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Haircut Snippets



Calling Emilio Estevez...

Len Bole

Perhaps we can enlist Emilio, the star of the 1984 B-movie comedy *Repo Man*, or his co-star, Harry Dean Stanton, to endorse our newest product: Repo/Reverse Repo Charge Calculator.

At the behest of a client and with the added input of a number of other clients, we are now programming a Windows application that will compute charges and capital deductions for Repurchase and Reverse Repurchase Agreements as delineated in SEA rules 15c3-1(a)(9)(i) – (iii) and 15c3-1(c)(2)(iv)(F)(1) – (3).

The system will generate detailed reports by cusip, summary reports by counter party and a firm wide recap.

We are also querying potential users about additional functionality that should enhance the value of the product. We are looking to provide the ability to net within counter party by either cusip or clearing house and to produce information useful in the context of general ledger adjustments and 15c3-3 calculations.

Please contact us regarding pricing and availability.

Portfolio/Cross Margin Pilot Begins

In late July the SEC approved rule change submissions from both CBOE and NYSE that allow portfolio and cross margining relief to high net worth retail clients. The pilot program, scheduled for 2 years, will compute charges for eligible accounts using the Risk Based Haircut methodology approved for broker/dealers in 1997.

Needless to say, LDB Consulting has leveraged off its industry standard RBH program and is set to provide this solution to clients.

Portfolio margining allows relief for broad-based index options and Exchange Trade Funds. Cross margining provides relief for broad-based index options and Exchange Traded Funds as well as for index futures and future options.

Our implementation of portfolio and cross margining is called Risk Based Margins or RBM. It computes proper charges for the universe of securities included in the pilot program and tracks the number of days securities that MUST be hedged by options remain unhedged. ETFs in portfolio margin accounts and related instruments, i.e., futures and future options in cross margin accounts, must be hedged. The rule requires that these unhedged securities must be removed from the portfolio and cross margin accounts if they remain unhedged for 10 days.

Appendix A, Alternate Strategy Based Haircuts

In 1997 when the SEC approved the Risk Based Haircut methodology for listed options, index futures, stocks and baskets for broker/dealer haircuts, it also approved an alternate strategy, akin to the old Strategy-Based Appendix A relief for those broker/dealers not wishing to avail themselves of the RBH relief.

We have just completed programming this procedure and it is available to those users who would prefer to compute charges using this alternative method.

Please contact us for information on this application.

What Have We Done For You Lately?

Looking at the articles above, you can see that we have been busy adding to

our repertoire of capital charge programs: Repos/Reverse Repos, RBM and Appendix A Alternative calculations.

If you look at the article below, you see what we have released for our core products.

Now it's time to consider what we intend to do for you in 2007, especially in our work horse applications, Fixed Income and Risk Based Haircuts.

If you are a current user of FI, you just recently received our first ever user survey. In it we present users a number of enhancements suggested by clients or dreamed up by Charlie and me. Our hope is to allow users to direct our efforts to those areas that would yield the most benefit to them.

For the RBH suite of products, we intend to roll out password protection, make further improvements on optimization and to address new products like short dated options as well as some anticipated SEC memos and interpretations.

As always, your thoughts and ideas are encouraged and welcome. Please let us know what YOU would like to see either by completing and returning the survey or communicating with us via phone or email.

2005 Software Releases

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

Fixed Income 6.0

The latest Fixed Income version was sent out in March and features, among other new goodies, an improved algorithm for optimization that minimizes the time to identify hedges among investment grade corporate and government bonds. You may activate this option by entering SPEED = 1 in the FI INI file.

RBH 7.0

RBH, Weaver™ and Wrapper™ rolled out in June. This release provides the

user with numerous settings for all three products that, depending on the specific composition of your portfolio, may lower your overall charges.

OMO 4.0

OMO has been altered to automatically feed positions to the Risk Based Margin application. For a discussion of this new product and the pilot program that sanctions it, see the Portfolio/Cross Margin article above. This release of OMO was distributed in late March.

No Wooden Nickels: A Tip or Two

Where is the manual?

Contacting LDB with questions, problems, dilemmas is what the Customer Upgrade/Support Package is all about. We want to make your use of the system as facile as possible.

However, some times it is convenient to go to the documentation to get answers to questions and to read, rather than hear, about a solution.

Product documentation is available via the HELP menu in each application and in HTML form in the Help directory for each application. The Help directory is located off the product root directory wherever you chose to install.

If you received an installation CD, there will also be a DOC directory on the media (RBHDOC, BONDDOC, etc.) which contains a Word version of the manual.

Finally, you can go to the product page on our web site by clicking the link below, selecting the appropriate product and then clicking on the manual link. Weaver and Wrapper have NO manual links. Their documentation is contained within the RBH manual.

Product page link:

<http://ldbci.home.att.net/products.html>

Print Reports from Back Up Directory

If the BACKUPDIRECTORY setting in the INI file for Fixed Income, OMO or Risk Based Haircuts is properly set, copies of all reports are moved to that directory and retained. Each report has a

name that includes the activity date (such as 20050831 for August 31, 2005 reports) and an extension that indicates which report is stored in the file.

Retaining the reports for archiving and such is handy, but the ability to reprint those reports is also of use.

All three of the systems mentioned above will allow the user to print reports from the back up directory by entering ALT+B (hold down the alt key and hit the B key). The user will then be asked to enter the date to be accessed.

All reports for that date will be available via the View and Print menus in the system. Other menu pads will be grayed out until the user exits Backup Print mode by hitting ALT+B again.

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.

