



Haircut Snippets

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And Now the Fun Begins

Len Bole

Yes, single stock futures (SSF) are upon us. Both the SEC and CFTC issued margin rules in July. SSF are marginable against each other; against their underlying stock; and against equity options in the same types of spreads currently involving stocks.

OMO Version 2.0

The Option Margin Optimizer 2.0 has been released and includes proper margin treatment for these securities.

RBH 5.5

In discussions with the SEC, I have been told that SSF are eligible to be included within baskets for haircut treatment. In addition, an unhedged position in a stock and its related SSF is subject to undue concentration charges when the TOTAL value of the stock and its SSF exceed ten percent of the firm's tentative net capital.

Until now, futures were never allowed as part of a basket and were NOT subject to undue concentration.

RBH 5.5 is being tested now and will be released in October. It will handle the undue concentration condition and will recognize SSF within a basket.

The SEC emphasized that SSF positions MUST use the daily settlement price as defined in the July 2002 SEC/CFTC margin rules. You must include THIS price for SSF in your position files.

SSF in baskets will be valued at their respective prices and the total value of a stock and its related SSF in a basket will not be allowed to exceed the maximum capitalization of that stock within the index.

The SEC will also allow SSF to be used in fractional quantities within baskets

(and, as a corollary, in fractional quantities within RBH and the Naked Security calculation). Thus, if the correct amount of IBM in a given index is 775 shares, 7.75 IBM SSF contracts, with a contract multiplier of 100, will be an allowable part of the basket.

However, until the OCC alters their RBH position file format to allow for fractional quantities, we will NOT support them. It will do users no good if our system generates fractional quantities, but we cannot pass them to the regulatory agencies in the mandated format for audits.

Weaver™ 5.5

The Weaver faces the same challenges in dealing with SSF in baskets as RBH does.

Weaver™ will be modified so that SSF and stocks can be interchangeably woven into baskets, resulting in lower capital charges. It will be altered to handle multiple securities and prices contributing to a single stock's capitalization within an index.

Weaver™ 5.5 will be released by mid fourth quarter.

Beta Testers Wanted for Version 5.5

If you are a current user of RBH or the Weaver™ AND you expect to have SSF positions in your basket, I would be interested in talking to you about being a Beta test site for version 5.5. Please contact me.

And in the LDB Corner . . .

Charles Greiner. Charlie weighs in with a bachelor's degree in economics from San Diego State University as well as numerous NASD certifications, including SERIES 4, 7, 24, 63 and 55.

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Web Site: LDBCI.HOME.ATT.NET

LDB Consulting, Inc
PO Box 512
Valparaiso, IN 46384-0512
219-477-1928

In addition, unlike me, he actually has back office security experience.

He began his tenure at LDB Consulting in May and is mastering the ins and outs of the various systems. He has already ventured back to the West Coast to demonstrate the OMO system.

As Charlie becomes more familiar with the various applications, he will be available to assist when you have questions or encounter problems. He will also be heavily involved in marketing, sales and follow-up.

You may email Charlie at CG_LDB@att.net

Welcome aboard, Charlie!

Stock Borrow/Loan

The best ideas I have usually come from my clients. And Stock Borrow/Loan (SBL), a.k.a. Sybil, is no exception.

The system is in the final stages of testing. It is designed to import data from a number of sources and to calculate stock borrow/loan and 15c3-3 capital charges by counter party.

The system maintains data in a historical file, allowing regeneration of reports based on past data. Users may add modification records to the history file without altering the actual, imported data.

The user may also indicate counter parties that should be consolidated when computing charges.

Currently the system will read the Loanet report file. It is intended for the system to read other formats as well, including data from the Global 1 system.

Contact LDB with questions or suggestions for this newest product offering.

When Asked for an RBH Audit File...

Please, please, please give the auditors the file created by RBH specifically for

their use in the format demanded by them.

Each time RBH runs, it creates an audit file for regulatory use in the Print Directory. The file is named using the date from the position file and has an extension of OCC. If you were running data for July 31, 2002, the file would be named 20020731.OCC

A number of clients over the past few months have provided the exchanges their original position files. Although RBH can read and process that file, it may not be in the format dictated by exchange interp and demanded by one of their audit programs.

In addition, depending on the features being used in the LDB RBH system, it may contain positions that should not be passed through a traditional RBH program. Convertible securities and non-RBH securities are processed by the LDB Consulting RBH system, but are removed before constructing the OCC format file. These securities are accounted for in separate reports, but are not traditionally part of the RBH universe.

In short, things will be easier for you, for me and for the examiners if you give them the OCC file discussed here.

Thanks!

I Just Couldn't Leave Well Enough Alone

Last issue, Fixed Income Version 3.0 was introduced. Among other things, it handles convertible securities and allows the user to create a ratings import file from a source of the user's choice.

In June, two no action letters from July of 2000 were added to the system. Using an issuance size matrix, relief is now given to non-investment grade securities with non-investment grade ratings from at least two NRSROs. The Marketability of Certain Securities no action letter of July 27,2000 allows this treatment.

In addition, portfolio concentration charges are now computed as outlined in the Portfolio Concentration Charges no action letter, also dated July 27, 2000. This calculation is activated by entering PCC = Y in the INI file.

Fixed Income 3.0 now allows the user to indicate the default haircut rate to be used on short positions in non-investment grade bonds. The system default is .40. Some clients feel the rate should be 1.00 (100%). They may indicate that to the system by entering DEFAULTSHORT = 1.00 in the INI file.

All current users of 3.0 have been given this free upgrade. All future users will receive it as part of the 3.0 package.

The Clan Continues to Grow...

The number of grandchildren in the family doubled this year. Lilli Jane arrived on the scene in March. And Keagan Riley made his appearance in June. Word has it that Luke Leonard (or might it be Olivia?) will make his/her debut in October.

Holidays are going to be hectic around here when the 5 of them get together.

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

No Mas...

If you do NOT want to receive future issues of this newsletter, please email, write or phone me and I will gladly remove you from my mailing list.

