

September, 2001
Volume 4, Issue 1

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Haircut Snippets



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Between Now and the Next Issue...

Len Bole

I doubt if anyone in the haircut or the margin side of the business ever complains that things move too slowly and there are no new issues in the field. The next six months promise to keep my plate full with new technical considerations, new securities products and possible new approaches to margin.

Haircuts:

RBH format changes:

As you may recall from the last newsletter and the March letter from the OCC, position and profit/loss (PL) file formats are changing in the fourth quarter of 2001.

The changes to the RBH standard position file are rather straightforward. The CUSIP field is dropped, a filler field is added, and price and quantity fields are expanded. Strikes will now be shown as their true economic value, with the fractional part shown to four decimal places.

Options on futures must now be indicated by their own security type (I rather than O) and the interval indicator is now M for market makers (rather than Y) and F for proprietary broker dealers (rather than blank or N).

Although the OCC never required that position entries for futures contain the settlement year and month, the LDB Consulting RBH module did. The OCC will NOW require that also.

The PL file will now contain a Position Percentage field. This field will be used to allocate PL numbers for a single derivative to multiple classes. Spin-offs and reorganizations require a change

like this. The implementation of this new feature should result in lower haircut charges for pre- and post-corporate action options.

The P records for baskets will now also contain the minimum hedge percentage for the baskets. RBH will grab the percentage from these records and, at the user's option, update existing records in the Minimum Hedge file automatically.

At this point, I understand that OCC will make BOTH the old and new PL files available to clients on the Internet and via transmission starting in November 2001. Both files will remain available until February of 2002 when ONLY the NEW files will be available.

LDB Consulting plans to roll out 2-3 Beta copies in early November and to have the tested, compliant version of RBH available at the start of December for delivery to all clients.

REMEMBER: after February, only the NEW formats will work with RBH. And only RBH 5.0 will work with the new formats.

A PDF listing of the new format is available on the LDB Consulting web site at http://ldbc.home.att.net/news/rbh50_position.pdf

RBH - new products:

Single stock futures are scheduled to be rolled out to the general public in late December. At this time, regulatory requirements have not been made available, but RBH WILL accept futures in equity classes.

What remains to be answered are interesting (at least to me) questions like can single stock futures be mixed with equities as part of a basket, contributing to the required capitalization?

RBH 5.0 new features:

As mentioned above, RBH will be able to update your Minimum Hedge file for baskets if you choose to allow it to do so.

RBH has always supported the use of multiple INI files to assist in setting up separate shortcuts to perform different functionality WITHOUT modifying the INI file for each run. However, switch settings were stored in a single file and share by all INI files. RBH 5.0 will now have a switch file for each INI file, allowing further customization and differentiation.

The Basket Weaver™ has been modified to give relief (at the user's option) to positions containing baskets hedged by Exchange Traded Funds. However, it has not been ascertained that this relief is allowable in the opinion of all regulators.

Four new parameters have been added to the INI file: NETDERIV will allow a user NOT to net derivatives when running the Weaver; GETCREDIT will prevent any gains on conversion from reducing haircuts; UPHEDGE will allow the system to update the Minimum Hedge file from the P records in the PL file; and CLEARING allows for more efficient processing of position files with many accounts, as for a clearing firm or a firm with numerous individual accounts.

There is now a Reconcile Report to assist in reconciling security values and quantities with starting inventory. The report combines data from the reports (detail, convertible, ETF, naked, netting and Non RB) that contain these figures and presents them in a single place.

Margins:

Margin - new products:

Those single stock futures mentioned above will also have an effect on margins. Rates for naked futures, futures vs. stocks and futures vs. options will need to be defined.

Margin procedures:

The interval distinction in the new RBH position file format will also allow for an entry of C, indicating a customer for margin purposes. The PL file has been modified to contain an additional Customer minimum charge for index positions. All of this is in preparation for the long awaited pilot of the Portfolio Margining System. The system will apply Risk Based charges to index positions in institutional accounts. Once final requirements are disclosed, LDB Consulting WILL offer a Portfolio Margining System to clients.

Option Margin Optimizer (OMO) Update

Version 2.5 of OMO utilizes a new sort sequence and an optional second pass to better identify lower maintenance margin requirements. Contact me for further information.

Fixed Income Update

On July 13,2001 the SEC issued a no action letter regarding marketability of Asset-Backed Securities (ABS) issued by Special Purpose Vehicles. The Ratings section of the Fixed Income module will now recognize an ABS from the Bloomberg Security Type field and suggest proper haircut treatment. Contact me for elaboration.

A Question:

If LDB Consulting were to migrate RBH to another platform/language, what would YOU want that to be?

Oracle? SQL Server? Sybase? Unix?
Does it really make any difference to you?

I would appreciate your feedback on this issue. IT people often express hopes that I will port the system to another environment. But the requests are diverse. I am curious if the end user community for RBH cares where and in what language the system runs.

Please email me at ldb-lenbole@att.net with your comments.

Thanks for taking the time to respond.

Web Site

I wanted to remind you about the LDB web site <http://ldbci.home.att.net/> The home page allows you to search the site for key words and may prove to be a good way to search the manuals for topics of interest.

The Links page contains electronic links to exchange and regulatory web sites. <http://ldbci.home.att.net/links.html>

The What's New page contains copies of the latest newsletter and also the new OCC position file format for RBH. <http://ldbci.home.att.net/new.html>

Electronic Newsletter

If you can receive this letter via email, please provide me with your email address. If there are others in your organization that ought to receive this missive, please provide their email address to me as well.

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