



Haircut Snippets

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In Like a Lion...

Len Bole

Whereas March ostensibly goes out like a lamb, **Portfolio Margining (PM)** (which certainly came in like a lion) doesn't appear to be losing steam any time soon.

We have spent the first months of 2007 altering our **Risk Based Margin (RBM)** offering to comply with the PM rules approved by the SEC in December. We have added logic to properly handle convertible securities as well as non-RB securities such as bonds and mutual funds that users may wish to define and pass through the application.

RBM now has a facility to import user-computed theoretical gains and losses for OTC equity securities. In addition we have included our proprietary basket analysis logic. RBM users will be able to ascertain that customer baskets are properly hedged and capitalized, just as our RBH clients do for their proprietary positions.

We have also readied an RBM version of the Basket Weaver™.

We are soliciting ideas from our clients and prospects to add to the application's functionality. We are looking to assist users in identifying concentrated positions within and across accounts as well as reporting on unhedged stock positions.

The NYSE will be putting a Portfolio Margin FAQ on the web. When they do we will have link to it at our web site. Please visit our RBM web page for more detailed information:

<http://ldbc.home.att.net/rbm.html>

No One Ever Lost Their Job Choosing IBM...

For those of you old enough to have hung around IT departments in the 60s and 70s, this headline was an oft-heard mantra of IT managers. The idea was that if you went with the industry leader, how could you go wrong? As time went on, they learned that smaller, more agile competitors like mini-computer manufacturers provided more bang for the buck.

Sitting here in snow-covered Indiana, I think we are observing a similar phenomenon regarding the computation of **Stock Borrow/Loan** capital charges in accordance with the recently completed **ALDOP** initiative.

The industry leader in reporting Borrow/Loan information undertook to develop a web solution to address the requirements of the initiative. From what we've heard they've developed a fine solution to a complicated problem and did it while working under the close scrutiny of their many clients.

But as with most things, one size does not necessarily fit all. LDB has altered our Stock Borrow/Loan (SBL, pronounced Sybil) offering to comply with the initiative. Thanks to the efforts of a number of our clients, we added features to perform reconciliation of agency data against internal data and to generate reports highlighting credit exposure to principals that exceeds user defined limits.

As our users encountered challenges with the agent data in DTCC format, we adapted our system to address those challenges and to respond to the stated needs of our customers.

Naturally, the system still computes charges for loans and non-agency borrows as it always has. The proper ALDOP computation of charges by principal within agent and of

concentration by principal across agents is also performed.

The system has the advantage of being run at your site under your auspices. Historical data is retained and you can move back in time to regenerate reports for prior days' data.

If you would prefer to not outsource your capital computations and can benefit from a flat licensing fee regardless of volume, please contact us.

SBL info is available at <http://ldbci.home.att.net/sbl.html>

Slowly We Come into the 21st Century

Secure Upload/Download Site

LDB has begun working to create and maintain our very own server with Upload/Download/FTP capabilities.

The idea is to place installation files on this site and to provide users with passwords to download the latest setup for their various LDB applications from this secure site. In addition, we envision an equally secure upload site where users can transmit large files that overload their email servers. We can then access these files and bring them to our computers to assist users in addressing questions and problems.

Webex

A demonstration of our applications is a great way to get the lay of the land for the various systems. Once running an application, it is often valuable for users to be able to review reports with one of us in order to better understand the interrelationship of the reports and to properly interpret the results.

This year LDB has subscribed to the Webex service which will allow us to demonstrate our products and to review user reports on a shared computer screen. The service also supports teleconferencing whereby we can supply you with a phone number as well as a web link and together we can examine systems and reports with people in multiple locations.

If you think you could benefit from this approach to becoming familiar with our systems, please let us know. We especially encourage new users to avail themselves of this service.

Stock Allocation

Most if not all of the good ideas we've had have come from our clients.

We were recently approached by a client interested in having us explore the topic of Stock Allocation and the proper computation of the 15c3-3 reserve calculation.

We are seeking to determine if there is sufficient interest on the part of our clients to tackle this problem. If you have an interest in exploring the development of a solution in this area, please contact us.

No Wooden Nickels: A Tip or Two

Option Symbolology

Normally our tips involve advice on how to better or more efficiently utilize our systems. In this instance, this tip is advice regarding a programming change that our Risk Based Haircut and Risk Based Margin users should implement sooner rather than later.

In June of 2008 (I know it's over a year away, but I doubt if your IT back log is disappearing any time soon), the OCC will use expiration day in the position and PL files used to calculate both haircuts and margins via risk based computations.

Some time thereafter, as the industry switches to a new method of uniquely identifying options, EXPIRATION DAY WILL BE REQUIRED TO PROPERLY MATCH YOUR POSITIONS WITH THE OCC GENERATED PL FILES.

Option symbols will also be changing to correspond to the stock symbol. Our programs will need to include expiration day in their keys. We will work with the OCC and our client base to effect a

smooth transition to this new option ID approach.

It is NOT too soon to prepare for this requirement.

ALT+F4

Sometimes you just need to abort one of our applications. The proper way to do that is to click on the application, giving the window focus, and to depress the ALT key and while holding down the ALT key to depress the F4 key. There may be a pause, but as soon as the system recognizes this key sequence, the application will end.

Interrupting execution this way rather than via Task Manager will avoid annoying messages ("Index Does Not Match Table" or "Not a Table") which often appear when restarting a program that was halted.

Coming this year

Faster Optimizations

We are converting our Basket Weaver™ and OPTM optimization routines to a new FORTRAN compiler from Intel. Tests have shown execution times to be 10-40% faster.

Hedged Commodity ETF Positions

Commodity ETFs hedged by futures are becoming more prevalent. RBH will include a facility to compute proper relief for user identified commodity ETFs and their hedging futures.

New Manuals on Web

Our web site now includes product manuals in PDF form with functional (via a mouse click) tables of contents and bookmarks. Check them out: they're much easier to use.

