Haircut Snippets

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What's To Follow:

And They Say We Can't Change

Len Bole

Last issue we let the cat out of the bag: we are slowly, but surely, moving our applications into the .NET environment. Repo has been converted and is being tested and spiffed up.

This issue we try a different newsletter format: the same pithy (OK, maybe not pithy) content, but a slightly revised layout. We hope it's easier to peruse.

431/PM Day Trade Logic

For a number of years we have offered OMO PLUS to users who want to compute Rule 431 day trading requirements on equities using the time and tick method. Until recently, no one has requested we expand the purview of the application to include options.

With the advent of Portfolio Margining, there is renewed interest on the part of our clients and prospects regarding day trade requirements computed according to Rule 431 and those inherent in the Portfolio Margining (PM) rules.

We have undertaken to make OMO PLUS more robust and more complete. By the end of summer we intend to include functionality to compute day trading requirements on stocks per Rule 431 and PM AND on options per the two approaches.

Users can continue to license OMO PLUS to do day trading requirements and 431 maintenance margin requirements. In addition, a day trade ONLY module will be offered that will NOT compute any end of day requirements but will instead compute the appropriate day trading charges.

It is anticipated that users of the Day Trade Only module will already be computing EOD charges using OMO or RBM.

We are investigating the possibility of programmatically identifying hedging strategies within PM Day Trade in order to exclude those trades from the computation of day trading charges.

Reverse Repo/Rule 431

Within the last few weeks a number of our clients have approached us to see if we can compute the proper 431 margin on reverse repurchase securities based on whether a counter party is an exempt or non-exempt account and on the explicit type of the security in question: government, agency, investment grade corporate, SMMEA Mortgage, Major Sovereign Debt, Highly Rated Sovereign Debt and other marginable debt.

We are taking steps to implement this as a user optional add-on to the Repo system. Any comments or thoughts you may have on this topic would be appreciated. We hope to roll this out in early Fall, 2008.

Expiration Day Compliance

We have been harping about the OCC Option Symbology Initiative for quite some time now, telling people to include the expiration day for derivatives in the position files for both RBH and RBM. As you are probably aware, final implementation of the symbology changes has been delayed until February 2010.

The symbology initiative entails a totally different symbol to uniquely describe options on price transmissions. The current six character symbol for options such as MSQ and LIB will be standardized as the underlying stock symbol for all but flex options. These changes require considerable work and testing on the part of numerous applications.

From an RBH/RBM perspective, we will require that the underlying symbol be used in the position files when the underlying symbol is utilized by the OCC. We have no idea when those files will be available.

However, files using the current option symbols are NOW available with expiration day. You may request OCC files with and without expiration day be added to your FTP account on a daily basis. You may download them as you see fit.

The ability of users to utilize expiration day at their discretion is the BIG change for these new Risk Based versions. With this release, we believe we have completed all the programming required of us in order for our application to be compliant with Option Symbology. Users must, however, give us the proper 6 character option symbol for this to work properly after February, 2010.

RBH Version 10.0

A new INI entry (EXPDAYON) will allow users to run with or without expiration day at their option up until the symbology initiative goes live. If users have populated the expiration day field in their position file AND they have obtained the OCC PL files that also include expiration day, they may set EXPDAYON = Y in the INI file.

If expiration day is NOT in the position file and/or it is NOT in the OCC PL file or if the users just want to run ignoring expiration day, they need to set EXPDAYON = N.

Be advised that the expiration day for non-flex, monthly expiration cash options is Saturday. The expiration day for both index and single stock futures is Friday as is the expiration day for options on these futures.

The Market Move Adjustment Factor logic utilized to identify the number of baskets hedged by Ultras, Inverses and Inverse Ultras was made more robust so that this same MMAF factor is utilized in determining unhedged ETFs for inclusion in Paragraph J computations.

Contact Charlie to obtain a link to this newest software.

RBM Version 4.0

Needless to say, the latest version of RBM contains the same EXPDAYON logic discussed above.

In addition, the proper treatment for convertible securities, announced by FINRA in January, is included. Originally, the entire loss on conversion was included as a charge for converted securities. Now only 15% of the loss is charged out.

For the first time there is now an RBM Wrapper™. As baskets became more prevalent in PM accounts, we altered and tested Wrapper™ to work with RBM methodology. Wrapper™ is a separately priced add-on to RBM.

Contact LDB to obtain a link to this newest software.

New Math: 1, 2, 3 … 7

We at LDB really CAN count, but this is our new math for this year.

1: Rick and Laura had their first child, Richard Norman, aka Little Rickers, in April.
2: Also in April I had my second hip replacement surgery
3: Charlie and Jess had their third child in May, Aviara Mae.
7: Aviara Mae is our 7th grand child.

It was a busy April/May for all of us as well as for our health insurance carrier.

What This Company Needs

Is NOT a really good five-cent cigar. (My apologies to T. R. Marshall) What we are looking for is a really good .NET/SQL programmer interested in evolving our considerable repertoire of margin and haircut programs from their current environment into .NET and SQL Server. VB.NET is our preferred language.

If you know someone with this background and an interest in exploring this opportunity further, have that person contact us.

No Wooden Nickels: A Tip or Two

DOCOMMOD

FINRA interpretations allow relief for commodity ETFs hedged by commodity forwards, spots and futures.

RBH allows users to set the INI DOCOMMOD switch to Y and to maintain 3 files in order to compute this relief.

Details on the logic and required files are contained in the Commodity ETF Hedging section near the end of the RBH manual. This link will get you to the latest online RBH manual: http://ldbci.com/pdf/rbhmanual.pdf

Be aware that GLD and IAU gold ETFs are now in the OCC PL file along with their options AND GC future contracts. This means these commodity securities need NOT be included in our DOCOMMOD files.

Product Mailing Lists

When a client licenses one of our applications, we add the email addresses of those of their employees who are involved in the day to day usage of the system to a product-specific email group we maintain.

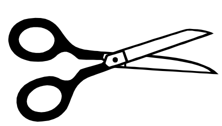
People in these groups are notified of new versions, rule changes and interpretations that may be germane, and situations that might entail special consideration on the part of users.

Please make certain everyone who should be included on that list IS, in fact, in the appropriate product group.

New Email Addresses

LDB has moved to its own email server. Everyone now has new email addresses. Here's the contact info for each of us.
Len: len@ldbci.com 219-477-1928
Charlie: charlie@ldbci.com 219-477-9007
Rick: rick@ldbci.com 708-321-4284
Chris: chris@ldbci.com 312-235-6944

Old email addresses will be kept alive indefinitely. We found many sites arbitrarily identifying ATT.NET email as spam and decided to avoid those complications with our own site. Please add ldbci.com to your spam filter white list just in case we are doomed to repeat history with this domain.



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