



Haircut Snippets

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Moving on up...

Len Bole

Effective April 5, 1999, LDB Consulting (and the Bole family) will relocate to Indiana. Having been raised in Ohio and having lived all my adult life in Illinois, I thought it was time to live in another Midwest, Big Ten state. Starting April 5, all correspondence (and bill payments) should be sent to:

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BULLETIN!!

The OCC has announced that S&P sector SPYDERS will be treated as equities. They can hedge and be hedged by a basket of stocks. That means we will now have equity baskets as well as index baskets. This change entails changing the RBH program. The altered version will be available in late April.

32 Bit Software

Proving that an old programming dog can learn new tricks, the Risk Based Haircut and Fixed Income Haircut modules have been upgraded to 32 bit versions. Written in Visual FoxPro version 5.0a, both systems now bring all

the benefits of 32 bit programming to their users.

When running 16 bit applications in a 32 bit operating environment, such as Windows NT, an emulator program (WOWEXEC) must be run so that the 16 bit system can function. Converting to 32 bit architecture removes that requirement and provides users with faster, state of the art, more stable program execution. The new versions are delivered on CD ROM disks.

RBH Version 3.32

This new version offers Windows style menus and printing, edit switches, a Word97 manual, a new view menu and increased user safeguards. All future changes and upgrades to RBH will be based on this 32 bit platform. Take a look at the **Change is Good** section for an idea of what may be happening.

Fixed Income Version 1.32

This system has also been upgraded to 32 bit. Its menus more closely follow the Windows paradigm, the manual has been redone in Word97 and the identification of government securities used to hedge futures has been tightened.

Basket Weaver

The Weaver is written in Digital Visual Fortran and is **ONLY** available in a 32 bit format.

The Weaver takes all of an account's positions, nets them, produces a netting report for auditors, and then determines which, if any, baskets can be

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constructed from and hedged with the remaining securities.

In tests with live data, the Weaver reduces haircuts 85% of the time. Savings are normally in the range of 5% to 15%. The latest version of the Weaver allows the user to identify baskets using a new methodology, referred to as Target2. For certain trading strategies, use of Target2 has resulted in haircut charges as much as 20% lower than the Weaver without Target2.

Basket Weaver Trial

LDB Consulting invites you to test drive the Weaver. You may avail yourself of one or both of the following options:

- a) Send month end position, P/L and basket composition files to me and I will run the Weaver, sending the results back to you for discussion and analysis. Contact me and I can provide you with a program which will extract only that portion of the P/L file required to run the test.
- b) License the Weaver for use on your PC for 3 months. You may run it as often as you like, comparing the results to your normal haircut runs. The trial license fee of \$5000 is applicable toward licensing the Weaver on a permanent basis.

Change is Good

New Baskets

The exchanges are constantly offering new products for trading. These securities, in turn, are often eligible for basket treatment. If your traders open positions in baskets in these products, you must obtain a basket composition file containing the tickers, prices and composition percentages of the basket stocks and must update the Minimum Hedge file in the Maintain menu.

The OCC can give you the 5 character basket ID required for RBH baskets. In addition, they can tell you if the basket

is a high capitalization, broad based product or not, thus defining if the basket requires 50% or 95% capitalization. The CASH_INDEX field in the Minimum Hedge file should contain the 3 character ticker used in the basket composition file to identify the basket.

Chuck Lizak at QAI in Chicago is a source for basket composition data. His firm produces a composition file each night for over 90 indices. He can be reached at 312-322-4688.

Some of the new baskets include the Dogs of the Dow and the S&P sector SPYDER products. (See BULLETIN!! on page 1)

Basket Interpretation

Word on the street is that the NYSE and CBOE are cooperating on an interpretation which seeks to address some of the ambiguities in the rule regarding extra stock and proper hedging of complete and partial baskets. Once the interpretation is published, I can determine if the processes used in RBH **must** be changed or if they **may** be changed to give a more favorable result. Any changes would be available in a new version, built upon the 32 bit platform.

Dime/Decimal Strikes

In January, the OCC changed the strike format for index flex options. Flex options are contracts whose terms are negotiated by the buyer and seller.

Historically, the OCC P/L files required that all fractional strikes be presented in eighths. Now the index flex options must have their fractional strikes presented in dimes. If your data is properly prepared according to the revised OCC specifications, all versions of the RBH program will correctly match your positions to the P/L file and compute a proper haircut. However, versions prior to 3.32 will not be able to correctly represent the dime strikes in the Detail report. In addition, dime strikes will generate an ERRORLOG

entry if the user accesses ANY positions in the Simulate menu.

Version 3.32 will handle dime strikes correctly in the reports and in simulation mode.

It is rumored that dime/decimal strikes will become the rule rather than the exception some time in the future, possibly after 1/1/2000

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This newsletter is produced using Microsoft Word97. In addition to mailing it to you via the US Mail, I can also email it to you. You may then read/print it using Word97 and distribute it to others at your firm if you would like. Please let me know if electronic delivery of this newsletter is to your liking.

To those of you receiving this letter via email, I would like to apologize for the phantom 3rd page which appears at the end. Savvy computer type that I am, I used a newsletter template and I can't get rid of that page without causing Word97 to bomb or to dramatically alter the newsletter format.

If you can modify this newsletter using Word97 and remove the third page while preserving the newsletter format, please email the edited file to me. I and other email recipients will be forever in your debt.

You can email me at: LDB-LENBOLE@worldnet.att.net

As Always

I'd also like to solicit ideas and suggestions for the haircut packages.

Please contact me with your comments and suggestions or if you would like more information regarding the topics in this newsletter.



