

September 2006
Volume 9, Issue 1

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Web Site: LDBCI.COM
Email: LDB-LENBOLE@ATT.NET

LDB Consulting, Inc
PO Box 512
Valparaiso, IN 46384-0512
219-477-1928

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Haircut Snippets



LDB ALD SBL PDQ

Len Bole

I always wanted to write a headline using nothing but 3 character acronyms and now I have!

In April and May, LDB was approached by a group of its clients who wanted to know our plans for dealing with the Agent Lending Disclosure of Principal (ALDOP or ALD for short) initiative as it concerns stock borrow/loan (SBL).

After numerous discussions we decided to leverage off our SBL application and to rewrite it to handle both ALD data in an industry accepted format and internal data scraped from existing stock borrow/loan sources.

The project was started in June and we delivered our initial Beta release on September 1. That accounts for the PDQ in the headline.

We decided to support both the Aggregated file format from an unnamed service company as well as the raw DTCC format for ALD data.

Our system will read the aggregated and internal data and reconcile the agent data from the two sources, reporting differences by borrowed cusip within agent.

Each aggregate file will do double duty as both a day 1 file showing total agent borrows for the previous business day and as a day 2 file which can be compared to the prior aggregate file to reflect cures. Our SBL application reports those cures; we are working with clients to investigate the automatic posting of these cures to the prior day's

data in order to generate corrected capital charges.

Needless to say we compute borrow/loan charges as well as 15c3-3 loan charges. At the user's option, charges for principals are done within each agent (system default) or across agents. The industry appears to favor our default treatment unless netting agreements exist between the borrower and all its agents.

The system allows users to post correcting entries to daily data and to regenerate the charge reports. If credit limits per principal are provided, the system will generate a report listing all principals NOT in the file or whose credit exposure exceeds either the limit in the credit file or a user-defined early warning limit.

A more complete discussion of the system including a manual, sample reports and a report road map are available at our website:

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

Option Symbolology

The options industry is working on modifying the fields used to uniquely describe options. The effort looks to provide a single option symbol for typical option sequences as well as short dated options and LEAPs. Say good bye to strike wrap around!

The stock symbol will replace the option root for most options and the option expiration day will be added to the string that unambiguously defines the option. Symbols for Flexes and corporate action options will also be adjusted.

Our users will need to involve system resources in implementing this symbol

shift and in providing expiration day to our position files.

LDB will need to alter both our RBH and RBM modules to include expiration day in our unique option keys.

Record layouts will be distributed in January of next year and industry testing is slated to begin in mid 2008 with implementation scheduled for 2009.

Contact the OCC for further details.

And in This Corner...

our newest colleague, Rick Yaksich.

Rick joined LDB Consulting in June of 2006 as our Chief Technologist. He came to LDB from an investment advisory firm where he served eight years as Systems Analyst. Rick has been working in the industry since 1995 and has broad work experience ranging from back office operations to end user client support. He is currently enrolled at Lewis University where he is pursuing a degree in IT Management.

Since he's 6'7" we're confident we can build our volleyball and basketball teams around him for years to come.

Repos

Interest in our Repo module is on the increase. As more people investigate the application and give us feedback, we are given ideas to make the application more complete.

The system now provides relief for Overnights, GSCC-cleared securities and Tri Party positions.

Please contact Charlie Greiner for more information on the RRR (Repo/Reverse Repo) system.

Post Processing

In line with the item below regarding Communications, we are looking to you to share ideas to enhance the post processing of our systems' data. By that I mean providing our clients with additional tools or interfaces that make

it easier for everyone to meld our data into systems, reports and applications that are run after the margin/haircut modules.

All of our recent releases support the automatic generation of PDF reports and the automatic creation of comma separated value (CSV) files for easy importation into Excel. These are the first steps in assisting you in more easily utilizing our data down stream from our applications.

Please let us know what further features could assist you in this type of processing.

Communications

We encourage our users to talk to us about what problems they face and what additional functionality they would like to see from our systems.

As you can tell from the lead article on SBL and the blurb on Repos, our clients are the source of many of our ideas. They must use the data and they, better than anyone, can tell us what presentations best suit their purposes.

We also look to our clients to provide us with direction on including additional securities in our products. We have been asked repeatedly about handling credit default swaps within the FI system. We would love to, but to date no one has shared with us a proper capital charge methodology. If such a methodology exists, we'd like to see it to determine what steps we can take to deliver these calculations.

Please keep in touch with us and keep us in the loop as additional challenges present themselves to you.

What We Did This Summer

Releases, they just keep coming.

Fixed Income:

Version 7.0 has been released and is in production.

RBH/Weaver/Wrapper:

Version 8.0 is entering Beta this month. As with all our 2007 releases, it includes PDF reports and CSV file creation as well as speed improvements.

OMO:

Version 5.0 will enter Beta in October. It will include PDF reports and CSV file creation as well as considerable speed improvement in Optimization and merging the results from Pass 1 and Pass 2 on large files. We also intend for it to be compatible with the final Portfolio Margining rule we expect to see issued prior to Beta release.

No Wooden Nickels: A Tip or Two

Floating Rate Notes (FRNs)

Firms haircutting FRNs per (c)(2)(vi)(A)(1) without taking hedging relief may find that the following method saves a substantial amount of time: Add long FRNs to the existing position file with a new firm number, and add the short FRNs to the file with a second new firm number. You may then haircut the position and view the additional firm totals on the Summary report..

OCC Basket Codes

It seems new baskets are added to RBH nearly every week. In order to stay on top of this ever-expanding universe, users may wish to receive OCC email alerts regarding new baskets and other RBH information. You may request product alerts including basket info by going to http://www.theocc.com/market/occ_email_alerts_form.jsp, checking RBH Updates and clicking the Join Alerts button on the bottom of the page.

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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.

