



Haircut Snippets

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Portfolio Margining Redux

Len Bole

How quickly things change.

In July the SEC sanctioned a pilot program for portfolio and cross margin relief for retail clientele. Broad based index products could be margined using a theoretical approach a la Risk Based Haircuts. Clients could qualify for this relief if they had account equity of at least \$5 million.

In December, both the NYSE and the CBOE submitted proposals to expand portfolio margining to include equities, narrow based indices and their respective derivative products.

There are sufficient differences in the two proposals to make it impossible to be certain what the final form of the rule will be. However, having examined the proposals, we at LDB Consulting are quite confident that we will be ready with our software when the powers that be decide on the final form for this relief.

Stay tuned as this story unfolds. There is talk that the relief will be approved by this summer.

News Flash: the March NYSE filing on this topic is drastically different from their December submission. It bears reading.

Intraday Portfolio Margining

LDB Consulting has created a prototype set of routines that may be called by a real-time intraday margin program. Users compute their own theoretical values and pass them and positions to the routine which then computes Portfolio Margin charges. The routine is fast enough to handle over 64,000 position records in less than a second.

Please contact us if you have interest in this module.

It's Alive: Complex Spread Relief

In January 2000 NYSE rule 431 was modified to provide for a raft of additional option strategies such as boxes, butterflies, reversals, conversions, hedges and collars. It was this rule change that prompted the creation of our Option Margin Optimizer (OMO).

In August 2003 the CBOE granted relief for additional option strategies referred to as complex spreads. These included condors, iron butterflies, iron condors and the time versions of these and simple butterflies. Don't you just love the names of these spreads?

Late in 2005 the SEC approved the NYSE request to include these strategies within rule 431.

The version of OMO released last year already has the requisite logic to identify these strategies and compute proper margin charges. So if you have OMO version 4.0, you are all set to measure the impact of this relief on your accounts.

Fixed Income Version 7

The latest version of Fixed Income Haircuts has been completed and is entering Beta test as this newsletter is being written.

Our applications are migrating to the latest version of Visual FoxPro, version 9.0. Fixed Income is the first product to be moved into this environment.

This FI release allows reports to be automatically generated as PDF files (Adobe Acrobat required) and will export the contents of DBF work files to CSV files. Users may select a list of files to be automatically exported for

each run or may select files on an ad hoc basis.

At the user's option, the application may be password protected via the PADMIN program.

Additional fields are now used in the ratings file, including AM Best ratings, a default indicator, common ticker and SMMEA indicator. Users may provide a list of FTSE and/or exchange listed symbols so that FI can match the common ticker mentioned above with this list to possibly provide additional relief.

The new Ratings Difference report will assist users in tracking securities whose haircut treatment has been defined by the user rather than the FI logic.

Please contact us for more information.

Repos

The Repo/Reverse Repo Charge Calculator, announced in September's newsletter, has been released and is being installed at client sites.

The system computes charges for Repos, Reverse Repos, 15c3-1(a) (9) and Repo Undue Concentration per paragraphs B and C.

Data is provided in comma separated (CSV) files containing position data, margin data and info on margin calls, marks and other deposits.

Users may create consolidated counter parties and may manually enter adjustments to the data within the system. Data is retained in a history file which may be purged as needed.

Detail reports containing all pertinent repo/reverse repo data are generated as well as counter party and firm summary reports.

Please let us know if we can provide you with additional information or perform a sample run on your data.

RBH

RBH assesses capital charges based on the risk within a product or class as measured over 5 equidistant increases in the underlying security price and 5 equidistant decreases.

Equities and non-high cap/non-broad based indices are examined over a range of +/-15%, with each stress point representing a 3% movement of the underlying. High Cap Broad Based Indices are examined over a +/-10% range for proprietary broker dealers and a range of +6/-8% for market makers. Currencies are stressed +/-6%.

In late January, the OCC announced a different set of percentages for T-bond iShares. SHY (iShare Lehman 1-3 Year T-bond fund) will be haircut over a +/-3% range. IEF (iShare Lehman 7-10 Year T-bond fund) will be examined over a range of +/-4.5%. And TLT (iShare Lehman 20+ Year T-bond fund) will be charged over a range of +/-6%.

These changes affected haircuts as soon as they were included in the PL file by the OCC. There was no need for any of our users to do anything EXCEPT alter the basket Ids in the minimum hedge file. SHY now has the basket ID 10350; IEF 10351; and TL 10354.

OMO 2007

This year's version of OMO will be released in Microsoft Visual FoxPro 9.0.

We are considering providing data for two reports clients have mentioned to us: **Long Options Position Report** for NASD and the **spread file** used to identify spreads in customer accounts and thus lower margin requirements at the OCC.

Please share your thoughts and comments on these topics with us.

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 our mailing list.

No Wooden Nickels: A Tip or Two

RBH Baskets

If you have basket positions, please make certain you contact the OCC help desk and request that someone in your organization be included on the email list for basket updates.

Basket codes are often added, deleted and modified. Without access to this info from the OCC, it is nearly impossible to stay abreast of what's going on in the world of RBH baskets.

By setting UPDHEDGE = Y in the RBH INI file, you can assure that new basket entries will be made in the Minimum Hedge file. NEEDSYMBOL.TXT is created in the print directory and contains a list of Minimum Hedge items that require Cash Index values for these new entries.

The HEDGEENTRIES.TXT file in the Print Directory identifies those RBH products and classes in which you have hedging positions but are MISSING either the entire entry in the Minimum Hedge file or just the Cash Index field. Whereas NEEDSYMBOL shows all empty Cash Index records, HEDGEENTRIES only shows those which could be hedged by securities in your current inventory.

Exchange/Regulatory Site Links

The LDB Consulting web site contains direct links to regulatory and exchange web sites.

If you are looking to obtain the cusips deliverable against bond futures, to investigate product specifications or to search regulatory sites, please visit our links page to gain access to helpful sites: <http://ldbci.home.att.net/links.html>

