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Haircut Snippets

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What's To Follow:

So How Is LDB Doing?

Len Bole

The current financial climate poses unrivalled challenges to many sectors of the economy. Traditional institutions have disappeared and the government has become a shareholder in firms and industries to an extent never before witnessed. None of this is news to anyone who has not recently awoken from a Rip Van Winkle type nap.

So how are things out here in the hinterlands of Valparaiso? Or more directly, how are current events impacting LDB Consulting?

The disappearance of large financial institutions has not adversely affected us Hoosiers. When a client stops using our systems, the only impact is non-renewal of CUSP. In the case of the large institutions that either failed or were acquired, they had already moved away from traditional haircuts and, if users, out of CUSP when they became CSEs. Historically, we have lost clients only when they close the business that uses our software, move to CSE or develop their own internal integrated solutions.

Frequently traders from the merged or failed companies are landing at firms that formerly did not have significant positions in a given area of securities trading. In addition, new broker dealers are appearing. Both of these instances lead to increased opportunities for LDB.

With over 3 months remaining in 2009, we have more active CUSP users than ever before. Apparently, now is a good time to be providing regulatory capital software to the broker dealer community. We are fortunate to occupy this niche.

We are likewise fortunate to have been given the opportunity by our clients to develop and provide our haircut and margin software to the industry. Let us say "Thank you" to our customers. Things are going well this year in Indiana.

Last and Final OSI Warning

When you receive the March 2010 newsletter, the time to act will have passed for Option Symbology Initiative (OSI) compliance. OSI affects all users of RBH and RBM. Our latest versions (RBH 10.0 and RBM 4.0) are capable of handling expiration day and the new symbols.

Custom data reformatting programs will need to be updated. Contact LDB if you have not already done so. Users of older RBH/RBM versions need to upgrade to the latest versions.

The OCC has PL files available containing expiration day. Obtain these files, place expiration day into your position file and set EXPDAYON = Y in the INI file. The LDB applications will then recognize expiration day as part of the unique security key. **After February 12 you MUST set and leave EXPDAYON = Y.**

On February 12, 2010 all OPRA symbols with trailing alpha denominators will drop those characters. During the period of March –May, 2010, options symbols will begin to migrate to their stock symbol. **Using the proper symbols within the position files so that they match the OCC files is the responsibility of each of our users**. **LDB Contact:** Chris Kemper

New Software Features

A Cleaner View: RBH, RBM and Fixed Income

Those of you who use **Risk Based Haircuts, Risk Based Margins,** or th**e Fixed Income** applications to view reports have probably mused about the seemingly odd layout. The part of wide reports repeated on the left side of the screen may be confusing and all the vertical bars tend to shadow data and make the report difficult to read.

The latest builds of RBH, RBM, and FI now allow you to view reports in their full window while removing all but one of the vertical lines. This single line no longer shadows your report data. **LDB Contact:** Chris Kemper

Fixed Income

-Add on OTC Module

Fixed Income now offers an add-on module that will compute charges for naked and covered OTC options as well as net worth adjustments. All underlying securities not covered by an OTC option remain within the FI optimization process. By default, net worth adjustments will be based on the time value of the OTC option, decreasing net worth for time value of long options and increasing net worth for the time value of short options. By setting OTCTIMENW = N in the INI file, net worth will instead be increased by the intrinsic value of long options and decreased by the intrinsic value of short options. **LDB Contact:** Rick Yaksich

-Optional Ratings for Paragraph E Securities

Until now the FIH system assumed any paragraph E securities included in the position file were investment grade. Ratings functionality has now been expanded to include paragraph E securities.

Users will not notice the change unless they include the ratings records for these positions in the user supplied ratings file. E positions without a matching rating record will continue to be viewed as investment grade. If a rating record for an E security is in the rating file, the system will analyze the S&P, Moody's, and Fitch ratings. If two of the agencies have rated the position investment grade, the position will be haircut as such. Without two high ratings, the position will be haircut as non-investment grade. **LDB Contact:** Charlie Greiner

RRR 4.0 – Reverse Repo Excess vs. Repo Deficit

At the request of one of our clients we looked into the possibility of using excesses from Reverse Repos to offset a Repo deficit within the same counter party. Our research led us to the conclusion that the regulators' intent was to allow such offset, although the rule (as written) does not unequivocally reflect this intent.

Often users are uncomfortable taking relief without seeing it in writing. Based on discussions with FINRA, we understand that the regulators will not seek action against those firms taking the offset. For those of you on the conservative side, the RRR system will continue to take the higher charge as it always has. There is a new switch (USERRVSRA = Y) available to clients interested in taking this relief. **LDB Contact:** Charlie Greiner

OMO Plus - Day Trade for options per 431 and PM

The universe of security types handled by the Day Trader Margin system (DT) has been expanded to include options. The system computes the day trader option margin requirement for both Portfolio Margin and 431 margin accounts. **LDB Contact:** Charlie Greiner

Option Margin Optimizer – Leveraged ETF Rates

We are working to implement FINRA's mandated charges for leveraged ETFS and options on them. The changes will be available prior to December. **LDB Contact:** Charlie Greiner

Risk Based Haircut/Risk Based Margin: MMAF Import

RBH and RBM have the ability to populate Market Move Adjustment Factor (MMAF) in the Special Data File from a CSV file. Users may still provide MMAF in the position file or manually maintain the data in the Special Data File.

The OCC offers a file of leveraged ETF symbols: http://www.theocc.com/products/rbh/rbh_enhanced_return_etfs.xls. Download the OCC XLS file and save the file as a CSV file. Add the path and file name to the INI file using the MMAFILE parameter. For instance: MMAFFILE = .\IMPORT\FACTOR.CSV.

Each time an import is done the application will update the MMAF factors in the Special Data file with the new values from the CSV file. All records matching the symbols in the CSV file will be updated. Security type is not used when updating MMAF.

Note: Since these ETFs may also trade at a fraction of the typical index, the Mini Leap Divisor field may need to be entered. For example, ETFs that follow the S&P 500 priced near 1000 (RSU, RSW, SH, and SSO to name a few) must have the mini leap divisor set to 10. These are maintained manually in the Special Data file or supplied in the position file. **LDB Contact**: Rick Yaksich

No Wooden Nickels: A Tip or Two

CLEANSYMB

Stock symbols in the OCC PL files contain only upper case letters and, possibly, numbers. Since position records must match the OCC file in order for RBH/RBM to utilize the OCC-computed gains and losses, special characters will cause a disconnect between the position file and OCC PL files.

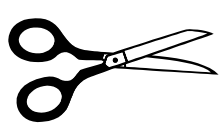
Depending on your source for basket composition data, stock symbols in that file may contain special characters such as slash, period, or whatever. In order for your position file to match BOTH your composition and the OCC PL files, you may want to enter CLEANSYMB = Y in your INI file.

With this parameter set to Y RBH and RBM will remove all special characters from both the basket composition AND position files, allowing your symbols that had special characters to be recognized as part of a basket AND to be matched against the OCC data. Chris Kemper

A Quick (and Proper) Way to Stop LDB Applications

Sometimes we all want an application to close immediately. Perhaps you just realized that you fed our system the wrong input file and do not wish for the calculation to finish before you can feed it the correct information. Or you need to interrupt for whatever reason.

Did you know that there is no reason to wait for the current LDB calculation or import to finish? If at any time you need to interrupt one of our systems in mid-stride simply give focus to the application and hit ALT+F4. The program will stop and shut down without corrupting open files. **LDB Contact:** Chris Kemper



LDB Consulting, Inc.
PO Box 512, Valparaiso, IN 46384-0512
219-477-1928
LEN@LDBCI.COM

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