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# Haircut Snippets

## What's an MMAF?

*Len Bole*

And why do we care?

The ETF world keeps expanding. There are now ProShare ETFs referred to as Ultras and Inverses. The Ultras double the return of the underlying indices and the Inverses, naturally, return the inverse of the underlying indices, i.e., if the index makes x%, the Inverse will return -x%. You probably guessed it: there are also Ultra Inverse ETFs.

An MMAF is a Market Move Adjustment Factor. It is 2 for Ultras, -1 for Inverses and -2 for Ultra Inverses. OCC has coined this term and has posted MMAF values on their web site for general consumption.

You care about the MMAF if your firm trades baskets and the baskets may be hedged by these esoteric ETFs. The MMAF will allow Weaver™ and UBIT™ to realize that an Ultra can hedge twice as many baskets as a typical ETF and that an Inverse hedges a basket on the SAME SIDE OF THE MARKET as the Inverse. In other words, a long Inverse ETF hedges a long basket. Normally a long ETF hedges a short basket.

We are upgrading our system to allow users to provide the MMAF in their position file or by populating the Special Data file with the symbols for these securities and their MMAF values. Since these ETFs may also trade at a fraction of the typical index, the Mini Leap Divisor field may also need to be entered.

The following link to the OCC site will provide you with a list of these Enhanced Return ETFs and their respective MMAF values: [OCC MMAF information](#). You may then select either the PDF or XLS copy.

## LDB Global HQ

We have outgrown our office space. Last year our workforce grew by 50% to three people. In the final quarter of 2007, we will add an intern as our fourth employee.

The new office space is located nearby in the Aberdeen Business Center and leaves considerable room for additional expansion. Phone numbers and the PO Box will remain in place.

## Portfolio Margining/RBM

The Risk Based Margin system has been licensed fifteen times in the past twelve months. The system continues to evolve as regulators and the user community request new functionality such as the ability to compute intra-day and in-house requirements.

Now that the final rule is in place, we have also introduced an RBM version of the Basket Weaver™. Just like its RBH counterpart, the RBM Weaver™ will identify baskets based on stock positions and hedging securities without the need for users to indicate which stock positions are in which baskets.

Please contact us for more information on our Risk Based Margin solution.

## What's New?

Recalling that idle hands are the devil's workshop, we've been working diligently to alter, test and distribute the latest versions of our products.

Repo/Reverse Repo (RRR) and OMO upgrades are available now. New SBL and FIH versions will roll out early next month. RBH and RBM are scheduled to be available in November. New features are listed below.

**RRR 2.0**

The Repo/Reverse Repo System now includes a Reconcile report to assist in verifying that all data passed to the system has been accounted for. There is also a new Error Log report and PDF report backup functionality. Version 1.0 underwent numerous minor changes throughout its life. Those users who did not require these modifications will now receive them as part of the 2.0 installation.

**OMO 6.0**

Enhancements include an upgraded Optimizer which has yielded substantial speed improvements, asymmetrical complex spread relief, and the ability to define long/short rates for convertible bonds.

**FIH 8.0**

The Fails, Convert, Netting, Summary, Affiliate, Non-Investment-Grade, Position, and Detail reports have been enhanced. The new version will compute undue concentration on Municipal bonds and allow users to enter a loan amount to be used to offset aged affiliated positions.

**SBL 3.0**

This upgrade includes the ability to copy Agent data from one day to another in order to produce reports for a date on which the Agent data is missing from the client's source files. At the user's option, the system will post accrued interest (computed from user internal files) to the history file for relief in computing excess collateral.

**RBH 9.0**

New functionality includes the aforementioned MMAF treatment, a new Detail Extract report, and Commodity ETF haircuts for users that would like to take advantage of the 5% charge on commodity ETF positions hedged by commodity futures and spot positions.

**RBM 3.0**

The MMAF logic and new Detail Extract Report mentioned in RBH will be available in this system as well. Additionally the system will produce a report listing stock positions NOT in the OCC PL file (as a possible check for

margin ineligibility) and new functionality to assist in computing intra-day and/or in-house margin requirements.

**Secure Website Site**

**Down-Load**

Earlier this year we invested in our own secure UNIX server with an encrypted SSL connection.

We have been testing the new server and are pleased with the initial results. When sharing a file, an email containing a link to the server is generated. The client logs in using a login name and password contained in the email, downloads the file(s) and logs out.

**Up-Load**

The server also has up-load capabilities similar to those of an FTP site. We envision using this to receive files from clients and thus avoid sending large attachments through email.

**No Wooden Nickels: A Tip or Two**

**CSV Output**

Many users contact us to find out which database files contain the data for a group of specific reports. All of the LDB systems have the ability to produce CSV data files for post-processing.

If interested, go to the Maintain menu pad and select the CSV List menu item. This will bring up an empty list of database files for the system to export after each run.

CTRL+Y will create a new record where the name of the desired database file should be entered. The data in these files will be exported into CSV (comma separated value) files and placed into the PRINT directory where they may be imported by Excel or other programs.

Since the data in each report is not necessarily derived from a database file with the same name, contact us to determine which files you need to export for your specific task. For example, we commonly hear of users

entering DETAIL into the CSV list and expecting data from the Detail report in RBH. The correct entry is RBH\_POSX.

**WWW.LDBCI.COM**

When LDB Consulting, Inc. was formed, Len opted for "easy to set up" rather than "easy to remember." Without the help of focus groups, he creatively came up with the catchy domain name <http://ldbc.home.att.net/>. It was so memorable that even Len often had to Google LDB Consulting in order to find the site.

Now we have [www.ldbc.com](http://www.ldbc.com). This more succinct and to-the-point URL should be easier to remember for both our clients and Len. This site can be a useful source of information and contains the latest versions of product manuals and links to related regulatory sites.

**Option Symbology**

In mid 2008 the OCC will begin to include expiration day in their PL file format. Prior to third quarter 2008, LDB will provide updated versions of RBH and RBM that utilize the expiration day field to match with expiration day data from the client's position file. Client use of expiration day will be OPTIONAL until 2009 when lack of the expiration day will result in rejected records. Not including expiration day in 2009 could result in symbol ambiguity.

We recommend that our Risk Based Haircut and Risk Based Margin users begin to plan for this now and make the necessary adjustments required in order to include expiration day in their position files.

**This item has appeared in prior newsletters. We really aren't running out of topics. These changes will be upon us shortly and we URGE you to prepare for them sooner rather than later.**

