



# Haircut Snippets

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## What Do You Get When You Cross RBH and Index Margins?

*Len Bole*

You get portfolio and cross margining!

In December, proposed margin rule amendments for both the CBOE and NYSE were published in the Federal Register. Scheduled to take effect in early February, all parties agreed to extend the comment period up to an additional 90 days. That makes May the expected launch date for this relief.

The new margin rules allow for theoretical, RBH-type margin for positions in broad based indices. Needless to say, LDB Consulting is ready to service this market with its RBM (Risk Based Margin) product.

The new system will properly compute charges for portfolio and cross margin accounts and will examine and report possible exchange traded funds and futures products not hedged by listed options.

In addition, work is underway to allow OMO (Option Margin Optimizer) users to automatically run the RBM system as part of their OMO runs.

Existing OMO and RBH clients will be able to license RBM at a reduced price. Please contact us for more details.

## And Now for Canada...

In January, the Independent Dealers Association (IDA) of Canada issued revised rules dealing with positions in index futures, exchange traded funds (known as index participation units), common stocks and baskets as well as options on stocks, index participation units and indices.

LDB Consulting has written the Canadian Index Arb Optimizer (CIA) for a Canadian client and can now offer software that optimizes haircuts on these index AND equity products.

Leveraging off our OMO strategy optimization and our experience in identifying properly capitalized baskets in RBH, we have just introduced this product in the first quarter.

The system will examine baskets, remove non-basket stocks and verify proper capitalization. It will then examine all combinations of securities in the account and pair them into strategies that should result in lower haircuts than those currently enjoyed north of the border.

Give us a call if you want to discuss the impact of this product on you or your affiliates.

## Stock Borrow/Loan

When the Agency Lending Disclosure Task Force publishes its findings and data layouts, we are ready to adapt SBL to handle the new information and to leverage off SBL's existing functionality to provide the calculations and supporting reports required in the new environment.

## The Year of the Wrapper™

From December of 2003 until now, the number of Wrapper™ users has increased from two to ten, a 400% increase in a bit over a year.

Why the increased interest?

The Weaver™ has lowered haircuts for over 10 years. Since its inception, however, the basket trading world has evolved from one containing a few broad based indices like OEX, SPX, XMI and DJX to an environment with over 200 baskets, the vast majority of them narrow based, sector indices.

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The Wrapper™ handles potential narrow based baskets separately from potential broad based baskets, testing different parameter settings on each universe. It then recombines the positions and produces charges that are often 5-15% below the Weaver™ charges.

We will be happy to do test runs on your positions, presenting comparative output for both Weaver™ and Wrapper™ runs. The sale of Wrapper™ is often an easy job: the cost of the software can readily be compared to the reduction in regulatory capital requirements, making a payback easier to compute.

## 2005 Software Releases

Summary sheets for the new versions of Fixed Income and Risk Based haircuts are available. Email or call and we will forward the appropriate info to you.

### Fixed Income 6.0

The latest version of Fixed Income is in Beta test and should be rolled out in April.

The big change is an optimization algorithm that produces investment grade corporate and government charges in ¼ to 1/3 the time.

Users may now indicate the number of elapsed days to consider a security an aged affiliated security or a failed security. User maintenance of these values allows users to include or exclude trade or settlement date in the calculations.

Users may also maintain a list of non-marketable cusips that are eligible for relief as fail to deliver securities.

Reports stored in the backup directory may now be printed directly from the application. Copies of both the position file and the cusip exclusion file used for a given day's haircut are retained in the backup directory. This will greatly facilitate rerunning historical haircuts.

In addition, the recap, summary and final position files may be exported at the user's option.

A new security type (J) is now recognized. It is designed to give users a way to automatically place non-convertible securities in Paragraph J.

### RBH 7.0

RBH, Weaver™ and Wrapper™ are in limited Beta testing now and should be available to all users some time in the second quarter.

### OMO 4.0

OMO is being modified to feed portfolio and cross margin accounts to the RBM system described in the lead article. Output from the two systems will be available within OMO and results will be merged into OMO output.

## No Wooden Nickels: A Tip or Two

### INI files and desktop icons

Many users have the need to run our systems multiple times: batch or interactively; firm wide, group or account by account charges; end of month vs. daily.

Rather than altering settings in the INI file and the Switch menu to correspond to the desired run parameters, the user may instead define multiple shortcuts on the desktop for the same application.

By creating a shortcut via Windows Explorer (find the application, right click and select Create shortcut; then drag to the desktop), you may pass the name of a separate INI file to the product. These settings will be activated when this particular icon is selected.

Once the shortcut has been created, right click on it and select properties. On the target line, add the name of the appropriate INI file. When no INI name appears on the target line, the system is using its default INI file.

Next go to Windows Explorer, find the default INI file. Select it, copy it and paste it. Locate the copy, select it and rename it to correspond to the INI file name in the short cut.

Then launch the shortcut. You may now edit the INI file to point to the files and directories you want. You may set parameters and switches to correspond to those you need when processing this specific data.

Please contact us for assistance in doing this.

### A Single Paragraph J Report

For users of both the Fixed Income and Risk Based Haircut system, it is possible to generate a single Paragraph J report from RBH rather than reports from both systems that need to be combined.

By feeding all convertibles and common stock into FI, the user will get the benefit of setting haircut rates based on ratings and issuance size. All unconverted convertible securities and common stock can then be moved to RBH where remaining convertibles and stock are haircut.

In the Fixed Income INI file, set JTORBH = Y and set RBHDATADIRECTORY to the path for the RBH data directory.

In the RBH INI file, set POSITIONFILE2 = to the FI import directory\RBHPOSITION.TXT.

When Fixed Income runs, it will move all J items to RBHPOSITION.TXT and create MOVE\_RBH.TXT in the print directory. This file lists all moved securities and displays the RBH 6 character symbols that were manufactured for them in the move.

When RBH is then launched, it will read BOTH position files and process as usual.

## The Clan Expands

Just missing the prior newsletter deadline, Ireland Bleu was born this past October. She brings the grand kid count to six: 3 boys and 3 girls, one of each for each of our three daughters and their husbands.

