



Haircut Snippets

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One Small Step for Man...

Len Bole

It took awhile, but LDB Consulting has entered the Web age with its very own web site: <http://ldbci.home.att.net>.

At the moment, the site is informational in nature, giving you access to product fact sheets, the latest copies of manuals, past newsletters and general facts on LDB Consulting.

Links to all major exchanges and regulatory bodies are available to assist you in investigating products and rules.

Within a week or two of this newsletter, the site should have product manuals available in HTML format so that you can search for topics and jump to desired pages merely by accessing the table of contents.

Give the site a click and let me know what you think.

...One Giant Step for LDB

The LDB product portfolio thus far has been limited to systems that compute and optimize security haircuts.

Two events, however, are propelling LDB into the arena of **calculating option margins on customer accounts**.

Portfolio Margining

The OCC and CBOE hope to institute a pilot program this year to validate a portfolio based margining system. The module will be used by a subset of customer accounts (institutions, non-clearing broker dealers, Clearing Member affiliates and futures locals).

The system will be based on parameters similar to RBH. Needless to say, LDB intends to have a Portfolio Margining System (probably called RBM rather than PMS) as soon as details are available.

NYSE Rule 431

On January 20, 2000 NYSE Rule 431 ("Margin Requirements") relating to the margin treatment of options was amended.

Among other things, boxes and butterflies are now eligible for margin relief. New stock strategies, including conversions, reverse conversions, hedges and collars, are also allowed.

LDB Consulting, Inc. has been working on an Option Margin Optimizer (OMO) for testing and delivery in late summer of 2000. The new spreads make margin calculations reminiscent of the C2X calculations that were used prior to Risk Based Haircuts. Having written C2X optimizing software in the late '80s, it was only natural to explore the possibilities of utilizing similar technology in identifying spreads which can reduce customer margin.

Stay tuned for more information in the September newsletter. Or contact me if you want a timelier update.

Freebies

RBH

RBH version 3.32 was introduced in early 1999 as a 32-bit version of Risk Based Haircuts. In September, version 3.32a was released. It handles the newly announced alphanumeric basket identifiers for sector Spyderys and, for the first time, recognized securities of type "S" (stocks) as legitimate hedges for baskets of stocks.

Since version 3.32a was released, a number of modifications have been

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made to RBH and version 3.32a.2 is the latest and greatest. **This newest version allows users to:**

- 1) expire options via the simulate menu;
- 2) import accrued interest into the convertible file to facilitate the haircut of convertible bonds;
- 3) include non standard security types within the RBH system; and
- 4) haircut these non-standard securities according to user-defined rates.

The good news is that version 3.32.a.2 is available at **NO CHARGE** to users of version 3.32a. Anyone updating from 3.32 to 3.32a.2 will pay the same as those who updated to 3.32a: \$1000.

Fixed Income

A revised version of Fixed Income, version 2.0, is available to all users of 2.0 at **NO CHARGE**. This revised version will compute undue concentration charges on corporate debt and will allow users to turn cusip netting on and off when doing the combined firm haircut.

Please let me know if you are interested in either of these updates.

Things in the Offing

Naked SPY and DIA positions

Any RBH program written according to the OCC provided specifications will haircut positions in SPY and DIA according to their values contained in the the OCC P/L file. These values are computed over a range of +10/-10% for proprietary broker dealers and over a range of +6/-8% for market makers.

Discussions are afoot at the NYSE regarding the proper treatment of unhedged positions in SPY and DIA. At issue is whether unhedged positions should NOT be included in RBH since they should be haircut naked at 15%.

No RBH program of which I am aware (and that includes my RBH and the OCC RBH programs) haircuts these products at 15% under any conditions.

Stay tuned for updates.

Decimalization

The advent of decimalization will probably require alteration of strikes in the position file. Depending how decimal strikes are implemented, the RBH system itself may have to be updated as well.

I have heard a number of possible dates for decimal strikes, ranging from summer 2000 to sometime in 2001.

Intraday Computation of Capital Requirements

A Regulatory Circular from the CBOE, dated January 24, 2000, discusses net capital requirements for Proprietary Day Trading of Broker Dealers.

It reiterates the SEC position that broker dealers must be in compliance with net capital requirements "at all times during the business day". It goes on to discuss **two approaches to compliance:**

- 1) a rather unfavorable method of accumulating buys and sells for each security and haircutting the greater of the two sets of transactions;
- 2) computing haircuts based on time stamped transactions.

In short, be aware of your capital requirements throughout the day. And contact LDB to discuss software to verify your compliance.

Hints on User Maintained Files

The nearly constant influx of new products requires that RBH users monitor their positions closely and make the appropriate changes to the Minimum Hedge and Special Data files within RBH. By keeping these files current, users can be assured that their haircuts are compliant and are computed on the basis of the most current information. These files are instrumental in assuring that the basket

verification routines in RBH can properly perform their functions.

QQQ is a new security in the NASDAQ 100 class (000022). It trades at 1/20th of the index. As such it should be entered into the special data file with Mini Leap Divisor of 20 and SPC of 1.

The Russell 1000 future (symbol R) should also be added. It is a member of the broad-based index product group (00009). It has an SPC value of 500.

R should also be added to the OCC Download Symbols file in Maintain/Other files. This will allow proper downloading of P/L information from the OCC even though R is a symbol for both a future and a stock.

In addition, 10017 is the basket identifier for the Russell 1000. You may want to add it to your Minimum Hedge file as a broad-based (50% capitalization) basket.

How about a Users' Group?

Remember this tidbit from the last newsletter? Well, only 2 people showed an interest, so NO USERS' GROUP at this time!

Electronic Newsletter

I would prefer to disseminate this newsletter electronically. If you can accommodate receiving this letter via email, please provide me with your email address. If there are others in your organization that ought to receive this missive, please provide their email address to me as well.

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

To Unsubscribe

Please email, write or phone me and I will gladly remove you from my mailing list.

