



Haircut Snippets

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Into Every Release, a Little Rain Must Fall...

Len Bole

After considerable internal testing and beta testing by a select group of users, version 5.0 of Risk Based Haircuts was mailed out on December 13. Over the next month and a half, I held my breath to see what problems this greater universe of users might uncover that had not been found in pre-release testing.

There appear to be only 4 problems that users discovered. The problems are listed below along with the dates they were fixed. If there is a problem that you feel may concern you, check the creation date of your RBH50.EXE file. If it is prior to the **Fixed** date below, you do NOT have the fix. If the creation date falls AFTER the **Fixed** date, you already have the fix.

Version Number

Hitting Alt+A to determine version would bomb. **Fixed:** 12/21/2002.

Empty MM PL file

Defining and importing an empty Market Maker PL file (RBHPL2.DAT) results in a fatal error message. **Fixed:** 1/18/2002.

Spot/Forward Currency Haircuts

The system may have used incorrect prices for spot and forward positions in currencies (most likely British Pound and Canadian Dollar). This only affects currencies whose future symbol was also a stock symbol. **Fixed:** 1/23/2002.

Automatic Strike Fix For I Type

OCC requires that strikes for some options be multiplied by 10 to match their PL files. I do this automatically for all positions with security type O. I did

not do it for the new security type I.

Fixed: 2/1/2002.

To Get a New Executable File

To get a new executable file, contact me and I will EMAIL the latest file to you in a zip file at no charge.

THANK YOU!

I owe special thanks to the OCC for keeping me in the loop on the format changes. The security price and quantity fields were expanded based on suggestions that I passed to them from users.

Special thanks are also owed to the beta sites for their special brand of bravery.

Finally, thanks to all of you for being clients, ordering the upgrade and working with me on a regular basis to keep the product current and on top of its game.

If Only I Had a Crystal Ball

When will the rules governing single stock futures be released? What will those rules be? How will they affect haircuts, retail margins and market maker Regulation T requirements? How soon after the rules will they trade?

These are just some of the questions concerning me and most regulatory and compliance people I meet.

Depending on the rules and the timeframe allowed to implement changes, single stock futures could be a real challenge to most IT departments and to LDB Consulting. A number of systems may have to change, depending on the final determinations.

In conversations with various people, regulators as well as back office staff, single stock futures MAY be allowed as components of a basket and MAY be subject to undue security concentration charges. Both issues directly impact RBH.

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If you glean any intelligence on single stock futures and their timing and can share that info, I would greatly appreciate it.

Fixed Income Version 3.0

Version 3.0 of the Fixed Income Haircut system was introduced to users in January.

Convertible Bonds

The fixed income system now handles the relief for convertible securities outlined in Paragraph G. The user must populate the convertible file with the information necessary for the system to decide on proper treatment of the convertible. Bona fide arbitrage relief will not be given if the resulting loss on conversion is greater than the charge on the naked unconverted security and the naked underlying common.

This convertible file may be updated interactively, by importing an ASCII file containing the required parameters or via the Bloomberg Data License interface.

If using the Bloomberg interface to populate the convertible file, the system will obtain the usual corporate debt ratings information as well as the conversion ratio, underlying common ticker, cash required for conversion, who may convert, par amount, earliest conversion date and the exchange on which the common is traded.

The system will follow its normal corporate bond ratings logic for convertibles and non-convertibles

When haircutting a position with convertible securities, the system will examine these securities first to determine if it is advantageous to take the bona fide arbitrage relief or to include the convertibles in either normal corporate bond haircuts or Paragraph J. If the Bloomberg interface is used, the system will make sure the bond is convertible by the holder within 90 days and, if the convertible is a 144A security, that the underlying common is readily tradable.

A convertible report containing all convertible cusips will be generated showing how much of the convertible was converted or telling why it was NOT converted. A Paragraph J report will also be generated for all remaining common stock and unconverted convertibles that do NOT qualify for the nonconvertible debt logic of Paragraph F. Undue stock concentration charges will also be computed within the Paragraph J report.

Audit Trail of Simulation Changes

Users may opt to record all simulation file changes in a printable audit trail report.

Ratings on Position list

Ratings are now included on the position file listing report.

Alternative Ratings Import

Since version 2.0, users may provide the information required for the system's ratings logic from Bloomberg Data License. User may now employ other sources for this information and feed it to the Ratings logic via an ASCII file.

UBIT™

One of the distinguishing features of RBH is its ability to take a group of stocks identified as a basket and to assure that the basket is properly hedged and capitalized. When analyzing stock baskets, RBH has historically taken the stock holding with the greatest market value and used that stock to determine the target number of baskets contained in a position. Although the resultant baskets were properly hedged and capitalized, some securities may have been rolled out of the basket needlessly.

Since Version 4.0, RBH has allowed the user to select the Universal Basket Identification Technique (UBIT™) in the Switch submenu of the Maintain menu and to use it as the method for determining a position's target number of baskets.

UBIT™ was designed to keep the largest number of stock shares within

the basket. Although this may NOT generate the lowest haircut, it will most closely comply with the basket identification employed by the user in populating the position file.

UBIT™ is now used at a number of sites on a regular basis and all indications are that it living up to its potential and behaving as advertised (and expected).

LDB: Looking to Grow

LDB Consulting is in the final stages of negotiation to DOUBLE the size of its support staff. Yes, that means hiring one additional person. By the next newsletter, I should be able to introduce you to the new person and let you know how he will enhance the service LDB provides its clients.

For Those Keeping Score at Home

It looks like 3 more grand children being added to the clan this year with births due (one each for each daughter) in March, June and October. Perhaps a haircut programmer-in-waiting is in this group. More next newsletter.

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.

You can email me at: LDB-LENBOLE@att.net

To Unsubscribe

Please email, write or phone me and I will gladly remove you from my mailing list.

