Haircut Snippets

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What's To Follow:

Only Eleven Months and Counting…

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Until the industry-wide symbology initiative is upon us.

We probably sound like a broken record since we have been harping on this topic in most of the newsletters since 2006, but the time is at hand. There are TWO important milestones from our perspective: February 12, 2010 and the period of March, 2010 through May 2010.

February 12, 2010

According to the OCC Symbology Initiative site (http://theocc.com/initiatives/symbology/default.jsp), the first important date for RBH/RBM users is February 12, 2010. We can leave it to further discussions to decide if the date was picked in honor of Abraham Lincoln's birthday or because it just happens to be a non-expiration Friday next February.

On that day, Option Price Reporting Authority (OPRA) symbols such as these will no longer be valid:

```
SPXCJ (SPX March, 2010 850 Call)
MSQOD (Microsoft March, 2010 20 Put)
VIBAG (IBM January, 2011 35 Call)
```

On February 12 those symbols will be replaced by

```
SPX   20100320C00850000
MSQ   20100320P00020000
VIB   20110122C00035000
```

What does this mean to users of RBH and RBM? As of that day, they need to have included expiration day for options and settlement day for futures in their position file AND completed testing of that functionality. In addition they should set EXPDAYON =Y in their application INI files.

EXPDAYON allowed users to move to expiration day matching with the OCC at their own speed. As of 2/12/2010, it should EXPLICITLY BE SET TO Y. The default was N, allowing users to run as they have for 14+ years.

Our software is ready for this switchover. This functionality directly affected our applications and we rolled out working versions late last year.

The OCC has PL files available with expiration day. You may begin to download these files NOW. OCC clearing members should contact their Member Services representative. Firms that are not OCC clearing members should contact Fabria Dean in the OCC Member Services department

By setting EXPDAYON = N, you can run with these files even though your position files do not contain expiration day. Once your position files are up to snuff, set EXPDAYON = Y and you are off to the races.

March, 2010 – May, 2010

During this time period, symbols will change throughout the industry. This step is referred to as symbol consolidation. With some exceptions, all option symbols will contain the stock symbol. In our examples above, we would have:

```
SPX   20100320C00850000
MSFT  20100320P00020000
IBM   20110122C00035000
```

This symbol consolidation obviously impacts RBH and RBM but does NOT change our logic. The onus is on your internal systems to begin to feed our applications these NEW PROPER SYMBOLS THAT MATCH THE OCC FILES.

We suggest you and your people stay in contact with the OCC regarding the initiative in general and this consolidation specifically. The web site listed earlier in this article contains a link to contact the OCC. **LDB Contact**: Chris Kemper

New Software Features

Since the last newsletter we have worked on a number of our applications, adding features at the request of our users and in response to the changing regulatory environment. The items below list the new functionality we have included. Through our Customer Upgrade Support Package, we supply these updates to clients.

Contact the LDB person whose email link follows each section: he can both answer questions on the upgrades and provide links for the new software.

Fixed Income Version 9.0

- Unhedged Currency Risk

In order to compute charges on unhedged currency risk as defined in SEC 15C3-1(c)(2)(vi)/08, LDB has added a currency code field to the position record. The user also maintains a currency code table that indicates the proper percentage to be applied to each currency. **LDB Contact**: Chris Kemper

-FDIC Guarantee

FINRA has issued an interpretation granting government security haircut relief to corporate bonds guaranteed by the FDIC. This relief is available until 6/30/2012. Users may indicate which bonds qualify for this relief via a new field we have added at the end of each record in the ratings file. **LDB Contact**: Chris Kemper

Option Margin Optimizer Version 7.0

- Short Option Surcharge by Class

Using a new user maintained table, certain classes may be defined as exception classes. Short options and straddles within these "exception classes" will be margined at the user defined rates for the class. Users indicate the percentages to be applied to the underlying security price for both the default short option charge AND the minimum. All classes not listed in the new table will continue to be margined at the default rates. **LDB Contact:** Charlie Greiner

- Binary/Range Options

Two new fields have been added to the position file. One accepts a B or R indicator and the other accepts a numeric value defining the exercise settlement value for binary or the range exercise value for range options. These fields may be ignored if you do not have binary or range options. The proper charge will be applied for short binary/range options, and OMO will attempt to reduce binary option charges by identifying straddles and spreads. **LDB Contact:** Charlie Greiner

- Concentration Charge by Class

When the new CONCTHRESH and CONCCHARGE INI settings are set to non-zero values, OMO will compute concentration charges on naked short options based on the two INI values. The charges are computed by comparing the short naked option requirements within a single class (within the account) to the option margin requirement for the entire account. If the short naked option charge for the class exceeds the user defined CONCTHRESH percentage of the total account option charge, OMO will apply an additional concentration charge equal to the short naked option charge for the class multiplied by the CONCCHARGE setting. **LDB Contact:** Charlie Greiner

RBM: House Factor File

The new House Summary Report in RBM contains house requirements generated by using a multiplicative factor based on stock symbol to the TIMS-based exchange requirements. Clients may populate this factor file using any of a number of analyses including stock volatility, liquidity, market correlation and/or internally generated risk factors.

RBM generates margin requirements by group: Class group, Product group or Portfolio group. For each group in the RBM summary report, RBM obtains the proper factor and applies it based on either a stock symbol within that group or the user-defined default. RBM recognizes only a single factor for any group, even those containing multiple stocks. **LDB Contact**: Rick Yaksich

Splitter

Do you run multiple accounts through RBH, RBM and/or FI? Would like to have separate reports for each account? If you are weary of looking through the entire firm's reports for a single account's data or of parsing files to provide specific account data to the account owner, then the **Splitter** may be right for you. By utilizing the **Splitter** LDB will automatically create individual reports for each account. **Splitter** is especially handy when used to create PDF reports/files. **LDB Contact**: Chris Kemper

No Wooden Nickels: A Tip or Two

Smallest

The Fixed Income haircut system seeks to minimize haircut charges on government and investment grade corporate bonds. A large number of investment grade corporate and government bonds can result in increased execution time. If you are interested in running in less elapsed time and with possibly little or no adverse affect on haircut charges, you may want to modify the SMALLEST setting in the INI file.

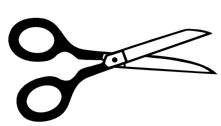
Our installation INI file sets this value to 100000. That means any starting position in corporate or government bonds worth LESS than 100000 will be properly haircut but WILL BE REMOVED from the iterative optimization process. By changing this value to 500000, 1000000 or more, the optimization time may be materially reduced. We have seen higher values for SMALLEST slightly increase OR slightly decrease overall charges. **LDB Contact**: Charlie Greiner

PDF Creator

All LDB systems have the ability to automatically generate PDF reports. For those looking to create PDF reports using something other than Adobe Acrobat, SourceForge offers an alternative freeware product, PDF Creator, which has been successfully implemented by a handful of our users. LDB can work with you on the initial setup and help identify settings that must be changed to seamlessly integrate with LDB.

You may download from -
http://sourceforge.net/projects/pdfcreator/ .

Consider this an option for exploration rather than an explicit recommendation. **LDB Contact**: Rick Yaksich



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