an incentive. This is in much the same way as hostile takeovers of companies happen (see p.9). This began taking place during years of Tory rule and continues apace under Labour.

## The Euromarkets

**The Euro-Market is where Euro-Currency (currency held outside its origin country) is traded.**

The Euro-currency Markets sprang up after World War II and are probably one of the most important recent developments in international finance as they make it possible for borrowers and lenders to conduct their business virtually untouched by the wishes of nation states.

Euro-currency Markets is a misleading name, making them sound like markets dealing in European currencies. Actually, the first Euro-currencies were Euro-dollars. These were dollars held outside of the US. Euro-currency is just any currency held outside of its country of origin. French francs held in Barclays in London are Euro-French francs, pounds held in a bank in the US are Euro-sterling etc...

The advantages of holding investments in a foreign currency or in a foreign country are that the investor can bypass any regulations a government tries to impose by just moving the money elsewhere. In the late 1960's and 1970's, banking authorities tried to regulate the Euromarkets, but there was always a country with fewer regulatory scruples than the rest, and all the financiers would just put their money there. In the end the supervisors gave up, repealed their own regulations and brought the financial markets back home.

### The NatWest Tower

# Eating, drinking and dealmaking

Fatcats come in all shapes and sizes.

In the exclusive and insane world of the City of London people move £millions on the basis of a good lunch. Here's a list of some influential, upmarket and often exclusively besuited City drinking haunts. Most do food, but the bottom line is booze. For those who'd like more details on which institutions drink where, get hold of a copy of 'Who Drinks Where' (see page 32).



### Balls

**Brothers** x3: e.g. 3 King's Arms Yard EC2: lawyers, bankers, stockbrokers; Slaughter & May, BofE, NatWest.

**Bierrex** (2-3 Creed Lane EC4): 'Coolest' of City drinkeries: Euromoney, JP Morgan, Reuters.

**Brasserie**, 1 Lombard St EC3: £78 for a shot of caviar; Bloomberg business link-up, so you can keep tabs on the markets as you scoff & quaff.

**Brasserie Rocque** (37 Broadgate Circle): fancy. Lehman Bros, Warburg Dillon Read, Intercapital Brokers, Merrill Lynch.

**City Brasserie** (56 Mark Lane EC3): "strong whiff of wealth". Bankers, lawyers, insurers, stockbrokers.

**City Pipe**: (Foster Lane EC1) boorish pin-stripes. Motto: "If it isn't lunchtime, it must be after work."

**Corney & Barrow** x5.. E.g. 45 Exchange Square: upstairs in new, imposing Broadgate development alongside Liverpool St. station "'Henley-on-Breezeblocks' in summer"- Bankers, lawyers, traders.

**Futures** (2 Exchange Square EC2): close to the European Bank for Reconstruction & Development. Busy Friday nights. Exchange Square is private property.

### Fuego

(1a Pudding Lane EC3): pulling bar by night; KPMG & Arthur Andersen, bankers et al.

### La Grande Marque

(47 Ludgate Hill EC4): converted bank; accountants, solicitors, barristers, bankers. 23 different champagnes!

**The Ivy**, (1 West St, WC2), opposite the Mousetrap in the West End, but a renowned den of deal-makers.

**MPW Brasserie** (2nd Floor, Cabot Place East, Canary Wharf E14): exclusive & inaccessible home to celeb-chef Marco Pierre White. Packed with dealmakers at lunch, dead by night.

**Orangery** (Cutlers Gdns, 10 Devonshire EC2): Eurobrokers, 90% male.

**Pavilion Wine Bar** (Finsbury Circus Gdns, Finsbury Circus EC2): old-school ties, BP, lawyers.

**Slug & Lettuce** (Walbrook, EC4): Packed with noisy LIFFE'rs at lunchtime.

**Tao Restaurant & Bar** (11 Bow Lane EC4): Trader Central - LIFFE, Deloitte & Touche etc.

**Vineyard** (1 St. Katharine's Way E1): huge; alongside International Petroleum Exchange

# Other institutions

## London Clearing House ([www.lch.co.uk](http://www.lch.co.uk))

**The London Clearing House is where a deal from another exchange is 'cleared' to take place.**

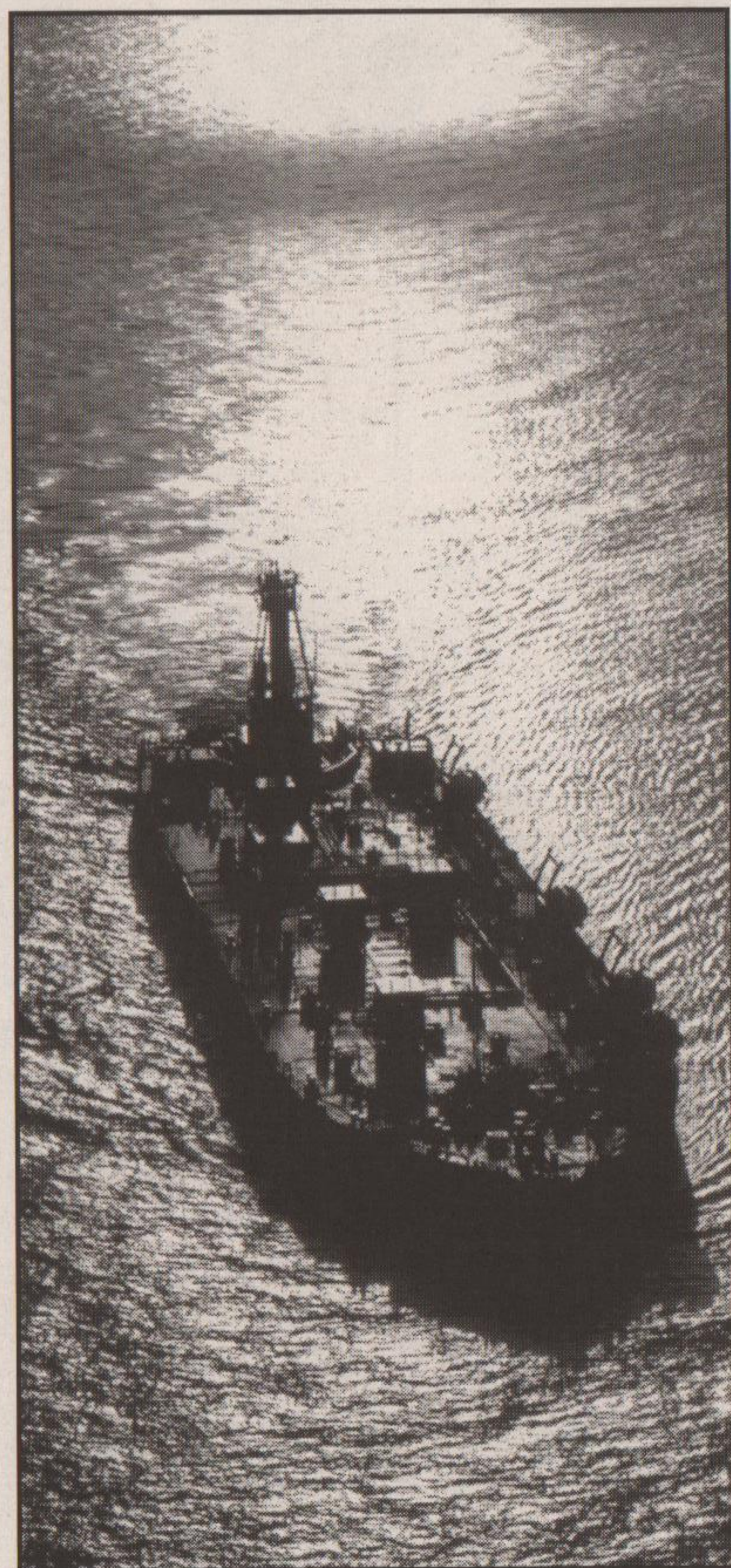
This is a crucial hub for all London-based financial dealing. Briefly, clearing works like this: companies strike a deal for, say, a tanker full of oil. Both parties enter details of the trade into a computerised matching system based at London Clearing House. So long as both parties' entries agree on such details as time, price, prompt date, contracting parties and volume, the trade is cleared. Otherwise it is returned (rather like a cheque bouncing).

The London Clearing House offers centralised clearing for LIFFE (incorporating the London Commodity Exchange), London Metals Exchange, International Petroleum Exchange, and Tradepoint Financial Networks.

### Other exchanges

There are various other smaller exchanges in London, competing with the main ones. They include:

- **Tradepoint**, an electronic Stock Exchange, based outside the Square Mile in Covent Garden;
- **The OM London Exchange**, providing a gateway for international capital to the services of the Swedish OM Group, which include dealing in securities and derivatives, and clearing;
- **Crestco**, which manages CREST, the real-time settlement system (similar to clearing).



## Baltic Exchange

([www.balticexchange.co.uk/](http://www.balticexchange.co.uk/))

**The Baltic Exchange is where a ship is matched with the cargoes it is able to carry.**

The Baltic Exchange, based on St. Mary Axe, is a shipping exchange used to match cargoes around the world with the ships to carry them. Members of the Baltic Exchange handle about a third of the world's dry bulk cargo, and about half of tanker chartering. 98% of world trade is carried by sea, the major commodities being coal, iron ore, crude oil, grain, rice, steel, timber, bauxite, phosphates and refined oil products. The Exchange is also used for buying and selling the ships themselves. Its members

are mainly shipbrokers, shipowners and the companies which need to transport cargo. The Exchange has 2000 brokers operating 24 hours a day. The Baltic Air Charter Association, which handles specialist air freight, is also based at the Baltic Exchange.

The Exchange building was destroyed by an IRA bomb in 1992. Even so, trading continued without a break, by moving first to Lloyds of London, then to its own temporary headquarters.

Elsewhere in London there are other shipping services, including maritime lawyers, marine insurance, arbitration, classification societies (such as the Lloyds Register) and shipping finance.

# Lloyd's of London

**Lloyd's is an underwriting institution (unrelated to Lloyd's Bank) which signs (covers) insurance policies. ([www.lloydsolondon.co.uk](http://www.lloydsolondon.co.uk))**

Underwriting means signing an insurance policy, promising to pay up to a specified amount if a claim is made. All insurance policies are underwritten somewhere. Lloyd's reported a profit of £1.1 bn in 1995.

Lloyd's does not have the money itself. Policies are signed by wealthy individuals and organisations called 'Names', who also receive the premiums.

Business happens in the Underwriting Room at One Lime Street (see picture), where brokers (who are looking for insurance for their clients) bring business to underwriters at their boxes (they are the professionals acting for syndicates of Names). Underwriters compete for the brokers' business, by offering innovative policy coverage and flexibility.

The market is regulated by Lloyd's itself. There were 175 Lloyds brokers in 1999. They are not restricted to dealing with Lloyd's, and can also place business with insurance companies (see p.11).

To be a Name, you must have at least £250,000 of assets. There are about 20,000 Lloyds Names, including businessmen, entrepreneurs, professionals, farmers, and about 50 MPs and former ministers. 32% of this capital is provided by insurance companies. There were 139 syndicates in 1999.

Lloyd's took a huge hit over the Exxon Valdez tanker disaster and over asbestos. The company now even has a department known as US Cat (short for Catastrophe), which investigates and attempts to predict events like hurricanes, events which could spell financial disaster for the whole insurance industry before too long.

Inside Lloyd's you can still find the Lutine Bell, which is rung once for good news and twice for bad.



## Trade Associations

A Trade Association is an organisation set up for the benefit of a group of companies, which have similar interests.

Trade associations are non-profit organisations, funded by the subscriptions of their member companies. They exist to advance the interests of their members, through lobbying (for example for the freeing up of trade restrictions), promotional work, training, information services etc. They lobby the Financial Services Authority and HM Treasury, and other government bodies nationally and internationally, both informally and through the formal consultation processes. Links to many trade associations can be found on the website <http://dSPACE.dial.pipex.com/jhalsey/associations/assuk.htm>

### The main trade associations in the City are:

**Association of British Insurers**

**Association of Investment Trust Companies**

**Association of Payment Clearing Services** (APACS is the industry body for the UK's major banks and building societies (it only has 29 members – fewer than most trade associations). It oversees money transmission and has responsibility for the co-operative aspects of the UK payments industry, including plastic cards.)

**Association of Unit Trusts and Investment Funds**

**British Bankers' Association**

**British Insurance and Investment Brokers' Association**

**British Invisibles** ('Invisibles' means invisible exports (ie financial services). Members include banks, insurance companies and other finance companies, plus exchanges).

**British Venture Capital Association** (Venture capital is the financing (through share purchase) of unquoted companies. This is for start-ups of companies, and for expansion of companies which aren't big enough to justify Stock Exchange listing).

**Foreign Banks and Securities Houses Association**

**Futures and Options Association**

**Institutional Fund Managers' Association**

**Institutional Shareholders Committee**

**London Society of Investment Professionals**

**National Association of Pension Funds**

**Tea Brokers Association of London**

## Corporation of London

([www.cityoflondon.gov.uk](http://www.cityoflondon.gov.uk))

**The Corporation of London is the local government of the City. Its aim is to maintain London as the leading international finance centre.**

This is the local authority for the City of London which claims to be older than Parliament itself. The Corporation is "committed to maintaining and enhancing the status of the business City as the world's leading international financial and business centre" through the policies it pursues and the services it provides.

The area it covers stretches beyond the Square Mile, from Fleet Street to Broadgate. But while there are only 5,000 resident registered voters, a further 15,000 voters who don't live in within its area of jurisdiction. How people get the right to vote is rather obscure. The electorate votes for 155 Aldermen, Deputies and Common Committeemen, so the ratio of voters to representatives is 1:129, compared to 1:3,500 in most London boroughs. It is not party political.

The corporation is currently pushing for changes to the voting system to give business more input, by allocating more votes on the basis of property value.

Members are elected to serve the 25 geographical wards, and like other local authorities, work through a council (the Court of the Common Council) and a structure of committees to set policy, and work through departments. With so few residents, services like education, housing and social services are relatively small. Planning and cleansing are more significant, and the Corporation is also responsible for the Barbican Arts Centre, Hampstead Heath and the Central Criminal Court.

The leader of the Corporation is the Lord Mayor of London, (currently Lord Levene), whose primary roles are marketing his manor and promoting free market capitalism. He also hosts the annual corporate shindig known better as the Lord Mayor's Show.

## Security in the City

### The City police and the ring of steel:

The Corporation's website proudly states that London's pre-eminence in world finance is no accident. "Over the centuries the City of London has thrived in a climate of political stability."

The importance of this stability was demonstrated when an IRA bomb shook it to the core in 1992.

According to Home Office estimates, 80% of companies which are involved in a major incident and haven't planned for an emergency are bankrupt within 18 months.

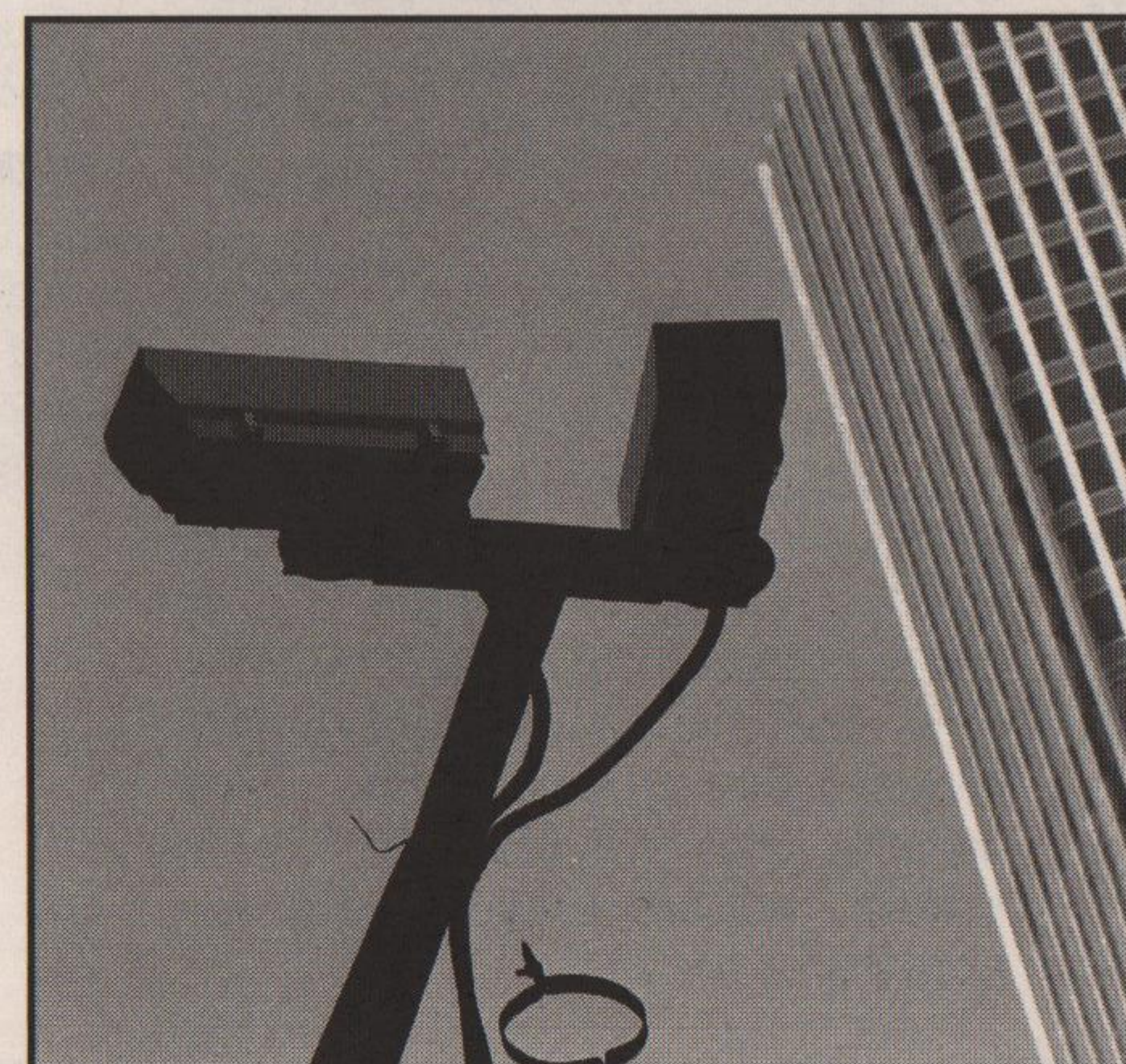
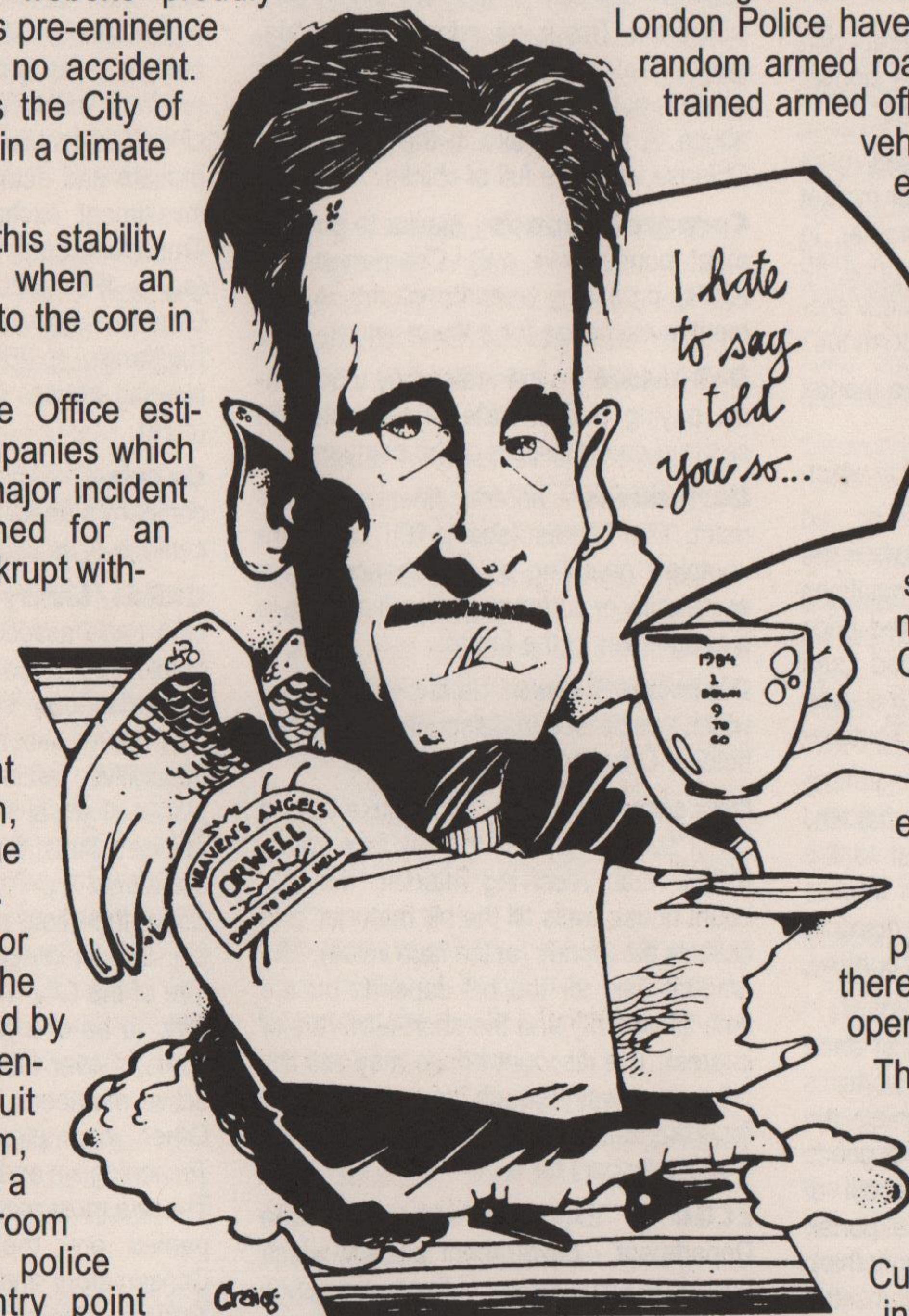
Many firms threatened to pull out of London if anything like that happened again, and security in the area was tightened.

The eight major access points to the City are now policed by officers and an extensive closed circuit television system, monitored 24 hours a day at the control room at Wood Street police building. Each entry point also houses two cameras, recording the occupants and registration number of the vehicle. The registration number is then fed via an automatic number plate reader to three police databases to check their validity. From point of entry, a lost or stolen vehicle can be identified within four seconds. On average, ten lost or stolen vehicles are traced each week.

With a heightened security alert, the City of London Police have the authority to organise random armed road blocks where specially trained armed officers will stop and search vehicles. In the event of an emergency, police may also set up pedestrian cordons in the City. To prevent disruption to financial and business activities, "business continuity teams" are allowed through the cordon to carry on work, equipped with safety clothing and equipment. For this purpose, the Corporation of London keeps a database of key personnel. Companies with CCTV are encouraged to share cameras with neighbouring organisations and the police. As at May 1997, there were 1280 cameras in operation.

There are 850 or more Police officers, and about 350 civilian support officers, active in the Square Mile.

Currently the City is divided into two territorial divisions, Snow Hill and Bishopsgate. Both these stations are fully operational and open 24 hours a day. The City of London Police force's headquarters is at Old Jewry. The Specialist Crime and Operational Support departments operate from the Wood Street police building. After terrorism, the force's second priority is fraud, which occupies 7% of the force's officers.



Security

# Jargon-busters phrasebook

**Acceptance houses** - institutions which specialise in accepting (guaranteeing) bills of exchange (see below). They lose out if the importer defaults. Often investment banks.

**AIM** - Alternative Investment Market - part of Stock Exchange (p.12), where smaller and growing companies are traded.

**Arbitrage** - buying securities (see below) in one country, currency or market and simultaneously selling in another, to take advantage of instantaneous price differences. The timing is down to a few seconds, but potential returns are enormous.

**Bear** - an investor who thinks the market will go down.

**Bear market** - a falling market in which bears would prosper.

**Big Bang** - 27 October 1986, when the Stock Exchange's new relaxed regulations took effect and the new automated price quotation system was introduced (see p.12). Has become a symbol of the even freer markets fostered by the Thatcher government.

**Bill** - a short-term (about 3 months) IOU like a bond, which pays interest to the holder and can be traded. Some bills do not pay interest, but are sold at a discount to their face value (see discounting, below).

**Bill of exchange** - a means of trade payment. In foreign trade, the importer is given time (often 3 months) to raise the money to pay. On receipt of the goods however, the importer signs a bill of exchange, and gives this to the exporter, in return for a bill of lading (ownership). The exporter can then either wait until the bill matures and collect the money, or pay a fee to an acceptance house, which guarantees the bill, then sell it to a discount house (see below) at a discount.

**Bull** - an investor who thinks the market will go up.

**Bull market** - a rising market in which bulls would prosper.

**Capitalisation issue** - money from a company's reserves is invested as capital (eg in machinery, research & development, land etc). It is converted into ISSUED capital, which is distributed to shareholders as more shares, instead of a cash dividend. AKA: bonus or scrip issue.

**Chinese wall** - a theoretical barrier in a diversified financial firm (see pp.13-14), which prevents confidential information about different clients being passed between the bits of the firm which deal with them. This is intended to avoid "rigging" deals, giving companies advice which is not their interest, or other forms of abuse. A popular joke in the City is that Chinese walls are full of chinks.

**Corporate Bonds** - similar to government bonds (see p.6). Companies sell IOU's, promising security of the investment in exchange for a lower return.

**Debenture** - a loan raised by a company, paying a fixed rate of interest, and secured on the assets of the company.

**Derivatives** - another financial instrument, like futures (see p.18), but more complex; gambling on the chance that a commodity or currency price will change in a certain way in the future.

**Discount house** - financial institution which specialises in discounting bills (see below). Often an investment bank.

**Discounting** - a discount house buys a bill or security for less than its face value. Rather than receiving interest, the discount house waits till the bill matures, and collects the money (at the face value). The amount paid for the bill depends on the time till maturity and the short-term rate of interest. The discount house may sell the bill on part way through the maturing time for less than the face value, but more than it originally paid for it.

**ECGD** - Export Credit Guarantee Department - government agency which provides taxpayer-subsidised insurance for exports. It has been criticised for covering arms exports to oppressive regimes, including Iraq and Algeria, where the recipient of the weapons has defaulted on payments.

**Equity** - ordinary share in a company (see p.8, and below). Equities are the risk sharing part of a company's capital - equity holders are the last to be paid back if the company goes bankrupt (so they run the most risk of losing their money), but they give the highest returns. Debt (loans to the bank, or debentures) is the first to be paid back, but gives the lowest returns. There are other forms of shares which come in between debt and equities (see preference shares, below).

**Financial Services Authority (FSA)** - the agency appointed by the Government to oversee the regulation of the investment industry. It oversees various other bodies: the 3 self-regulating organisations IMRO, SFA and PIA (see below); 9 recognised professional bodies (various institutes and associations of chartered accountants, lawyers, insurance brokers and actuaries), the 6 recognised investment exchanges LSE (see p.12), Tradepoint Stock Exchange (p.26), LIFFE (p.24), IPE (p.20), LME (p.20) and the London Securities and Derivatives Exchange (p.26); and the recognised clearing houses LCH (p.26) and Crestco (p.26).

**Gearing** - a measurement comparing a company's debts to its worth (ie what percentage of its capital is owed in debts).

**Guilds/Livery companies** - one-time trade associations or unions for the employees of particular professions (eg. Haberdashers) based in the City. Now they have become more symbolic and decorative, while retaining influence as places of social interaction, more like gentlemen's clubs. Some - like Mercer's - may still attract top City folk, but since the Big Bang, their time of real influence is passing. Still an integral part of the visual culture of the City. There are over 100 in the City. To be one you must have charitable funds of over £250,000 & more than 100 active members, all freemen of the City. Other examples include Information Technologists and Chartered Accountants. The two most recently created livery companies are the Company of Water Conservators and the Company of World Traders. Members of the World Traders include Sir Richard Sykes, Chairman of Glaxo Wellcome.

**IMRO** - the Investment Management Regulatory Organisation, self-regulating organisation (see below) for about 1,100 fund management firms (including managers of pension funds, unit trusts and investment trusts - see p.11).

**International Monetary Fund** - the IMF is a fund set up after World War II as a lender of last resort for countries with balance of payments problems, and is a grand engineer of free market economic globalisation, in particular through its structural adjustment plans (see p.21). It is owned and controlled by member governments, who pay subscriptions to it. The greater a country's subscription, the more votes it gets in controlling the IMF. Also, the maximum allowable loan a country can receive is a fixed multiple of its subscription.

**Insider dealing** - the purchase or sale of shares by someone (eg a company director) who possesses 'inside' information about the company's performance and prospects which has not yet been made available to the market as a whole. In the UK such deals are a criminal offence. Jeffrey Archer and his son both hit on this.

**Leverage** - exploiting characteristics of the financial system to actually gamble with much more money than you've actually got. If you've got £1m, and leverage it up to £100m and speculate on the futures market, any returns you get will be 100 times larger than without the leverage, and you can get rich very quick. If you get it wrong, though, losses will also be 100 times as big, and you could end up bankrupt, or even upsetting the markets and demanding a government bailout, while you go to jail. The potential for greed taking over from sense is enormous, and this has led to several major market glitches in recent years.

**Liquidity** - ease with which an item can be traded on the market. A liquid security can be sold easily. Long-term ("locked-in") investments are illiquid.

**Loan stock** - stock (ie investment in a company) bearing a fixed rate of interest. Unlike a debenture, loan stocks may be unsecured.

**Nominee name** - name in which a security is registered and held in trust on behalf of the rightful owner. For example, an occupational or trade union pension scheme might employ fund managers from an investment bank (see p.14) as its nominees, rather than managing the fund itself.

**Option** - the right to buy or sell securities at a fixed price within a specified period. Like a future (see p.18), differing in that the holder is not OBLIGED to buy the securities when the time comes. Returns are lower than futures, as less price-change risk is carried.

**Ordinary shares** - (see equity, above, and p.8) the most common form of share. Holders receive dividends which vary in amount in line with the profitability of the company and recommendation of directors.

**PIA** - the Personal Investment Authority. Self-regulating organisation (see below) for (about 4,000) firms advising on and arranging deals in life assurance, personal pensions, unit trusts and investment trust savings schemes (see p.11).

**Portfolio** - a collection of different securities (ie. stocks, shares, bonds, financial instruments etc) held by an investor.

**Preference shares** - these are normally fixed-income shares whose holders have the right to receive dividends before ordinary shareholders, but after debenture and loan stock holders have received their interest. Preference shares get higher rates of return than debt, but lower than equities (ordinary shares) (see above). Preference shares do not carry voting rights.

**Primary market** - the function of a stock exchange in bringing securities to the market for the first time (ie when the company issues them).

**Privatisation** - conversion of a state-owned company to public limited company status (see p.6), often accompanied by a sale of its shares to the public.

**Prospectus** - document giving the details that a company is required to make public to support a new issue of shares.

**Proxy** - a person empowered by a shareholder to vote on his behalf at company meetings (see p.10).

**Secondary market** - marketplace for trading in securities that are not new issues (ie one investor sells them to another investor).

**Securities** - general name for stocks and shares of all types. In common usage, stocks are fixed interest securities and shares are the rest.

**Self-regulating organisation** - body recognised by the FSA (see above), which has the power to authorise firms to conduct investment business in the UK. Authorised firms are supposed to be "honest, solvent and competent", and have sufficient financial resources to cover risks they take on. An SRO will check up on these periodically, and will also receive any complaints and punish offending firms - with a fine, an order to compensate any investors who have lost out, or possibly expulsion from membership (ie stopping them from doing business).

**SFA** - the Securities and Futures Authority, self-regulating organisation for (about 1,300) brokers and dealers in securities, options and futures, including most member firms of the Stock Exchange.

**Square Mile** - traditionally the financial heart of UK plc, though now beginning to be challenged for pre-eminence by Docklands, particularly Canary Wharf.

**Stamp duty** - a UK tax currently levied on the purchase of shares. World Bank - seeks to industrialise and privatise the planet under the guise of helping the poor. Like the IMF (see above), it is owned by member countries. It generally lends for specific "development" projects (roads, dams etc.), rather than to a government's general finances.

**World Trade Organisation (WTO)** - unaccountable international body based in Geneva, dedicated to the opening up of world markets. It's through WTO that countries which block free trade (ie protect their environment, their population's health and safety, or their economy, more than the profits of transnational corporations) are challenged. It works like a private court, but without the concept of justice (the odds are enormously weighted against the "defendant" country). eg WTO over-ruled that the European ban on milk produced by cows injected with Monsanto's BST hormone (despite safety fears about the milk). Europe has until May 1999 to remove the ban - or be punished by sanctions. WTO Director Renato Ruggiero was pined in late '98.

**Wunch** - collective noun for a group of bankers.