



Haircut Snippets

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Such a Deal We Have for You ...

Len Bole

The Risk Based Haircut system can be quite easy to use: Import, Calculate, Print, and Quit.

But are you getting the most out of the system? Could your haircut charges be reduced? The system offers a number of bells, whistles and settings that can affect the ultimate haircut: 3 naked stock methods, the Weaver, ETF bona fide arb treatment and a few special tools that have yet to be released.

Rather than suggesting that you experiment with the system to see what effect the various parameters might have on your charges, why not let us do the testing?

If you can provide us with a CD of your RBH environment, including a day's worth of required files (PL files from the OCC, basket composition file, position file, convertible file), we will run your haircut here, experiment with various settings and analyze the results for you.

There will be no charge to you. Our goal is twofold: assist you in getting better numbers out of the system and possibly interest you in some of our expanded capabilities, by demonstrating real savings rather than merely suggesting theoretical advantages.

Please contact us to make arrangements for a haircut analysis.

Fixed Income Version 4.0

We have just completed work on Fixed Income, Version 4.0 Written in the latest version of Microsoft's Visual

FoxPro (version 7.0), this upgrade represents the most sweeping changes in the product's history. It features increased functionality, better reporting and a greater universe of fixed income treatments.

Visual FoxPro 7.0

By utilizing the latest release of Visual FoxPro, LDB remains current with technology advances and assures that your investment in the Fixed Income system is protected against technical obsolescence.

Help menu

A Help menu pad has been added giving users immediate access to an HTML version of the Fixed Income Haircut manual via their Internet Browser.

Dominion Bond Rating Service

The system will now retrieve data for Dominion Bond Rating Service (DBRS). A February 24, 2003 no action letter allows broker dealers to treat credit ratings from DBRS as coming from a nationally recognized statistical rating organization (NRSRO).

New AND Reorganized Reports

All reports from version 3.0 have been retained. However, the old summary report has now been divided into four more specific, more manageable reports:

- Investment Grade Securities
- Non-Investment Grade Securities (those with entries in the Cusip Exclusion file)
- Concentration Charges
- Convertible/Paragraph J Securities.

Five new reports have also been added:

- Netting report accounts for all long/short positions that are netted away
- Price Difference report lists all securities that appear in the

- position file with multiple underlying prices
- Failed to Deliver report includes failed to deliver securities
- Reconcile report captures long and short market values from the various reports and presents them in a single location to assist users in tying out to original inventory.
- TBA log shows relief for TBA securities hedged against pool securities.

The new Summary report is now an expanded version of the old recap report with entries for each type of haircut, e.g., Investment Grade, Non-Investment Grade, etc., plus totals by account and firm.

Better handling of special securities

The system now properly haircuts investment grade preferred stock (type P) at 10%.

Those users seeking relief of futures against government securities may maintain a file of cusips deliverable against specific futures. The system will then offset the futures according to this table.

Any security, regardless of security type, can now be added to the Cusip Exclusion file. This allows users to haircut ANY security as an exception to the system's standard rates.

For users providing ratings info via an alternative ratings import file, the system will recognize the VRN security type (Variable Rate Note) for corporate and municipal bonds and apply the proper relief.

Users may include Failed to Deliver securities along with settlement date and original contract amount in the position file. The system will then properly haircut them as fails once they are 5 days or more past settlement.

Users may also indicate TBA securities and provide product codes for them and

the pool securities that may be hedged against them. The system will match them according to the data in the user-maintained TBA definition file.

Automatic Ratings Processing

Ratings may now be imported via the Import menu. This function assigns default haircut rates, updates the exclusion file and generates the Cusip Exclusion report with a single keystroke. This facility is also available in batch mode. Users may still override the system's rates via both the Ratings menu pad and the Cusip Exclusion file.

When running in Batch, users may prefer NOT to automatically update haircut rates. Instead they can indicate to the system via the INI file how to handle any NEW cusips without prior ratings data. These new cusips then appear in the Exclusion Change Report.

Stock/Convertible Interface with RBH

The Risk Based Haircut system handles bona fide arb of convertible securities against both common stock and options and also computes proper haircuts for baskets of stocks and positions involving common stock and equity options.

Fixed Income will now allow users to export unconverted convertibles and paragraph J securities to RBH for inclusion in that system. This will generate a single paragraph J report, allow unused convertibles to be offset by equity options and allow naked stock positions to be hedged by equity options or, if the Weaver is employed, to be included in baskets for even greater relief. Version 5.5 of RBH is required to receive these securities.

Stock Borrow/Loan

The universe of reports supported by SBL is expanding. SBL now includes five different file formats.

From **Loanet**, SBL can read:

- Consolidated Excess Collateral Report for Closing Bal-**EXCSCOLL (#62)**,

- Consolidated Account Summary – **MRGACSUM/MRGACTOT (#03)**
- Open Contracts by Account – **OPENACCT (#12)**
- Account Summary – **ACCTSUMM (#23)**.

From **Global 1**, SBL reads the Summary Collateral Exposure Report.

OMO: packages and more

The Option Margin Optimizer now imports the Equity Special Settlement file from the OCC and gives margin relief to options involving cash and/or multiple underlying securities at settlement. Contact us for more information.

OMO is now available in Visual FoxPro 7.0 and includes a Help menu pad for access to an HTML version of the OMO manual via an Internet Browser.

And another ...

Yes, Luke Leonard (his last name also begins with L so he's known to me as L-Cubed) made his appearance as expected in October of 2002. Five grand kids and holding (counting?)

Electronic Newsletter

If you can receive 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@att.net

No Mas...

If you do NOT want to receive future issues of this newsletter, please email, write or phone me and I will gladly remove you from my mailing list.

