

FIXED INCOME HAIRCUT SYSTEM

Version 10.0

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Bond Haircut System Overview

LDB Consulting's BOND Haircut program computes haircuts for government, nonconvertible bonds and other debt securities (including municipals, Canadian debt, certain bond trusts, liquid asset funds, commercial paper, banker's acceptances and certificates of deposit) as defined in SEC rule 15c3-1. The user is responsible for providing positions in the format described below in this document.

Once installed on the computer in the directory selected, the BOND system will build sub-directories: DATA where all data base files are stored; IMPORT where ASCII position files to be imported are stored; PRINT where all print files are placed; EOMDATA used in EOM mode; HELP where the HTML version of the manual is located; BACKUP for storing results from all runs; and 2 TEMPLATE directories where structures for all DBF files are stored for both the DATA and EOMDATA directories. By using the INI file, described in the MAINTAIN section, the user may alter the locations for DATA, PRINT, HELP, EOMDATA, BACKUP and IMPORT directories.

When started, the system will present a bar menu containing pads for Import, Calculate, View, Print, Maintain, Simulate, Ratings, Help, EOM and Quit. The user may choose a pad by moving to it with the arrow keys, by clicking on the pad with a mouse, or by pressing the ALT key plus the underlined letter for the appropriate pad, such as ALT+Q for quit. When a pad has multiple selections, each selection will have a key letter underlined. The user may choose a selection by typing the underlined letter for that selection, clicking on the selection with the mouse, or by hitting the down arrow to the selection and hitting the ENTER key.

Some menu selections are marked with an arrow to the right. This indicates a cascading menu with additional items. You may move into the cascading menu as discussed above and make your final selection there.

Each menu pad and its optional selections are discussed below.

The user may interrupt execution by hitting Alt+F4.

TO RUN A HAIRCUT...

Click on the BOND icon. You MAY have to go to the MAINTAIN menu to: alter locations of the name of the position file in the INI file; edit cusip exclusions or the future profile file. Most often you will NOT have to go here other than to edit excluded cusips.

Go to the IMPORT menu and select Position File Import.

Go to the RATINGS menu and perform any ratings maintenance you require. You may Create a Request file, FTP it to Bloomberg, Import the Ratings, Verify each of the categories (updating the history file at the end of each verification) and, finally, Update Rates or

Select Ratings and Rates from the Import menu.

Go to CALCULATE menu and select Original Position Haircut.

You may then VIEW and/or PRINT report files.

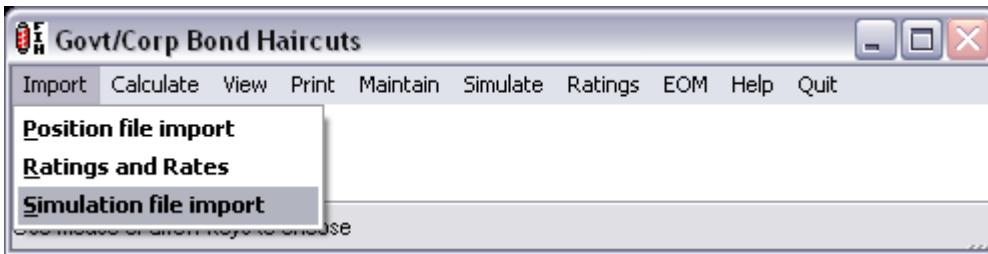
QUIT.

Shading in the Manual

Where possible, we have tried to annotate all NEW or revised sections by shading the background. This may assist you in browsing the manual to see what has been altered since the previous version.

Bond Menu Bar

IMPORT



The import menu allows the BOND program to bring the ASCII position file into the system. The file to be imported is expected to be in the IMPORT directory established during installation. However, you may specify an alternate directory in the INI file, as discussed in the MAINTAIN section below. Unless you use the INI file to specify an alternate name for the required position file, it must be named **position.txt**.

POSITION FILE IMPORT brings user positions into the system. The user will be warned at the end of the import if any errors have been found. Entries for positions with errors are deleted from the position file and are not included in later processing. **The user should proceed with processing only after all errors have been resolved.** The user may view/print the error log file from the VIEW or PRINT menu pads. The user may correct errors via 'EDIT position' in the SIMULATE menu pad.

If the user has selected the convertible security functionality in the INI file, has defined the convertible import file and has NOT chosen the Bloomberg interface to populate the convertible file, the user's convertible import file will be imported at this time. The file layout is discussed below in the File Layout section. See the Convertible security logic discussion later in this manual.

If the user has defined the government vs. future import file (GVSFFILE) or the marketability relief symbols import file (BBDLIDXFILE) in the INI file, the user's files (contingent upon aforementioned selections) will be imported at this time. The file layouts are discussed below in the File Layout section. The functionality associated with each is discussed in the Maintain section.

The RATINGS and RATES pad automates the ratings logic. The ratings file is imported and haircut rates are applied to corporate, preferred, and commercial paper securities using default logic: if the ratings information matches previous ratings data, prior rates are retained; if the ratings information changes or a new cusip is presented, the system applies its best estimate of the haircut rate. The rates information is then updated to the Cusip Exclusion file and the Exclusion Change report is automatically readied for printing; the user is shown the Print Window and is given the option to print this report at Import time. Note that the user may still go to the Ratings section and alter ANY rates set by the system. These altered rates will be retained and used by the system in subsequent imports.

The Ratings Difference report, showing all haircut rates and issuance matrix settings overridden by the user, is also generated now.

When fields used to determine proper haircut treatments are added to the Ratings Reply file, ALL cusips will be considered CHANGED since there were no entries for these cusips in the past. This will entail carefully reviewing the Exclusion Change report to override any rates previously overridden by the user.

Please also note that if INI settings which alter haircut treatment are set or reset (e.g., NI144, ABS144, or ABSCONSERVATIVE), only securities with CHANGED ratings information will be evaluated for treatment according to the settings. **The user may wish to purge the entire Ratings data base prior to first setting these switches.**

Type E securities are assumed to be investment-grade if no rating record exists for the cusip. If a rating record is present in the ratings file, the system will look at the Moody's, S&P, and Fitch rates. If Two of these agencies have rated the security in the top THREE categories for COMMERCIAL PAPER (and ONLY CP), it will be classified as investment-grade. If there is a rating record, and the position is not rated in the top three categories by at least two agencies, it will be classified as non-investment-grade.

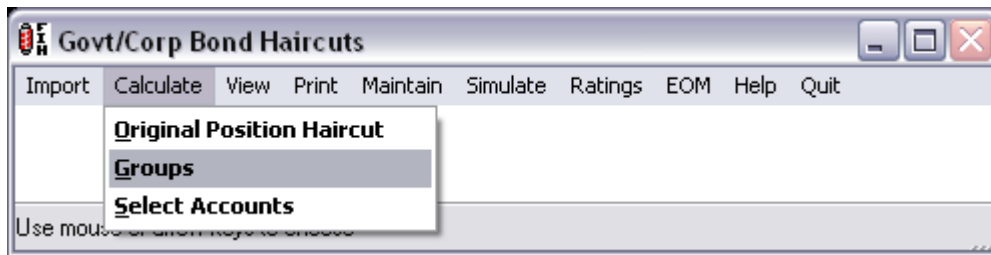
NOTE: ONLY COMMERCIAL PAPER RATINGS SHOULD BE SUPPLIED. C/Ds and other type E securities are not handled by the ratings logic.

SIMULATION FILE IMPORT will import the simulated position that the user has modified (see SIMULATION section below). When doing a normal position file import, all entries are copied to the simulation file for possible modification by the user. SIMULATION import preserves the latest simulation file so the user may go back and add to the simulation.

If the user enters Simulate Mode in the Switch submenu, the Position and Ratings import bars will be grayed out.

Importing a position file deletes all print and position-related files.

CALCULATE



This menu pad performs the BOND Haircut. A progress window is opened and the user is informed as various tasks are performed. Individual account positions are combined into a firm wide position and positions are then sorted.

Messages regarding the preparation and optimization of each account's positions are displayed. While optimizing an account, information regarding the type of optimization may be displayed.

The user may perform a haircut on the entire position file, on all customized groups defined in the Maintain/Other Files/Group Files menu pad or on selected accounts.

When doing Group haircuts, the system does Account haircuts and NO firm haircuts, as if ACCTHCUT = Y and FIRMHCUT = N were set in the INI file. When Group haircuts are run, the file GROUPS.TXT is created in the print directory. It contains a list of the groups that are currently defined. The system will compute undue concentration charges and government dealer discounts based on the NEW firm number.

By setting GRPACCT = Y in the INI file, the user can assure that any account in the position file NOT contained in a group in the Groups file will be placed into a single account Group.

When individual accounts are combined for a firm haircut (FIRMHCUT = Y in the INI file), the system creates a combined firm/account combination. The firm number for the combined account is the firm number from the original position file. The account is ~COMBINE. Positions are NOT netted in individual accounts. They are netted in a firm wide run based on the INI value for the FIRMNET parameter.

By setting MIXFGN = N in the INI file, Securities denominated or linked to a foreign currency will only be hedged against other securities of the same country if the foreign field is filled in the position file. If MIXFGN is set to N every position must have the foreign field filled in. By default MIXFGN is set to Y.

The user may perform 1 or 2 passes in optimizing haircuts. Each pass seeks hedging opportunities in each of four scenarios. Pass 1 first hedges corporate bonds vs. other corporate bonds, then does corporate bonds vs. government bonds, government bonds vs. government bonds, and, finally, government bonds vs. futures. Pass 2 does government bonds vs. corporate bonds, corporate bonds vs. corporate bonds, government bonds vs. government bonds, and government bonds vs. futures. If both passes are performed, the lower of the two haircuts is reported.

Pass 2 can be quite slow for firms with substantial government bond positions. Use it with caution. In numerous tests, LDB Consulting, Inc has never seen the results of Pass 2 lower than the results of Pass 1.

Bonds are hedged against one another according to rules stored in various category files that the user may view. All bond maturity dates are converted to days to maturity by subtracting the position file date from the maturity date.

Futures are hedged against government bonds in 2 ways: according to the min/max days to maturity stored in the Future profile file or via the Deliverable vs. Future file.

In the first method, the system cannot tell which government securities are deliverable against futures. Therefore, it hedges futures against ANY government security for which the maturity falls within the maturity band defined for the future in the Future profile file and for which the cusip matches the cusip prefix in the Future profile file. If the system hedges against ineligible securities, you should remove futures from your analysis and match them manually. The Unhedged Residual report will be useful if you decide to manually match futures.

The second method allows the user to denote the exact cusips deliverable against any future in inventory. The hedging is done without netting any futures but AFTER identifying any optimizing hedges for corporate and government bonds. Optimization IS performed in this method.

While looking for haircut reductions via hedging in each scenario except as noted in the preceding paragraph, all combinations are assessed. The market value of a one lot of one bond is paired with the same market value of all eligible bonds within the scenario. The pair with the greatest haircut reduction is then examined to determine the best market value to hedge. Once the market value is identified, the bonds are removed from further analysis and recorded in the hedged detail file.

Since all combinations are assessed for potential hedges, reducing the universe of securities that may be hedged will reduce the run time. With 100 long and 100 short positions, there are 10,000 combinations. Reducing the securities in half (to 50 long and 50 short) results in only 2,500 combinations, a 75% reduction. With this in mind, the user may want to set the SMALLEST parameter in the INI file. This defines the smallest market value for a bond position to be included in the hedging analysis. SMALLEST = 100000, for instance, would exclude from hedging analysis all bonds with a market value less than \$100,000. These bonds would still be haircut within the appropriate matrix element.

In the INI file, the user may indicate the size of a one lot for hedging purposes. 1000 is the default. The user may enter INCREMENT = XXXX where XXXX is the desired size of the lot. 1000 is the minimum lot size; all indicated lot sizes will be truncated to the nearest 1000 bonds.

Lot size affects speed during the program's attempt to find the optimal market value for a hedged pair of bonds. If removing the maximum possible value does not preserve the haircut reduction observed on a one lot, the system looks to identify the optimal value by searching, one lot by one lot, up to the maximum value. Obviously, the greater the size of a lot, the less time is taken in determining the best value. However, a large lot size may result in less than optimal haircut results.

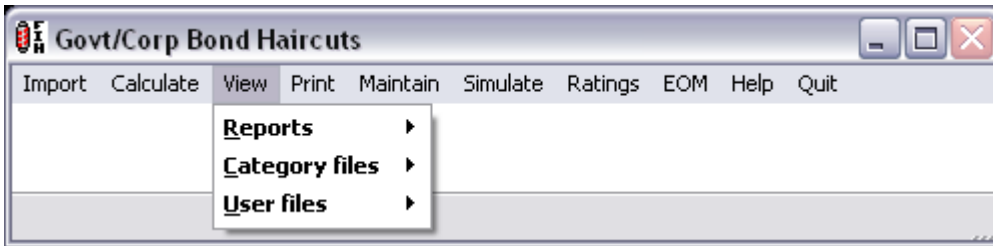
The user may use the PASS parameter in the INI file to indicate whether the system should do: only pass 1 (PASS = 1); only pass 2 (PASS = 2); or both (PASS = 3). **It is suggested that you set PASS = 1.**

By using the ACCTHCUT and FIRMHCUT parameters in the INI file, the user may compute haircuts for individual accounts and/or the firm. If both values are set to N, the system defaults to FIRMHCUT = Y.

If futures remain naked, they are haircut according to the capital charge stored in the Future Profile file. The charge is applied to all remaining future contracts including fractions. For instance, if we are naked 2.4 future contracts, we will be charged 2.4 times the appropriate capital charge for the future.

Note: the badmty.txt file if created does not include futures.

VIEW

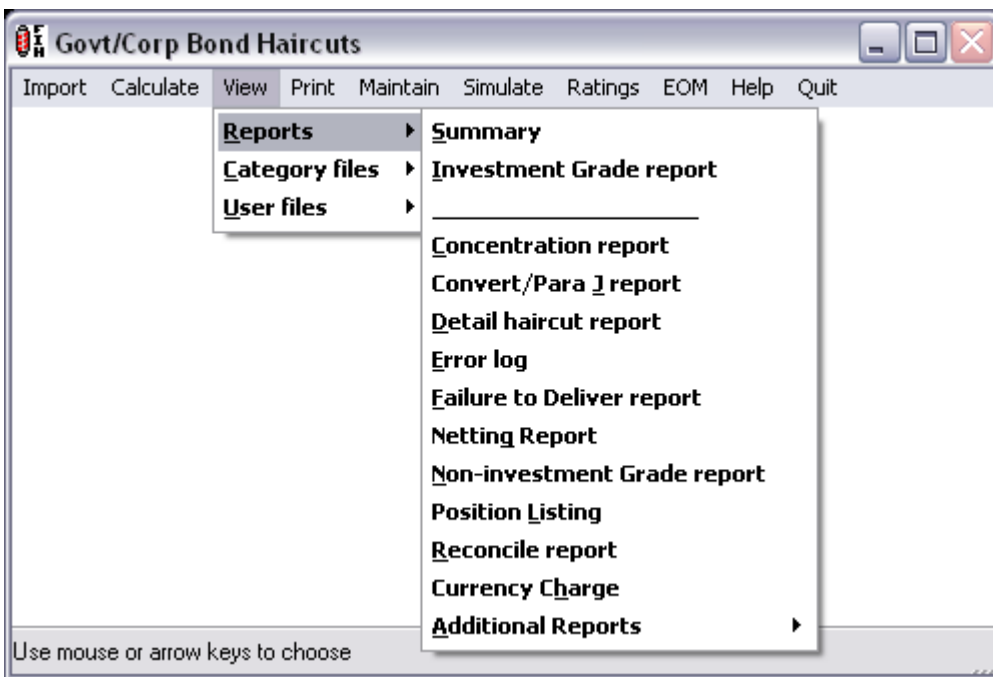


The user may view all reports as well as certain system data files. The ability to view the data files exists primarily as a tool to be used if problems develop. The user is most apt to view reports and those files that can be maintained via the system, such as the cusip exclusion, INI, and government haircut reduction files.

When viewing, the viewer may expand the view window and alter the order in which the fields appear in the window by dragging fields to new areas in the window. **No data can be altered in the view section.**

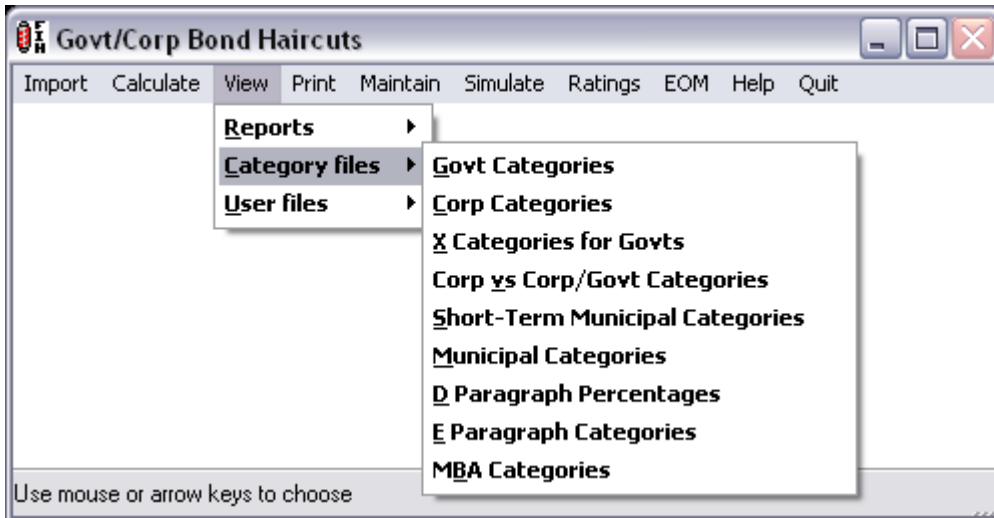
Nearly all reports are viewed using two windows, with the left hand window containing descriptive data that pertains to the corresponding line in the right hand window. The user may horizontally scroll in the right window while preserving the description info in the left window. As in any window, the user may vertically scroll using scrolling keys or the elevator button.

Reports



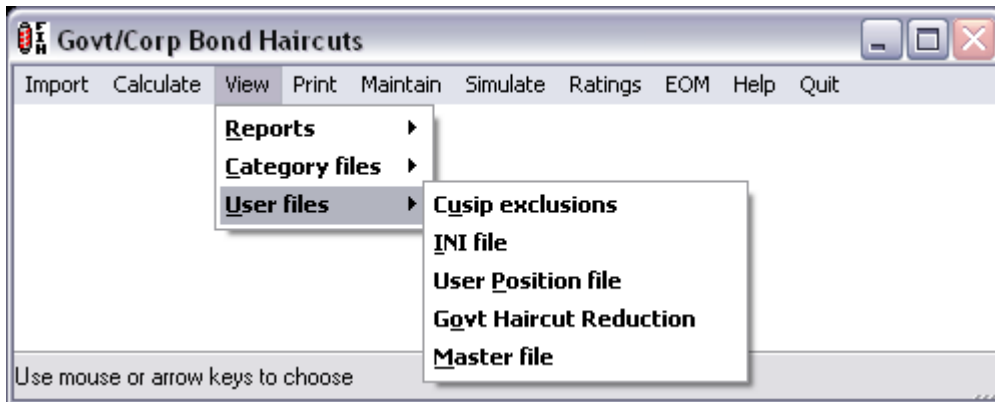
The user may view any of the various reports.

Category files



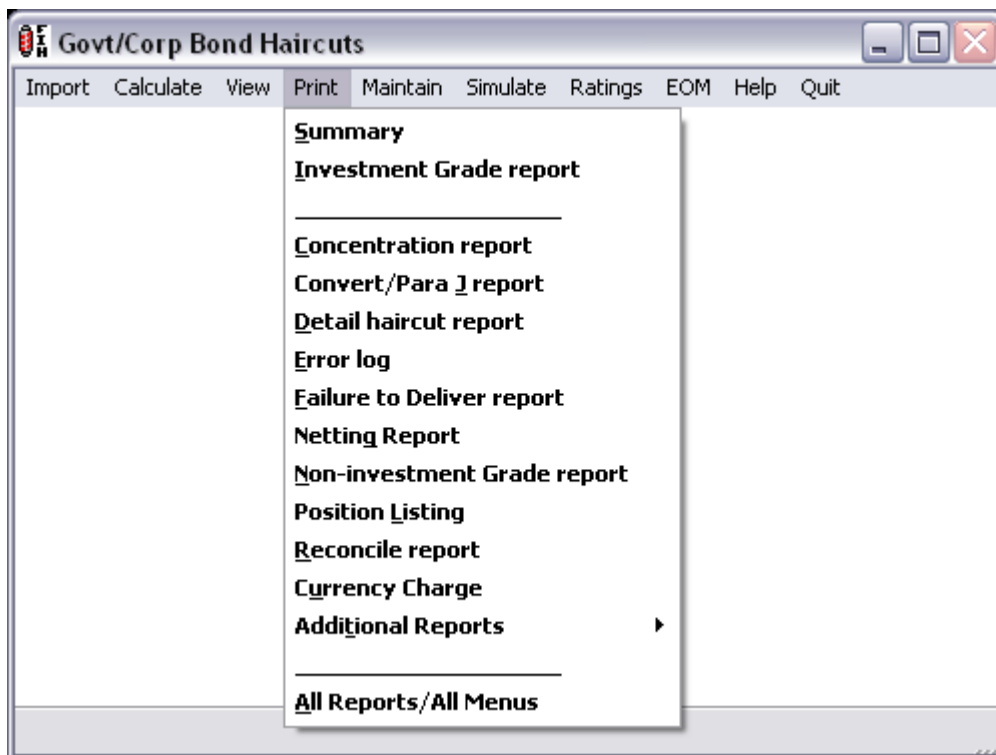
The second section of the menu allows the user to examine the category files. These files are defined within the rule and are not generally altered.

User files



The third section allows perusal of files that the user is most apt to alter. These include the INI file, the cusip exclusion file, the current position file, and the government haircut reduction file.

PRINT



Printing is accomplished in typical Windows fashion. The user is presented with a printer prompt dialog box and may alter the printer and certain printer parameters. All reports are produced using Courier New font. The default WINPRINT orientation and font sizes for each are listed in the following table.

<i>Report</i>	<i>Font Size</i>	<i>Orientation</i>
Concentration Charges	6	Landscape
Convert/Para J	6	Landscape
Detail	7	Portrait
Error log	6	Landscape
Exclusion Change Report	7	Landscape
Failure to Deliver	6	Landscape
Investment Grade Report	6	Landscape
Netting Report	6	Landscape
Non-Investment Grade	6	Landscape
Price Difference	8	Portrait
Position Listing	7	Landscape
Ratings Difference Report	7	Portrait
Reconcile Report	6	Landscape
Summary Report	10	Portrait
TBA log	6	Landscape
Unhedged Residual Report	7	Landscape
Security Type Changes	6	Landscape
Affiliate Debt	6	Landscape
MBA Movement	7	Landscape
Fail to Deliver Monitor	10	Portrait
Currency Charge	6	Landscape
ABS Liquidity Charge	6	Landscape
OTC Detail Report	6	Landscape

The text files stored in the print directory are created at the time the haircut is run and contain that date and time.

When doing a PRINT, the text file is brought into RBH and printed via a report and contains the date and time of the printing. Headings no longer contain firm, account, pass and/or category information. Instead, this data is included to the far right on each report line.

PDF reports may also be created based on the PDFREPORT setting in the INI file. See the Adobe Print Section for further information.

The user may print reports individually or may print ALL reports at once by selecting the All Reports menu item.

The Concentration charge report shows all undue and portfolio concentration charges, except for undue concentration per Paragraph J.

Convert/Para J shows the convertible and paragraph J reports, including undue concentration in Paragraph J.

The Detail report provides supporting information regarding the pairing of hedged bonds.

Error Log shows all errors.

ABS Liquidity Charge report shows all positions that have been identified as ABS. The ABS setting in the INI file needs to be set to Y. It will also apply a charge to any long positions that are not charged at 100%. The % that will be applied to these will come from the ABSCHARGE INI file setting.

The Exclusion Change report shows all alterations made to the Cusip Exclusion file via the Ratings menu or the Import\Ratings and Rates menu selection. New excluded cusips, cusips for which the rates changed or cusips removed from this file are displayed in cusip number order. This report is now cumulative and will show all changes since the last Position file import OR the last Ratings and Rates import. A security whose settings have been altered multiple times will appear multiple times within the report. Date and time of alteration are also included in the report.

The Failure to Deliver report contains firm and customer failures to deliver/receive. Any items marked as FIRM Fails in the position file will be examined and, if more than 4 business days (or user defined threshold; FIRMFTD in INI) after settlement for a Fail to Deliver, will be haircut with the proper rate PLUS the difference between the current value of the position and its original contract value. Securities to be haircut at 100%, and found in the Non Marketable list (user maintained) will be examined for possible relief based on the July 13, 2001 no action letter Marketable Securities Outstanding Less than 30 Business Days. Short positions will be considered Fail to Receive and will take a charge on the deficit WITHOUT being haircut at a specific rate.

CUSTOMER FAILS will be haircut at the proper rate PLUS the difference between the current value of the position and its original contract value, if it is in deficit and over 35 days (or user defined threshold; CUSTFTR/CUSTFTD in INI) past trade date. Otherwise there is no charge.

Fails flagged with "FTD" in the Product Code field (see file layout section of manual), will incur an additional 1% charge based on contract value. This number is broken out and detailed in its own column.

Fails to Deliver and Fails to Receive are handled for both firm and customer positions. By default, the system recognizes long fail quantities as Fail to Deliver. The user may alter this perspective by setting FTDLONG = N in the INI file.

The Investment Grade report contains up to four sections per account. Debt securities other than corporate bonds, futures and government bonds will be summarized on the Other Debt page of the Investment Grade report. Any corporate bonds are summarized on the next page. Total bonds and hedged securities are listed and haircut by category. The next page summarizes hedges involving futures. The final page contains the original totals, hedged bond totals, and haircuts for all government bonds by category.

Netting report lists all netted securities by security type, with account totals. Please note that if an entire cusip is netted away AND the longs and shorts are priced differently, the long and short netted VALUES will NOT BE EQUAL.

Non-investment grade securities for which the cusips are in the Cusip Exclusion file appear on the Non-Investment

Grade report.

The Position Listing shows each bond within its category and presents totals for the category and for excluded bonds.

The Price Difference report shows all securities having more than one price within the position file.

The Ratings Difference report shows all positions having a haircut rate or issuance matrix flag which is not the same as the system's assumption. This occurs when the user alters rates. This report is generated when the user selects "update rates" from the ratings menu, or "import ratings" from the import menu.

The Reconcile report presents long and short values for all security types from all reports in one place, including the error log. When RECBYACCT is not set to N in the INI file, the results will be based on firm wide data. However, when RECBYACCT and ACCTHCUT are both Y, the results will also include account based information. When using RECBYACCT, import errors will be listed in their user supplied accounts (NOT in the firm wide calculation).

The Summary lists each type of haircut charge (e.g., concentration, non-investment, etc.) for each account with account and firm totals.

The TBA log provides supporting information with regards to the hedging of TBAs against other Government (Pool) securities.

The Unhedged Residual report shows those bonds not hedged by other bonds. This report can be used to manually determine which bonds can be hedged with futures. If you are utilizing the MBA relief, this report will also contain 'moved' MBAs that are NEVER hedged against corporate bonds or hedged against government bonds in another maturity band. However, they may be hedged for purposes of computing a surcharge per the December 1996 Salomon no action letter.

The Security Type Changes includes all securities for which type was altered by cusips maintained in the Security Type Changes file.

The Affiliate Debt Report summarizes all affiliated security haircuts.

The MBA Movement Report includes all MBA securities moved from and to different government maturity bands based on the December 1996 Salomon no-action letter.

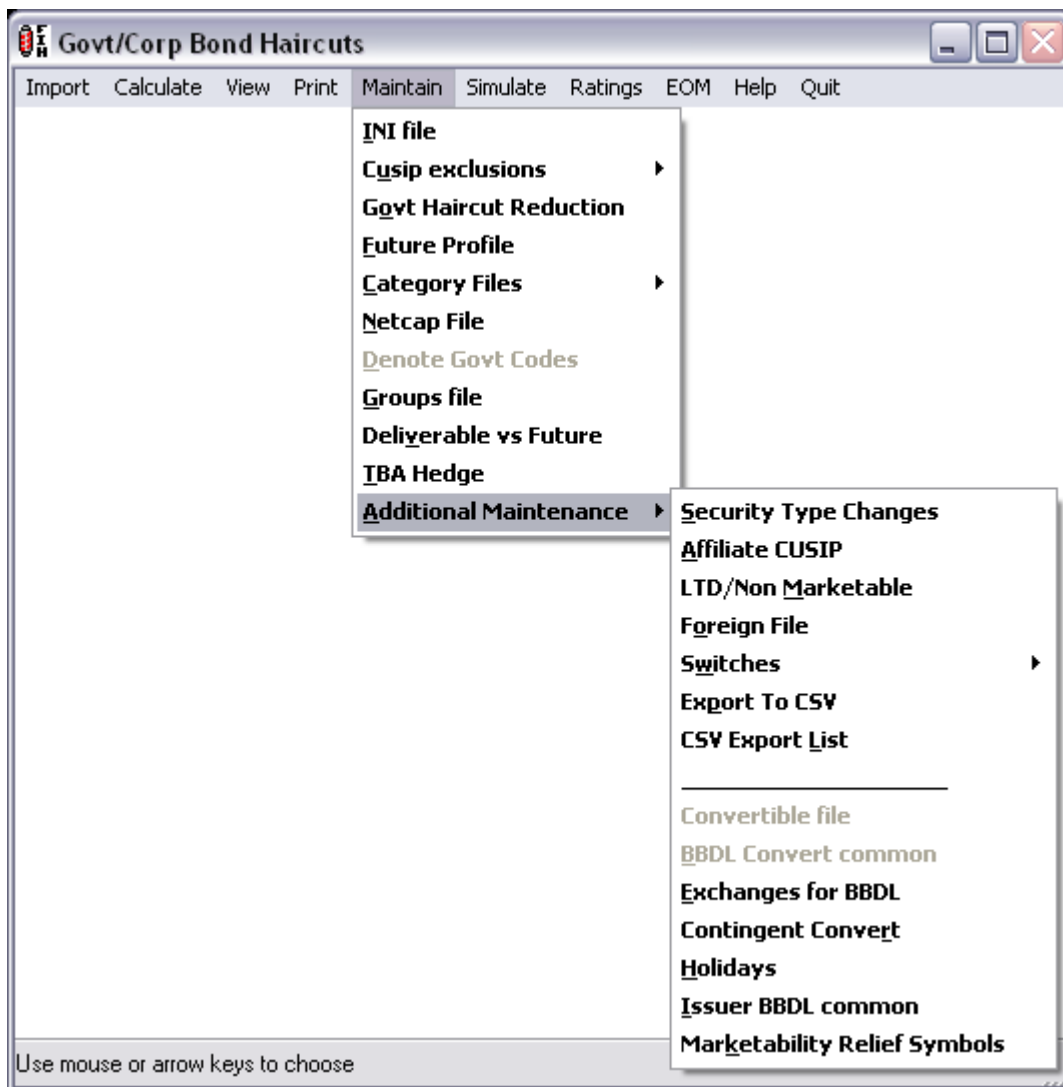
The Fail to Deliver Monitor Report shows projected FTD charges as defined in the INI file.

The Currency Charge Report shows a breakdown of foreign currency concentration charges as defined in the Foreign File table.

The ABS Liquidity Charge report contains all ABS securities from the position file. Long positions NOT haircut at 100% will be charged at a rate specified by the user in the INI file.

The Additional Reports menu pad is now used both in View and Print to make the respective menu more manageable. The reports included in this sub menu are the **ABS Liquidity Charge report**, Exclusion Change report, the OTC Detail report, the Price Difference report, the TBA log, the Unhedged Residual report, the Security Type Change report, Affiliate Debt report, MBA Movement report, Fail to Deliver Monitor report and Rate Difference report.

MAINTAIN



INI file

All INI parameters (items on the left side of the equal sign) are case insensitive and should be entered without spaces. The parameter is followed by an equal sign and the appropriate value is entered to the right of the equal sign. Valid entries are:

144A_CONV enables securities marked as 144A to be treated as convertible
144A_CONV = Y (default = Y)

ABS enables logic for Asset Backed Security relief allowed in July 13, 2001 no action letter.
ABS = Y (default = N)

ABSCHARGE applies to the ABS Liquidity Charge report. Any long ABS positions will be haircut at this percentage if they are not already being haircut at 100%. ABS INI setting must be Y for this report to generate.
ABSCHARGE = 8 (8 = .08% and Default = 0)

ABS144 grants ABS relief for 144A positions
ABS144 = Y (Default = N)

ABSCONSERVATIVE prevents ABS securities from entering the Non ABS Issuance Matrix

ABSCONSERVATIVE = Y (Default = N)

ACCTHCUT will compute haircut charges for each individual account
ACCTHCUT = Y (Default = Y)

ADOBEPRN defines the Adobe printer name
ADOBEPRN = Adobe PDF (Default = Adobe PDF)

AFFDAYS defines the number of days from trade date, on which the affiliated security becomes aged.
AFFDAYS = 3 (Default = 2)

AFFLLOAN= is the market value of long aged affiliated securities other than preferred stock, common stock and convertibles that is offset by a loan and are NOT subject to a 100% charge. These securities will be haircut within the system according to their ratings.
AFFLLOAN = 25000000 (Default=0)

ARB_DISCOUNT can prevent convertible securities trading at a discount from bona fide arb treatment if set to N
ARB_DISCOUNT = N (default = Y)

ASCII will export the OTCHC and ABS Liquidity Charge reports to the PRINT folder. Normally these are PDF only.
ASCII = Y (Default = N)

AUDITTRAIL activates the simulate menu audit trail
AUDITTRAIL = Y (Default = N)

AUTOBBDL allows automatic import of ratings and selection of haircut rates in BATCH mode
AUTOBBDL = Y (Default = N)

BACKUPDIRECTORY defines directory in which INI/switch settings and report files are saved as YYYYMMDD.XXX (e.g., 19990731.dtl for detail); today's position and exclude files are saved in the subfolder BACKUP\ YYYYMMDD; if not defined, the files are retained in the print directory with extension TXT until the system is run again
BACKUPDIRECTORY = .\BACKUP

BATCH number not equal to zero indicates a batch run
BATCH = 3

BBDLCONV to have convertible file items built from Bloomberg Data License
BBDLCONV = Y (default = N)

BBDLFIRM contains Bloomberg Data License firm identifier assigned by Bloomberg
BBDLFIRM = SOMETHING

BBDLIDXFILE defines the full DOS path for the optional Marketability Relief Symbols import file. See discussion in Issuer Bloomberg Common section below. The file must be a CSV file.
BBDLIDXFILE = D:\BOND\IMPORT\MARKETABILITY.CSV

BBDLREPLYFILE contains the path and name for the reply file created by the Bloomberg Data License product
BBDLREPLYFILE = C:\LDBBND\IMPORT\OURFILE.OUT (default = .\import\BBDL.OUT)

BBDLREQFILE contains the request file created for use by the Bloomberg Data License product
BBDLREQFILE = c:\LDBBND\IMPORT\OURFILE.REQ (default = .\import\BBDL.REQ)

BROWSEFONT allows user to pick font size for VIEW windows; 6 is the default size
BROWSEFONT = 6

BROWSER defines location and name of Internet browser if NOT Internet Explorer in default location
BROWSER = C:\WINDOWS\MYEXPLORER.EXE (Default is %Program Files%\Internet Explorer\iexplore.exe)

CONVERTIBLE turns on convertible bond/preferred logic
CONVERTIBLE = Y (default = N)

CONVFILE indicates path and name of optional convertible import file
CONVFILE = E:\FILES\CONVERT.TXT

CUSTFTD defines the number of days required for a customer fail to deliver to become aged.
CUSTFTD = 36 (default = 36)

CUSTFTR defines the number of days required for a customer fail to receive to become aged.
CUSTFTR = 36 (default = 36)

DATADIRECTORY defines the full DOS path for all data base files
DATADIRECTORY = D:\BOND\DATA\

DEFAULTLONG defines the default rate applied to a long non-investment grade bond (default = 1.0)
DEFAULTLONG = 0.50

DEFAULTSHORT defines the default rate applied to a short non-investment grade bond (default = .4)
DEFAULTSHORT = 1.00

DELIMITER define data delimiting character in report export files
DELIMITER = TAB or BLANK or SDF (COMMA is default); SDF produces column delineated output

DOOTC will compute OTC haircut charges. See OTC Haircut Logic section
DOOTC = Y (default = N)

EOMDATA defines the full DOS path for the EOM MODE database files
EOMDATA = C:\BOND\EOMDATA

EXPORT = Y allows the system to export the Recap, Balance, Position, and any database files in the CSV Export List to the PRINT directory.
EXPORT = Y (default = N)

FDIC defines the expiration date for FDIC guarantee relief in MM/DD/YYYY.
FDIC = 12/31/2012 (default = 06/30/2012)

FIRMFTD defines the number of days required for a firm fail to deliver to become aged.
FIRMFTD = 5 (default = 5)

FIRMFTR defines the number of days required for a firm fail to receive to become aged.
FIRMFTR = 31 (default = 31)

FIRMHCUT will haircut all positions for a firm as one large account. (default = Y)
FIRMHCUT = Y

FIRMNAME the name the user wishes to appear on reports
FIRMNAME = LDB CONSULTING, INC.

FIRMNET net positions when doing firm haircut
FIRMNET = Y (default = N)

FTDLONG defines Fails to Deliver as Long or Short; Long is the default
FTDLONG = N (default = Y, indicating Long position in a Fail is a Fail to Deliver)

GRPACCT allows the system to place any account NOT in the Groups file into a single account Group
GRPACCT = Y (default = N)

GRPBATCH tells Batch mode to run groups only; see GRPACCT also
GRPBATCH = Y (default = N)

GVSFLIST allows futures to be hedged by government securities defined in the Deliverable vs. Future menu pad.
Please note that unhedged futures will NOT be netted.
GVSFLIST = Y (default = N)

GVSFFILE defines the full DOS path for the optional Deliverable VS Future import file. See discussion in Deliverable VS Future section below. The file must be a CSV file.
GVSFFILE = D:\BOND\IMPORT\GVSFLIST.CSV

HELPDIRECTORY defines the full DOS path for the online manual
HELPDIRECTORY = D:\BOND\HELP

IMPORTDIRECTORY the full DOS path for all files to be imported
IMPORTDIRECTORY = D:\BOND\IMPORT\

INCREMENT indicates size of a 1 lot; has speed and haircut implications; see the discussion in the haircut section
INCREMENT = 1000 (default = 1000)

JTORBH moves convertibles and paragraph J securities to Risk Based Haircut system; see discussion below
JTORBH = Y (Default = N)

MBA = 1 The MBA parameter activates MBA relief defined in the December, 1996 Salomon no-action letter. MBA = 1 moves all qualifying MBAs except for those which would move to a HIGHER maturity category (Default = 0)

MBAFASTEST allows the system to remove all possible bonds (in MBA optimization) once it determines the best pair for haircut reduction
MBAFASTEST = Y

MBAINCREMENT indicates size of a 1 lot in MBA optimization; has speed and haircut implications; see the discussion in the haircut section
MBAINCREMENT = 1000 (default = 100000)

MIXFGN tells the system if it can hedge positions from different countries.
MIXFGN = Y (default = Y)

NI144 allows 144A bonds with 2 or more non-investment grade ratings to qualify for matrix relief.
NI144 = Y (default to Y)

NICONV_J allows all non-investment grade convertibles that are NOT converted to go to paragraph J
NICONV_J = Y (default = N)

NIDISCJ includes non-investment grade convertibles that are trading at a discount in the NICONV_J logic above
NIDISCJ = Y (default = Y)

NOBBDLRATE defines default haircut rate for NEW cusips in BATCH mode when AUTOBBDL = N
NOBBDLRATE = 1.00 (default = 0)

ONESCREEN allows user to verify ratings via a single screen
ONESCREEN = Y (default = N)

OTCTIMENW indicates if net worth adjustment should be based on time value rather than intrinsic value
OTCTIMENW = Y (default is Y)

PASS indicates pass 1, pass 2, or both (enter a 3)
PASS = 3 (default = 1)

PCC=Y computes portfolio concentration per July 27, 2000 portfolio concentration no action letter
PCC = Y (default = N)

PDFERASE deletes all of the previously created PDF reports within the Adobe port directory.
PDFERASE = Y (default = N)

PDFREPORT creates PDF reports in addition to the text files automatically created with each run.
PDFREPORT = Y (default = N)

PDIFF defines the smallest difference to check for when preparing the Price Difference report.
PDIFF =1.00 (0.01 is the default)

POSFIL name and location of ASCII position file to import
POSFIL = F:\DATA\OURPOS.DAT

PP_RATINGSFILE name and location of Pari Passu ratings file
PP_RATINGSFILE = C:\Bond\Import\PP_RATINGS.TXT

PRINTDIRECTORY defines the full DOS path for all print files
PRINTDIRECTORY = D:\BOND\PRINT\

PROJCAP percentage of TNC to use as threshold for flagging fail projections in the FTD Monitor report
PROJCAP = 50 (50%) (default = 0)

PROJFAIL is the number of days for which to project FTD charges on the FTD Monitor report
PROJFAIL = 30 (default = 0)

PURGEEEXCL will purge the Excluded Cusip file each time the system is run in Batch mode
PURGEEEXCL = Y (default = N)

RBHDATA DIRECTORY defines location of RBH data directory for JTORBH functionality
RBHDATA DIRECTORY = D:\RBH\DATA

RECBYACCT generates a Reconcile Report based on both Account and Firm wide data when ACCTHCUT is set to Y.
RECBYACCT = Y (N is default)

SMALLEST defines smallest bond market value to be included in hedging analysis
SMALLEST = 100000

TBAYEAR adds the Additional Years from the TBA Definition file to the Maturity Year in the position file
TBAYEAR = Y (default = N)

TEMPLATEDIRECTORY defines the location of the template directory (where backup database files are stored).
TEMPLATEDIRECTORY = D:\BOND\DATA\TEMPLATE\ (default is inside of the DATA directory)

USEXPCTD is used to tell the system to accept Expected Ratings
USEXPCTD = Y (default = N)

Cusip Exclusions

This file contains the cusips of bonds that are in the position file but may not be haircut using the nonconvertible percentages in 15c3-1. The user may enter the proper haircut percent for long and short positions; in that case, excluded bonds will be included in the account total haircut and will be listed in the Non-Investment Grade report. Set I_MATRIX to Y or T (for true) if the security is to be haircut according to the issuance size matrix; all securities in the same cell are accumulated and the cell's haircut is based on the greater of the long and short securities within the cell. **See the Ratings and Import sections for a discussion of automating the setting of special haircut rates.**

Cusips for ANY security type may now be entered in the Cusip Exclusion file, allowing non-default rates to be applied to any security in the fixed income system.

The entire exclusions file may be purged by selecting the “purge entire exclusions file” option in this menu pad.

Govt Haircut

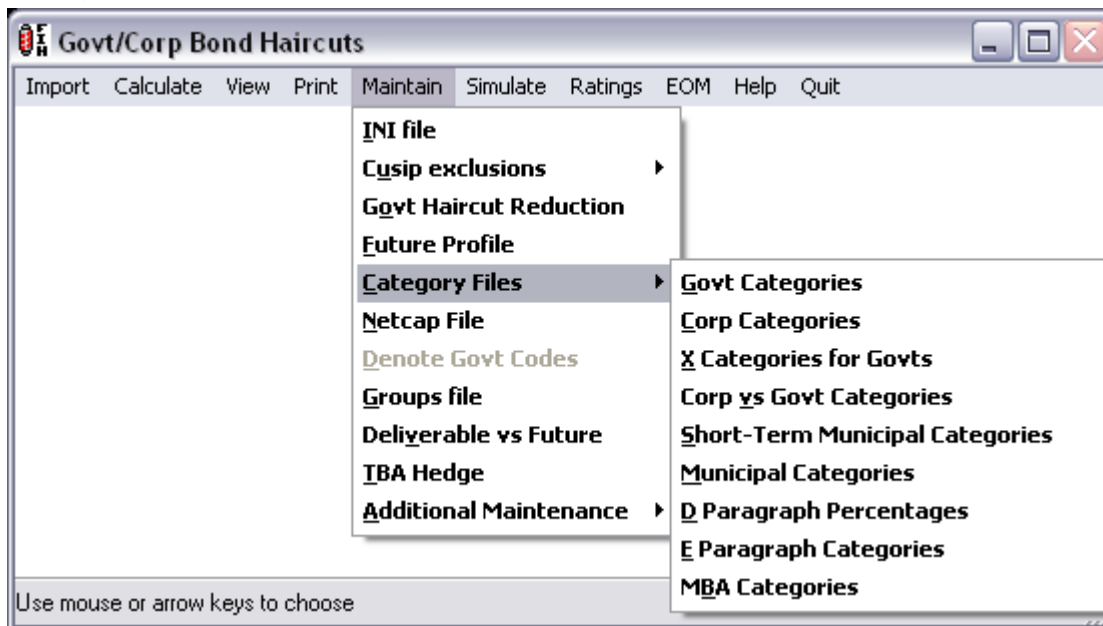
If net capital is greater than a certain amount, certain government securities dealers may reduce their government haircut by a given percentage. The user may enter that percentage here. Any firms who do not qualify for that reduction should either NOT be entered in this file or should have a zero entry in the file. The entry should be made for any firms that qualify for the reduction.

Future Profile

Since futures do not have cusips assigned to them, the Future Prefix file defines prefixes for futures, such as BND for bond futures and NOT for note futures. Enter the minimum days to maturity that the future will hedge, the maximum days to maturity that the future will hedge, the future’s multiplier, the capital charge to be used if the future is naked, and the 6-character cusip prefix for those securities that may be hedged by futures. **The system cannot tell which government securities are deliverable against futures unless the Deliverable vs. Future file is populated. Therefore, it hedges futures against ANY government security for which the maturity falls within the maturity band defined for the future in the Future profile file and for which the cusip matches the cusip prefix in the Future profile file. If the system hedges against ineligible securities, you should remove futures from your analysis.**

When this manual was first written, the CBOT web site said that bonds with a maturity of 15 years or more were deliverable against their bond futures. Notes with a maturity of 6.5 years to 10 years were deliverable against CBOT 10 year note contracts. Notes with a maturity of 4 years 3 months to 5 years 3 months are deliverable against CBOT 5 year note contracts. **Users should verify on their own that these maturity bands are proper.**

Category Files



The following category files may be edited. They are defined by the rule and **should not be changed unless the rule changes or you disagree with the days used to represent the months stated in the rule:**

- Govt categories
- Corp categories

X categories for Govts
Corp vs. govt categories
Short-term Municipals
Municipals
Paragraph D securities (certain Municipal bond trusts and liquid asset funds)
Paragraph E securities (commercial paper, banker's acceptances and certificates of deposit)
MBA categories as defined in the 1997 Salomon no action letter

Note: all percentages are entered as decimal fractions. That is, 25% is entered as 0.25.

Note: days to maturity greater than or equal to minimum days and less than or equal to maximum days ARE INCLUDED IN A CATEGORY. When days of separation are used, two bonds are matched if the difference in their days to maturity is less than or equal to the days of separation. It is assumed there are 91 days in 3 months, 182 days in 6 months, 273 days in 9 months, and 365 days in a year.

Govt categories

This file contains category number, maximum days per category, haircut percent per category, and category description. Each record represents a sub-category as defined in the rule and the category number indicates which sub-categories may be combined when computing the category haircut. The haircut percentages in these records are used for government haircuts and Canadian debt haircuts. Paragraph E securities with a year or more to maturity use these percentages, but they are STORED IN THE PARAGRAPH E FILE. **Changes must be made in both places.**

Corp Categories

This file contains corporate category number, the haircut rate for bonds in the category, the haircut percentages for hedging bonds in the category against other corporates and governments, and a description.

X Categories for Govts

This file contains minimum maturity in days, maximum maturity in days, and separation in days for government bonds in different categories to be offset against each other.

Corp vs. Govt Categories

This file contains minimum maturity in days, maximum maturity in days, and separation in days for government and corporate bonds to be offset against each other.

Note: the descriptions in the Govt Categories and Corp Categories files are used in the Investment Grade and detail reports.

Short-term Municipal Categories

This file contains the short-term municipal category, maximum days to maturity for the category, the haircut percentage and a description. This file should be used for municipal securities with maturity at date of issue of 731 days or less (Type = S).

Municipal Categories

This file contains the municipal category, maximum days to maturity for the category, the haircut percentage and a description. Municipals with more than 731 days to maturity at date of issue are included here (Type = M).

D Paragraph Percentages

This file contains the paragraph number and haircut percentage. The user must specify via security type whether the security gets treated according to paragraph (c) (2)(vi)(D)(1), (D)(2) or (D)(3). (Type = 1, 2 or 3). This category includes certain municipal bond trusts and liquid asset funds.

E Paragraph Categories

This file contains the paragraph E category, maximum days to maturity for the category, the haircut percentage and a description. (Type = E) This category includes commercial paper, banker's acceptances and certificates of deposit.

MBA Categories

In order to take advantage of the December, 1996 MBA/Salomon no-action letter, appropriate price level and surcharge rates are maintained in this file.

NETCAP File

The system will compute undue concentration for any corporate bond, municipal bond or preferred stock position (security type = C or P in the position file) for which the value exceeds 10% of the firm's tentative net capital. You may enter 10% of your tentative net capital in this file. Include any firm numbers for which you want concentration charges calculated. Undue concentration in an account run is computed on the basis of each account's position, not the total position of the entire firm in the security. In other words, a firm run may show undue concentration, but an account run may not if each account holding the security holds less than an unduly concentrated amount.

If PCC = Y in the INI file, portfolio concentration charges will be computed for non-investment grade bonds, as outlined in the July 27, 2000 Portfolio Concentration Charge no action letter. All corporate and preferred securities that are haircut at a rate greater than 15% and less than 100% are included in the calculation.

Please note that undue concentration for Municipal securities is computed.

Groups file

The user may define arbitrary groups of accounts via this function. Current firm and account are entered and associated with a new group firm and new group account. The Groups item in the Calculate menu computes haircuts for these user-defined groups.

Deliverable vs. Futures

The user may indicate by cusip which government securities are deliverable against futures within the position. At the user's option, a CSV file may be imported while importing the position file. The GVSFFILE INI setting must be active and the file must exist in order for this functionality to work.

TBA Hedge

The user may define eligible hedging (Pool) securities for each TBA. Multiple entries are required for TBAs with multiple hedging securities. The TBA is identified in the PRODUCT CODE field and the hedging security in the HEDGE CODE field. There is also an Additional Years field for users choosing to enable the TBAYEAR INI setting. See the note in the Position File Layout section.

If utilizing the MBA relief afforded in the December 30, 1996 Salomon no-action letter, users must enter either 30, 15 or OTHER in the MBA_CAT field. OTHER should be used for eligible 5 and 7 year balloons. Leave this field blank if the product is NOT eligible for the relief. Leave the HEDGE_CODE field blank to skip TBA hedging relief.

Security Type File

Users may enter a cusip or cusip prefix in this table along with the corresponding current security type and the new security type. The application will change all occurrences of this prefix/old_type combination to the new security type. This will occur during import when the security type change report will be generated. Corporate positions in the ratings file with a collateral type of FDIC and a maturity date less than or equal to 6/30/2012 will be added to the security type file and their type will be changed to G. Users need to police the type change file for possibly incorrect indications of a security's FDIC guarantee. When a non-highly rated bond is fed to the system as type C (corporate), it is placed into the Cusip Exclusion file. If that bond is later reclassified as a G (perhaps because it is a CAT or an FDIC backed bond), the user must manually remove the cusip from the Cusip Exclusion file. The Fixed Income system only removes type C corporate bonds when they become highly rated. Failure to remove the cusip will result in a higher than applicable charge.

Affiliated Cusip

Users may enter the firm number and cusip or cusip prefix for affiliated securities. Aged cusips will be netted and the system will apply a 100% haircut to net long positions and the rate defined by DEFAULTSHORT (INI entry) to net short aged securities that match this firm number and cusip prefix combination.

The default is 2 days (or more) past trade date for aging. The user may change this setting via the AFFDAYS INI entry. Positions in affiliated preferred stock, common stock and convertible bonds are not given the 2 day relief by the system and are treated as aged no matter how long they have been held.

Long affiliated securities may be offset by a loan. See AFFLLOAN in the INI section.

LTD/Non Marketable

Users may enter cusip numbers for any securities eligible for the fail to receive relief outlined in the July 13, 2001 no-action letter (Marketable Securities Outstanding Less than 30 Business Days).

Foreign File

When including the currency code symbol in the position file, you must enter a corresponding currency concentration percentage in this file that will be applied to the net value of that currency position, even if the percentage is zero.

Switches

Please see the Simulate mode and the EOM menu discussions later in this manual.

Export To CSV

Users may navigate to and select data base files (files with extension .dbf) to export. The newly created CSV file will be placed into the user defined PRINT directory and will have the same name as the selected file. We believe all of the records from the DBF will be contained within the CSV file, although Microsoft Excel has a limit of 65,000 records which may hinder the user's ability to see all of the records when opening the file in Excel.

CSV Export List

Users may maintain a list of names for database files to export to CSV when the EXPORT INI entry is turned on. The program will look in the user defined DATA directory for the files in this list. The newly created CSV file will be placed into the user defined PRINT directory and will have the same name as the selected file. We believe all of the records from the DBF will be contained within the CSV file, although Microsoft Excel has a limit of 65,000 records which may hinder the user's ability to see all of the records when opening the file in Excel.

Convertible File

The user may view and alter the convertible security parameters needed to determine proper haircut treatment for these securities. The user can view, but **NOT** alter the WHO, WHEN, FLAG144 and COMMONEXCH fields. If using Bloomberg data license to populate this file, these fields are used to determine if the convertible is readily convertible and if the underlying common stock is readily traded. If the user populates this file, THESE FIELDS ARE IGNORED AND IT IS ASSUMED THAT ONLY SECURITIES ELIGIBLE FOR CONVERTIBLE ARBITRAGE TREATMENT ARE INCLUDED IN THE FILE.

Bloomberg Convert Common

If the user utilizes the Bloomberg Data License facility to populate the convertible file, she must identify all common stock in the position file using a symbol rather than a CUSIP. If the underlying common symbol from Bloomberg does NOT match the symbol in the position file, the user may maintain a list of symbol equivalencies in this file. If the Bloomberg provided symbol is in this file, the system will use the OUR_SYMB value in the convertible file.

Exchanges for BBDL

When using the Bloomberg Data License interface, the common stock exchange for convertible securities will be retrieved. This file should contain the values for exchanges that indicate the common is readily tradable. This is needed for 144A convertibles.

Contingent Convertibles

Contingent convertible cusips may be maintained in this file. The "MET?" field may be set to Y or N to reflect the status of the contingency. A value of N will exclude the convertible from bona fide arb treatment. If the contingency has been met, enter Y in this field. The user may reset ALL "MET?" entries in this file by hitting Shift+F1 to set them to Y or Shift+F2 to set them to N. An optional description may be entered.

Holidays

The user may enter the dates of business holidays. These entries will be used in computing elapsed business days in the affiliated debt and fails logic. If not holidays are entered, all weekdays will be considered business days.

Issuer Bloomberg Common

If the "issuer common symbol" field is populated in the ratings file and BBDLIDXFILE (INI setting) is defined, the underlying common symbol from Bloomberg may NOT match the symbol in the Marketability Relief file. The user may maintain a list of symbol equivalencies in this file. If the Bloomberg provided symbol is in this file, the system will use the OUR_SYMB value when it checks for Marketability Relief within the Marketability Relief file.

Marketability Relief Symbols

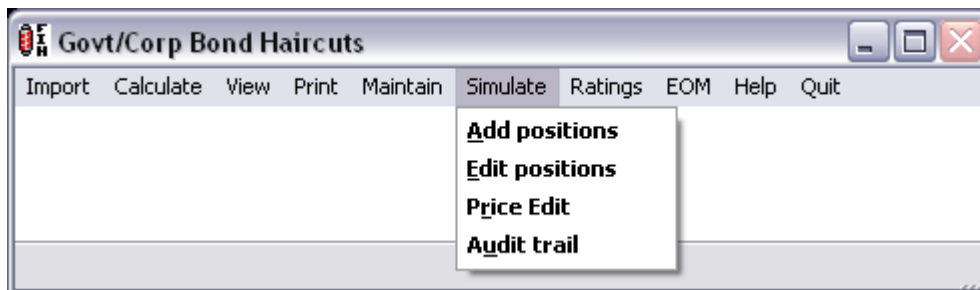
When including the issuer's common stock symbol in the ratings file, the system will reference the Marketability Relief Symbols table. The Marketability Relief no-action letter provides relief per the issuance size matrix for debt securities whose issuers have common stock listed on a national security exchange or NASD, the common is included in the FTSE World Index, or the common is included in the S&P500 Index. If the Issuer Common symbol in the ratings file matches an entry in this file, the system will consider the bond for relief based on these 3 flags. 144A securities require the common to be in the S&P500 or in the FTSE. Non 144A securities require the common to be listed on an exchange or in the FTSE. Beginning with version 10.0 more data is now required to determine market relief. Please make sure to populate these additional fields so the system can properly determine market relief.

The user may define a CSV file via the BBDLIDXFILE setting in the INI file. That CSV file will be imported during position import and populate this file. Any eligible stock symbols may be entered in this file.

As of 1/20/2006, this site allows users to download a list of stocks trading on the NYSE, AMEX or NASDAQ:
<http://www.sharpscreen.com/sharpscreenlite/default.htm>

The following link lists all of the stocks on NYSE by region (corporate location):
http://www.nyse.com/international/nonuslisted/int_listed.html?ListedComp=All

SIMULATE



The system is intended to haircut only those positions contained in the POSITION IMPORT file. However, it may be necessary for users to alter positions due to out trades or processing errors or to perform simulations to determine the effects on capital of certain potential trades. The simulate menu pad allows for this.

The user may either EDIT POSITIONS or ADD POSITIONS.

The user may not delete records. Rather the user should adjust the quantity to zero.

When ADDING positions, the user must supply all required fields for the new position to be properly haircut. Those fields are:

Firm: numeric firm clearing ID

Account: account designation

Mty_year: 4-digit maturity year

Mty_month: 2-digit maturity month, 01 through 12

Mty_day: 2-digit maturity day, 01 through 31 (day validity for a given month is NOT checked)

Cusip: cusip

Quantity: quantity

Price: market price for security

Type: security type, C for corporate bond, G for government bond, F for future, S for short-term municipal, M for Municipal, D for Canadian debt, 1,2 or 3 for paragraph D securities, E for paragraph E securities, P for Preferred securities, K for common stock and J for corporate bonds that belong in Paragraph J.

Failed securities will also require entries in the Fail to Del, settle year, settle month, settle day and ORIG_CONT fields. TBA securities will require entries in the TBA flag, product code and coupon fields.

Each field entry is completed by hitting the ENTER or TAB key.

All added records are marked as modified in the position listing.

EDIT POSITIONS shows the user the entire simulation file. The user may position herself on the record that needs to be amended and hit CTRL+END to select that record. The edit screen reappears with the selected record. The same data listed for ADD may now be altered. Any record selected for EDITING will be marked as modified in the position listing.

PRICE EDIT allows the user to change the price of a security for every occurrence of that security with a single entry. Users who need to maintain separate prices for short/long positions in a specified security should use EDIT POSITIONS since they may NOT want to change all occurrences to the same price.

In order to haircut the simulated position, return to the IMPORT menu and select SIMULATED FILE IMPORT. The simulated file will replace the original position database in the system and will also be retained in the simulation database. If the added entries contain errors, **the user may return here and fix the errors or may reimport the position file.**

Use of simulate mode in the Maintain menu Switch pad will protect against accidental erasure of simulated changes through an inadvertent import of the original position file. This mode deactivates the Position file Import and Ratings Import pads on the Import menu.

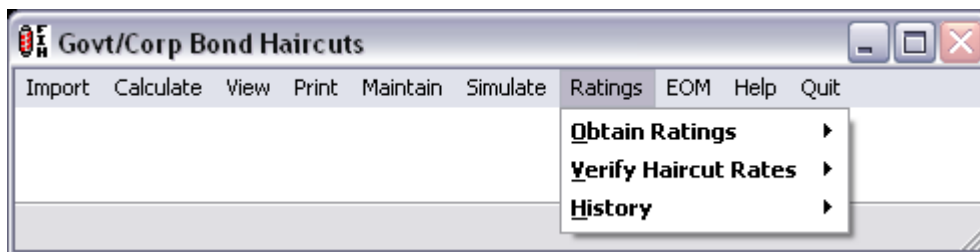
Erroneous entries are deleted from the position database but are retained in the simulation database. **As stated above, a position should not be haircut until all errors are corrected.**

NOTE: Any positions modified/added by the user will contain an asterisk on the far right side of the position report.

NOTE: When adding/editing future positions, enter the number of futures times the contract multiplier as the quantity.

The Audit Trail entry will generate the Audit Trail report. If AUDITTRAIL = Y in the INI file, all alterations via the simulate menu are tracked and can be viewed using this report. Audit trail entries contain the date and time of alteration as well as the user name doing the alterations. The audit trail file is cleared when a new position file is imported

RATINGS



The Ratings section has been implemented to assist users in determining the proper haircut percentages for corporate securities. This section is currently designed to interface with the Bloomberg Data License product, an offering of Bloomberg L.P. This product requires a separate license and is distinct from the Bloomberg terminal. Please contact Bloomberg with technical/product/pricing questions. I suggest contacting Brian Okupski, Sales Manager – Data License, 212-318-2200 bokupski@bloomberg.net

The Ratings section creates an FTP request file in the format required by Bloomberg Data License. The file that is created may be altered via a text editor in such a way that it can be used via the Bloomberg terminal as a DSND or Send File. The ratings sections will ALWAYS request the following fields from the Bloomberg Data License product for issues with security types C and P: SECURITY_DES, NAME, RTG_MOODY, RTG_SP, RTG_DBRS, RTG_FITCH, 144A_FLAG, AMT_ISSUED, SERIES, SECURITY_TYP, RTG_AMBEST, MTG_SMMEA_STAT, DEFAULTED, and CORP_TO_EQY_TICKER. When providing this last 4 fields, users must either provide the convertible bond fields described in the ratings file layout or minimally provide blank fields for each expected convertible field. Users may select other fields to download for their own use, but must create their own parsing routines. If the user opts for convertible data from Bloomberg, the convertible fields shown in the Ratings file format below will also be requested. The Fixed Income system will NOT parse fields beyond those listed here. It is critical to match the CORP_TO_EQY_TICKER to the symbol defined in the Marketability Relief Symbols file.

To properly use the Ratings function, import your position file. Go to the Ratings/Obtain Ratings section. Create the REQ file. FTP the file to Bloomberg, and then Import the Ratings into the Fixed Income system. At this point, the new ratings are contained in the history file and contain the system's best estimates of proper haircut rates. The goal is to review these rates in the History file and post them into the Cusips Exclusion file.

You MUST review all ratings via the Verify rates menu pad. Review ALL categories individually: 144A and Non-144a; new, changed and unchanged. When satisfied with each category, respond Y to the 'Update History with these Haircut rates?' question. Your data for that category will be retained in the history file. When you have verified all categories, you should then select Ratings\ Verify Haircut Rates\ Update Rates. This will create entries in the Cusips exclusion file for each security that's long or short rate is NOT zero (zero indicating that a security may be hedged against government and other corporate bonds) and generate a report showing all the changes to the Cusips Exclusion file. You may examine these settings via the Maintain menu.

If you utilize the Ratings and Rates selection in the Import menu, the system will do this review for you automatically. If ONESCREEN = Y in the INI file, ALL cusips will be presented on a single screen and will obviate the need to look at multiple windows.

Obtain Ratings



Select fields

The Fixed Income system includes a list of fields for the Bloomberg Data License product. This list was downloaded in early July of 1999. Those fields that pertained to fixed income securities were retained in the system and can be accessed via this menu selection. The Mnemonic and Description fields are displayed and the user may indicate which security types should request a given field by entering a Y or T (true) in the appropriate security type field. Security types 1, 2 and 3 are indicated as fields P1, P2 and P3 in this screen. When the request file is created, the requested fields will be added in alphabetical order by description to the FIELDS section of the request file immediately after those fields mentioned above which are ALWAYS downloaded.

Users need to access this screen **only** if they are require Bloomberg Data License data in addition to the fields listed in the Ratings and Convertible Arbitrage Logic sections of this manual.

Create REQ file

The user selects this menu item to create the request file for the Bloomberg Data License product. The BBDLFIRM parameter in the INI file will be recorded in the request file. The name and location of this file are contained in the BBDLREQFILE parameter in the INI file. The output request now includes Collateral Type for FDIC positions.

Import Ratings

The reply file defined by the BBDLREPLYFILE entry in the INI file is imported into the ratings history file. If an imported security has no previous entries in the history file, it is marked as NEW and will only be accessible via the Verify Haircut Rates section when NEW securities are chosen. The date from the position file is used as the date retained in the history file. Only information for corporate bonds, preferred stock, and Type E (security type = C, E or P) will be imported into the system. If you are providing your own ratings information from an alternative source, you may include Municipal securities to allow the system to identify variable rate municipals and haircut them at 1%.

If any corporate or preferred cusips in the position file are NOT contained in the Bloomberg Reply file, the system will add these missing cusips as NEW securities in the 144A section so that they are available for action by the user.

If the user wants to pass information to the ratings system without directly utilizing the Bloomberg facility, he may populate a reply file with the information outlines in the Ratings File Layout section below. If not using Bloomberg, there is obviously no need to create a Request file. Rather the user would import his own ratings file.

Verify Haircut Rates



This section allows the user to review haircut rates for securities and to update the Cusip Exclusion file. After selecting either the 144A or Non-144A universe, the user may peruse either:

- 1) NEW securities (with no previous entry in the history file),
- 2) CHANGED securities (for which the ratings, 144A flag or issuance size has changed since its last entry in the file),
- 3) UNCHANGED securities (for which the ratings, issuance size and 144A flag have NOT changed since its last entry in the file)
- 4) BOTH CHANGED and UNCHANGED securities.

Or the user may select ALL RATINGS in order to view all categories within both universes simultaneously.

The selected universe of securities is copied to a work area. If there is a previous file entry for a security, it is also copied to the work area. The LONG, SHORT haircut rate fields and the I_MATRIX field are filled with their previous values if the rating parameters have NOT changed since its last entry in the file. If the rating parameters HAVE changed or if the security is new, the system attempts to calculate the proper haircut rate. However, if either haircut rate in the historical file is NOT equal to zero, the historical rates are retained and the system DOES NOT attempt to recalculate the rate. The rates would not be zero only if the user had already verified this universe and opted to update the historical file.

When fields used to determine proper haircut treatment are added to the Ratings Reply file, ALL cusips will be considered CHANGED since there were no entries for these cusips in the past. This will entail carefully reviewing the Exclusion Change report to override any rates previously overridden by the user.

Please also note that if INI settings that alter treatment (e.g., NI144, ABS144 and ABSCONSERVATIVE) are set or reset, only securities with CHANGED ratings information will be evaluated for treatment according to these settings. **The user may wish to purge the entire Ratings data base prior to first setting these switches.**

Type E securities are assumed to be investment-grade if no rating record exists for the cusip. If a rating record is present in the ratings file, the system will look at the Moody's, S&P, and Fitch rates. If Two of these agencies have rated the security in the top THREE categories for COMMERCIAL PAPER (and only CP), it will be classified as investment-grade. If there is a rating record, and the position is not rated in the top three categories by at least two agencies, it will be classified as non-investment-grade.

NOTE: ONLY COMMERCIAL PAPER RATINGS SHOULD BE SUPPLIED. C/Ds and other type E securities are not handled by the ratings logic.

If the system is attempting to update rates, it counts the number of rating services that rate the security in the top 4 investment grades (Aaa through Baa3 for Moody's and AAA through BBB- for all other raters). It also counts how many services rate the security C or better and how many rates the security in the top 2 ratings. If there are at least two services that rate the security in the top 4 investment grades, or if there is at least one service that rates the security in the top 2 and is classified as SMMEA or ABS, its haircut rates are set to zero. ZERO HAIRCUT RATES INDICATES THAT THE SECURITY MAY BE HEDGED WITH CORPORATE OR GOVERNMENT BONDS. NON-ZERO HAIRCUT RATES WILL INCLUDE THE SECURITY IN THE CUSIP EXCLUSION FILE AND THE EXCLUSION CHANGE REPORT. THE RATINGS DIFFERENCE REPORT WILL REFLECT THE POSITIONS HAVING A RATE OR AN I_MATRIX SETTING NOT MATCHING THE SYSTEM'S ASSUMPTION.

Bloomberg now offers expected ratings. While these ratings CAN NOT be used to provide haircut relief, the system will store these ratings for documentation purposes ONLY. Any rating that comes into the system with a lowercase 'e' will be treated as an expected rating and ignored in computing relief. If providing expected ratings you must set USEXPCTD = N in the INI file. The system will add an Uppercase 'E' to the beginning of these in the ratings history file. This switch is here in case the SEC one day allows expected ratings to be considered for relief.

The system examines the SECURITY_TYPE field and decides if the security is eligible for the ABS relief afforded in the July 13, 2001 no action letter regarding asset backed securities. Entries in the SECURITY_TYPE field for ABS, CMO, MBS or CMBS will identify the security as eligible for this relief. If the security is an ABS and it has one rating in the 2 highest and an initial issuance size of \$100 million, it is eligible for hedging against other corporate bonds. If an ABS fails this test, it will be haircut using the matrix from the no action letter if the ABS has at least 1 rating in the top 4 investment grades. **This functionality is enabled by setting ABS = Y in the INI file.**

If ratings information from an alternate source is provided, municipal securities may be included. SECURITY_TYPE is examined for VRN (Variable Rate Note) and corporate securities with this value are haircut at 2% while this type of municipal is haircut at 1%. These entries are added to the Cusip Exclusion file.

If there are NOT 2 ratings in the top 4 investment grades, the system determines if the bond is a 144A issue. If the 144A flag is Y, the Series is 144A OR the 1st four characters of SECURITY_TYPE are PRIV, the bond is considered a 144A issue. If there are at least 2 non-investment grade ratings (per 7/27/2000 Marketability no action letter), or the issuer's common symbol is deemed acceptable (according to the entries in the Marketability Relief table), the bond is assigned a haircut rate according to the issuance size matrix if the NI144 switch is set to Y. The NI144 INI setting defaults to Y. Otherwise, the long haircut rate is set to 1 (100%) and the short rate is set to .40 or the value specified in DefaultShort in the INI file. If the bond is not a 144A issue and it is rated by at least two rating services, its haircut rate is determined by its issuance size and the I_MATRIX field is set to TRUE. Otherwise its long rate is set to 1 (100%) and the short rate to .40 or the value specified in DefaultShort in the INI file. At this time there is insufficient available information to better classify the 144A securities.

Any securities with the default flag set to Y are automatically set to 1 (100%) for the long rate and to .40 (40%) (or the DEFAULTSHORT rate) for the short.

Pari Passu relief can be given via the issuance size matrix if another bond from the same issuer meets certain requirements. 144A securities qualify if they have two ratings in the top four on another issue of the issuer. Non 144A will qualify if two ratings on another issue of the issuer are found. The system now accepts a Pari Passu Ratings Relief file as an input to recognize this relief. The format of this file can be found below in the Pari Passu Ratings File Layout.

The user may alter any of the haircut rates for the latest historical date. These changes will override the system's computed rates. The I_MATRIX field should be set to T (true) if the security is haircut based on issue size. The system will accumulate all securities with I_MATRIX = T and the same haircut rate. These holdings should represent all the securities within a single cell of the issuance size matrix. The haircut for the cell will be the appropriate percentage applied to the greater of the long or short holdings within the cell. If an entry has I_MATRIX = T, the long and short haircut rates should be equal. If not, they will be flagged on the Exclusion Change report: the first character of the comment field will be an asterisk.

When the user closes the view screen, he is asked if he wants to update the history file. A 'Y' response results in the history file being updated by the data in the work area. An 'N' response leaves the history file untouched.

In order to assure that ALL haircut rates are correct, the user MUST examine all six basic categories and respond Y to the 'Update history file question?' for each category. The six basic categories are 144A new, changed and unchanged; and non-144A new, changed and unchanged. When using the Ratings and Rates pad in the Import menu, the user need NOT examine all categories: that is done automatically at import.

If ONESCREEN = Y in the INI file, ALL cusips will be presented on a single screen and will obviate the need to look at multiple windows.

144A Ratings

This item allows the user to peruse only those items determined to be 144A issues.

Non 144A Ratings

This item allows the user to peruse only those items determined NOT to be 144A issues.

Update Rates

This function checks the date of the position file and uses entries from the historical ratings file with the same date to update the cusip exclusion file. The Exclusion Change report is generated and includes all new entries, deleted entries and entries from which the haircut rates have changed since the last run. ANY ENTRY IN THE HISTORICAL FILE WITH BOTH LONG AND SHORT RATES EQUAL TO ZERO IS **NOT** ADDED TO THE CUSIP EXCLUSION FILE. **If the new/altered entry in the exclude file has I_MATRIX = T and the long and short haircut rates are NOT equal, the comment field on the Exclusion Change report will contain an asterisk in the first character.**

The Ratings Difference report is also generated and includes all positions having an issuance matrix flag, or a haircut rate differing from the assumption made by the system's ratings analysis.

History



View History file

The user may view the file in either CUSIPDATE (all entries for a cusip together in date order) or DATECUSIP (all entries for a date together in cusip order) order.

Bulk History Purge

The user may wish to purge old entries from the historical ratings file. When entering this function, the user is shown the oldest date in the file. The user may then indicate the oldest date to keep. All entries with a date prior to the input date are deleted and the file is packed.

Single Day History Purge

The user may wish to remove a single date from the historical ratings file. When entering this function, the user is shown the oldest and newest dates in the file. The user may then indicate the date to delete. The user must affirm the input date, after which all entries with a date equal to the input date are deleted and the file is packed.

List date in History file

The user may print a report of all downloaded and altered information in the history file for a specific date. If run for a date for which the rates have not been verified, there will be NO values for the long/short haircut rates in the report. When run after rate verification, the rates will reflect what the user has verified for the given date.

EOM Mode



EOM or End of Month mode is used to segregate end of month data (excluded cusips and positions) from daily data so users can continue to process daily charges while isolating EOM data. The EOM data used for FOCUS can be examined and corrected without interfering with daily processing.

To utilize this functionality the user should click on COPY CURRENT FILES TO EOM DIRECTORY then go to Maintain/Switches and click on EOM. The COPY copies the audit trail files, the simulate files and the cusip exclusion files to the EOM directory defined in the INI file. When in EOM mode the user may import only simulated positions from the EOM directory. Excluded cusips from the EOM directory will be used when running in EOM mode.

Toggle back to normal mode via the Maintain/Switches menu. Once in normal mode, all references to simulate and excluded cusip files will point at the Data directory.

HELP



Fixed Income Help will give the user access to an HTML version of the manual via the default system browser. If the system cannot find the default browser, the user may define its location using the BROWSER parameter in the INI file. Hitting F1 at any time will activate the HTML help manual.

About LDB Fixed Income shows version, default directory and creation information for the application.

Unattended/Batch Processing

The system may be set to run in an unattended, batch mode. BATCH should be set to a non-zero value in the INI file. Once all user files have been provided to the computer running Fixed Income, a semaphore file (BNDBATCH.TXT in the import directory) should be created. Fixed Income will sense the existence of this file and proceed to import positions and, if AUTOBBDL = Y, ratings data. If AUTOBBDL = N, the system will process any NEW cusips using the NOBBDLRATE default setting from the INI file.

Upon completion of the run, a user-supplied routine (DOS: BNDFINI.EXE or BNDFINI.BAT; WINDOWS: BNDFINIW.EXE) may be executed. Program messages are placed in batchmsg.txt in the print directory. If the BATCH parameter setting is greater than zero, bond remains open, waiting for another semaphore file. If the parameter is negative, bond will close upon completion.

Moving Securities to RBH

The Fixed Income system allows the user to import ratings and convertible information from an external source and to determine the proper haircut rate for the convertible security. However, the system does NOT currently allow equity options to be entered as hedges against convertibles. In addition, unused common stock can be used in the Risk Based Haircut (RBH) system to hedge equity options and/or placed in baskets.

By indicating JTORBH = Y and by defining RBHDATA DIRECTORY in the INI file, the user may move common stock, Paragraph J convertibles and the remaining portion of other convertible securities which have received some bona fide arb relief in FI to RBH. Non Paragraph J convertibles that did not qualify for relief in FI will NOT be moved to RBH. A second position file containing these securities will be created and the RBH convertible and NON-RBH files will be updated to handle the migrated positions.

All Paragraph J COMMON STOCK will be moved to RBH unless the cusip/symbol exceeds 6 characters, the maximum allowed by the OCC in their position file format. This will allow a single Paragraph J calculation.

Convertible securities will NOT be moved if the common is not tradable, the conversion charge is too large or the security is not readily convertible. However, if this rejected convertible is eligible for Paragraph J treatment, it will be moved to RBH but will NOT be placed in the RBH convertible file.

NOTE: convertible bonds are represented in RBH with their quantity divided by 100. ANY security being moved to RBH that results in a fractional RBH quantity WILL NOT BE MOVED AND WILL REMAIN IN THE FIXED INCOME SYSTEM.

The system will derive numeric symbols for the exported bonds and preferred stocks, using the ^ followed by a 5 digit number. All manufactured symbols, plus firm, account, description, price, quantity and cusip, will be placed in a cross-reference file (MOVE_RBH.TXT) created in the Print Directory.

Please note that securities moved to RBH will not be examined for Portfolio Concentration Charges and will incur Undue Concentration charges ONLY if they are eligible for Paragraph J treatment.

The RBH convertible file will be updated, including a rate code to indicate proper handling of the convertible if NOT converted. Security description will also be updated. All prior entries in the convertible file with a ^ symbol will be deleted prior to adding the new securities.

The RBH NON-RBH file will be updated with lower case security types for the Fixed Income securities, thus avoiding overlap with user defined rates (users are not allowed to use lower case security types via the system interface). The security type description will start with ^ and will identify the security type as being generated by the Fixed Income system. All ^ security types will be removed prior to updating with new data.

The user may indicate the existence of the exported Fixed Income positions to the RBH system via the POSFILE2 parameter in the INI file. Version 5.5 or later of RBH is required for this functionality. RBHPOSITION.TXT in the Fixed Income Import directory will contain the securities exported for use in RBH.

Error Log Entries

When a field requires certain valid alpha values and the position record does not contain one of those values, the error message will contain the valid entries within parentheses at the end of the error message.

Invalid record ID (HT)

Account is blank

Cusip is blank

Cusip not in Future Profile

Invalid Fail to Deliver Code (F)

Invalid security type (CGFSM123DEPKJ)

Quantity = 0 (NOTE: modified entries with 0 quantity will be retained and not flagged as errors)

Invalid maturity month

Invalid maturity day

Invalid settlement month (this message appears only for Fails)

Invalid settlement day (this message appears only for Fails)

Invalid TBA Flag (T)

Not in TBA Definition File (Note: No match for PROD_CODE and TBAYEAR = Y)

Maturity past table limit (ST Municipals may not have more than 731 days to maturity)

Price <= 0

Time to Maturity more than 270 yrs

File Layouts

Position File Layout

Header record:

Field:	Start Column	Length	Contents
Record ID	1	1	H
Filler	2	4	Blank
Date	6	8	Date in YYYYMMDD format

Detail records:

Field:	Start Column	Length	Contents
Record ID	1	1	Blank
Firm	2	4	Numeric Clearing Firm number
Account	6	10	Internal Account/Desk/Book
Description	16	40	User Defined Description
Mat'y Year	56	4	Maturity year/Delivery year for futures
Mat'y Month	60	2	Maturity month/Delivery month for futures
Mat'y Day	62	2	Maturity day/1 st day of Delivery month for futures
Type	64	1	See Note 1 below
Price	65	10	Market price xxx.xxxxxx
Quantity	75	16	Quantity of par bonds: xxxxxxxxxxxx.xx
Cusip	91	9	Cusip; See Note 2 below
Fail to Del	100	1	F (firm) or C (customer) for Failed to Deliver or Receive; else blank
Settle Year	101	4	Settlement/Trade year; See Note 4
Settle Month	105	2	Settlement/Trade month; See Note 4
Settle Day	107	2	Settlement/Trade day; See Note 4
Orig_Cont	109	15	Original Contract amount; See Note 5:xxxxxxxxxxx.xx
TBA_Flag	124	1	T if TBA security, else blank
Prod_Code	125	5	Product and maturity code for TBA and TBA hedges and 12/96 Salomon MBA no action letter. Notes 6 & 7
Coupon	130	8	Coupon: xx.xxxxx; for TBA and TBA hedges
Currency_Code	138	5	User Defined Currency Code. If MIXFGN = Y this field must be filled in for every position.
Put/Call	143	1	Put for Put, C for Call, blank for all else. OTC Only
Shares Per	144	7	Shares Per Contract for options; If > 9,999,999,

Contract			divide actual value by factor of ten and multiply Quantity above by same factor. OTC Only
Strike	151	12	Strike price for options: xxxxx.xxxxxx OTC Only
Expiration	163	8	Option Expiration YYYYMMDD OTC Only
Underlying Cusip	171	9	Cusip of Underlying security OTC Only
Price of Underlying	180	12	Price of Underlying Security: xxxxx.xxxxxx OTC Only

When entering future positions, enter the number of futures times the contract multiplier as the quantity.

When entering paragraph D positions, place any valid date in the maturity fields.

Note 1: C for corporate, G for government, F for futures, S for short-term municipals, M for municipals, D for Canadian debt, E for paragraph E securities, P for preferred stock, K for common stock, 1,2 or 3 for paragraph D securities, and J for corporate bonds that belong in Paragraph J.

Note 2: if populating the convertible file via Bloomberg Data License, common stock entries should have stock symbol in this field to correspond with the Bloomberg CV_COMMON_TICKER field.

Note 3: maturity month, day and year should be zero for preferred and common stock.

Note 4: These fields contain either settlement date or trade date. If Fail to Del is 'F', they should contain settlement date. If Fail to Del is 'C', they should contain trade date. Trade date may be filled in for other securities, but it is ONLY required to properly charge affiliated securities.

Note 5: This field should be filled in if Fail to Del is NOT blank.

Note 6: If a Fail and want 1% charge on Contract Value, FTD flag in this field.

Note 7: If user wants the system to apply TBAYEAR logic to the maturity date for TBA securities, the TBA_Flag field and PROD_CODE fields must be populated. The PROD_CODE field must match a product code in the TBA Hedge file. The user needs to place the proper maturity month and day in those fields and the CURRENT year in the maturity year field. The system will match the PROD_CODE to the TBA Hedge file and ADD the additional years from that file to the maturity year shown.

OTC OPTIONS NOTE:

Maturity year, month and day fields for OTC options should contain the maturity of the UNDERLYING SECURITY.

Do NOT feed fractional option quantities to the system. Divide the Shares Per Contract by a factor of ten and then multiply Quantity by same factor to remove fractional quantities.

OTC will determine proper haircut rates for OTC options on Government and Investment Grade corporate securities based on the Maturity values in the option record. For underlying securities that are Non-investment grade Corporate Securities, it is suggested that a dummy record with a small, fractional quantity be added for these bonds and that ratings be supplied for these dummy positions. OTC will then be able to obtain the proper haircut percentage from the ratings processing. Alternatively users may populate the Cusip Exclusion file with entries for these non-investment grade securities.

Ratings File Layout

If using an alternative to Bloomberg Data License to populate the ratings reply file, the user must follow this format exactly.

First line of the file must contain START-OF-DATA starting in column 1. User may include a date immediately following the START-OF-DATA field, i.e. START-OF-DATA20040229. This date will be checked and the user will be WARNED if it does NOT match the position file date. Ratings data will still be processed if the position and ratings dates do not match.

Each ensuing line must contain the following fields separated by the pipe character (|). The data lines are variable length. Any items without values should be blank if alphanumeric or zero if numeric. Also place the pipe AFTER THE LAST FIELD in each record.

In prior versions, users did NOT need to provide for the convertible fields (common stock ticker through Common Exchange) if not using the ratings data to handle convertible bona fide arb. Users MUST now account for those fields if they wish to avail themselves of the AM Best, SMMEA, Default and Issuer Common Symbol fields. If BBDLCONV = N, convertible data will not be retained from this file. Users may enter empty fields for the convertible information.

CUSIP	Alphanumeric
FILLER1	Alphanumeric
FILLER2	Alphanumeric
Security Description	Alphanumeric
Security Name	Alphanumeric
Moody Rating	Alphanumeric – maximum 4 characters
S&P Rating	Alphanumeric – maximum 4 characters
Dominion Rating	Alphanumeric – maximum 4 characters
Fitch Rating	Alphanumeric – maximum 4 characters
144A Flag	Alphanumeric – Y if 144A, N if NOT
Original Issuance Size	Numeric – maximum size 12 whole digits, no commas
Filler3	Alphanumeric
Security Type	Alphanumeric – ABS,CMO,MBS or CMBS for asset back; VRN for variable rate note; else, BLANK
Common Stock Ticker	Alphanumeric
Conversion Factor	Numeric
Cash Required for Conversion	Numeric
Convertible by Holder or Issuer	Alphanumeric
Convertible when	Date (MM/DD/YYYY)
Par amount	Numeric
Common Exchange	Alphanumeric
AM Best Rating	Alphanumeric – maximum 4 characters
SMMEA	Alphanumeric – Y if SMMEA Eligible, N if NOT
Default	Alphanumeric – Y if in default, N if NOT
Issuer's Common Symbol	Alphanumeric
Collateral Type	Alphanumeric – See Note 1 below

See comments on Par amount and Cash Required for Conversion in the next section.

Note 1: Contains FDIC for a Corporate eligible for Government treatment, all else BLANK

Pari Passu Ratings File Layout

Each line must contain the following fields separated by the pipe character (|). The data lines are variable length. Any items without values should be blank. Also place the pipe AFTER THE LAST FIELD in each record. The default file

name for this file is PP_RATINGS.TXT in the IMPORT folder. If the file is named something else it must be defined in the INI file using the PP_RATINGSFILE entry.

CUSIP	Alphanumeric – maximum 9 characters
Issuer's Common Symbol	Alphanumeric – maximum 10 characters
S&P Rating	Alphanumeric – maximum 4 characters
Moody Rating	Alphanumeric – maximum 4 characters
Fitch Rating	Alphanumeric – maximum 4 characters
Dominion Rating	Alphanumeric – maximum 4 characters
AM Best Rating	Alphanumeric – maximum 4 characters

Convertible File Layout

This file may be used to populate the convertible file within the application.

FIELD NAME	TYPE	Width	Dec	
CONVERT	Character	9		Convertible Cusip
CASH	Numeric	8	2	Cash required for conversion
FACTOR	Numeric	10	4	Number of common per convertible
COMMON	Character	9		Underlying common Cusip
PAR	Numeric	10	4	Par amount for convertible bond

The Cash Required for conversion is the cash per share of preferred stock or per \$1000 par amount of a bond.

The CASH, FACTOR and PAR fields must contain an explicit decimal point, i.e., 12356.7890 for FACTOR, 12345.78 for CASH and 12345.7890 for Par. Unconverted bonds will be haircut according to the rules for nonconvertible fixed income securities if the bond is trading at less than Par. If it is trading at or above Par, it will be haircut subject to Paragraph J. By leaving this field blank, ALL securities will be assumed to be trading above par and will be subject to Paragraph J. Par for most bonds is \$1000; hence the bond price will be multiplied by ten and compared to the Par value field in this file.

It is imperative that users do NOT include convertible securities that are NOT eligible for convertible arbitrage treatment, such as those not yet convertible, those not convertible by the action of the holder, or those 144A securities for which the common stocks are not readily tradable. ANY CUSIPS IN THIS FILE WILL BE CONSIDERED ELIGIBLE FOR ARBITRAGE TREATMENT.

GVSF File Layout

This file may be used to populate the deliverable vs. future file within the application.

FIELD NAME	TYPE	Width	Dec	
FUTURE CUSIP	Character	9		Future Cusip
GOV'T CUSIP	Character	9		Government bond Cusip

Marketability Relief File Layout

This file may be used to populate the Marketability Relief Symbols file within the application.

FIELD NAME	TYPE	Width	Dec	
SYMBOL	Character	10		Issuer's Common Symbol
DESCRIPTION	Character	20		Description
Exchange Traded Flag	Character	1		Used for non 144A bonds. Y if exchange traded, N if not.
S&P500 Flag	Character	1		Y if included in S&P500, N if Not
FTSE World Index Flag	Character	1		Y if included in FTSE, N if Not

Exported file formats:

Certain files used to generate reports can be exported to the print directory in comma delimited ASCII form. EXPORT must be set in the INI file. If you require blank or tab delimited files, enter DELIMITER = BLANK or TAB in the INI file. Enter DELIMITER = SDF for column oriented export files.

We recommend using the CSV List (see the Maintain section of manual) which allows the user to define the list of files exported to CSV. A text file containing the structure of each exported file will be generated and placed into the PRINT directory. In addition, csvdate.dbf.csv, which contains the position date, will be created.

OTC Haircut Logic

OTC haircuts may be computed using the optional, separately priced OTC module. The module is installed in the \Fortran directory and requires additional data in the position file. The entries marked as OTC ONLY in the Position file layout must be filled in.

OTC functionality is activated via the DOOTC parameter in the INI file. When an OTC option is found, all underlying securities in the same account that have the same underlying CUSIP in the position file will be extracted.

This universe of securities will be passed through the OTC module. This program will look to minimize OTC option charges by identifying covered positions. Net worth adjustments will also be calculated.

Uncovered underlying securities will be returned to the FI module where they are haircut. Only the net bond position will be included in the OTC analysis. However, ALL unused bonds (long and short) will flow through the Bond system.

Separate charges for long OTC options and short OTC options will be computed and displayed. Users may include or ignore these charges as appropriate.

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 adjustments will instead be increased by the intrinsic value of long options and decreased by the intrinsic value of short options.

Convertible Arbitrage Logic

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 importing an ASCII file or adding records interactively, ONLY securities eligible for the bona fide arbitrage relief should be included in this file. ALL SECURITIES IN THIS FILE WILL BE CONSIDERED ELIGIBLE FOR RELIEF UNLESS THE ADDITIONAL FIELDS OF WHO, WHEN AND COMMONEXCH CONTAIN VALUES THAT PRECLUDE THE RELIEF. Users may NOT alter or supply these values to the system other than through the ratings/Bloomberg interface. The Contingent Convertibles file may also be used to exclude a security from bona fide arb treatment. See the discussion of this file in the Maintain section above.

If using the Bloomberg interface to populate the convertible file, the system will obtain the usual corporate debt ratings information as well as the following fields: CV_COMMON_TICKER, CV_CNVS_RATIO, CV_CASH_REQUIRED, CV_CONV_BY_ISSUER_OR_HOLDER, CV_START_DT, PAR_AMT and CV_COMMON_EXCH. The issuer/holder field populates the WHO field in the convertible file; START_DT populates WHEN; and the COMMON EXCH field populates the COMMONEXCH field.

The system will follow its normal corporate bond ratings logic for convertibles and non-convertibles. It will also populate the convertible file with entries for all CUSIPS that have a non-zero conversion factor.

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 ARB_DISCOUNT parameter is set to N in the INI file, NO securities trading at a discount will be considered for bona fide arb. In addition, any security in the Contingent Convertibles file with a value of N in the "MET?" field will also NOT be considered for bona fide arb. All investment-grade convertible preferred securities are moved to Paragraph J. If the convertible security is eligible for Paragraph J, the system will use a rate of 11.25% (15% reduced by $\frac{1}{4}$) when analyzing whether the arb relief is advantageous.

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. If the user prefers that NO 144A securities be converted, she may set A_CONV = N in the INI file.

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. If the arb relief is not taken, the Reason column on this report will show the haircut percentage used in the arb analysis for the convertible security or "J" if the security is eligible for Paragraph J treatment.

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. If the user wants ALL non-investment grade convertibles that are NOT 144A and not converted to go to Paragraph J, she may set NICONV_J = Y in the INI file.

ABS Liquidity Charge Report Logic

FINRA has proposed an ABS liquidity charge. Details of the charge have not been finalized. The system will generate a report of all ABS in the position file. Long positions NOT haircut at 100% will be charged at a rate specified by the user in the INI file. An ABS Liquidity Report will be generated. Latest word is the charge would be four percent: please verify the proper charge and implementation date with FINRA. The ABS setting must also be set to Y in the INI file for this functionality.

SIMULATE MODE

Use of simulate mode in the Maintain menu Switch pad will protect against accidental erasure of simulated changes through an inadvertent import of the original position file. This mode deactivates the Position file Import and Ratings Import pads on the Import menu.

BACKUP PRINT – Hot Key

Hitting ALT+B will disable all menu items except VIEW, PRINT, and HELP. When in this mode, the system will view and print reports from the backup directory. The system will ask the user for the position date to view or print. If already in this mode, hitting the hot key will revert back to the user defined PRINT directory, and enable all previously enabled menu items.

SUGGESTED MINIMUM BACKUP PROCEDURES

After installation, the following directories should be backed up:

C:\Program Files\LDB Consulting\LDBBND
C:\Program Files\LDB Consulting\LDBBND\DATA
C:\Program Files\LDB Consulting\LDBBND\DATA\TEMPLATE
C:\Program Files\LDB Consulting\LDBBND\HELP
C:\Program Files\LDB Consulting\LDBBND\EOMDATA
C:\Program Files\LDB Consulting\LDBBND\BACKUP

Once the system is operational, you need to back up LDBBND only when you have altered the INI file.

The user defined or default TEMPLATE directory (see INI section of manual) contains empty versions of all dbf (data base) and cdx (index) files. If you get an error message indicating that a table or index has been corrupted, you should retrieve the appropriate files from your system backup or from the template directory. Files that you alter via the MAINTAIN menu are copied to the template directory when you access them. This assures that the TEMPLATE directory will have the latest versions of all files.

If you encounter difficulty in retrieving files, contact LDB Consulting, Inc.

LDB Password System

User names must be assigned via Windows in order for this functionality to work.

PADMIN.EXE must be run at least once before the LOGIN option will function. PADMIN will be discussed below. If no administrator exists within PADMIN, LOGIN will not demand a password. Without an administrator, no passwords could have been set.

Once an administrator has been defined via PADMIN, the LOGIN functionality will be in effect. Users will be required to enter their password. Three failed login attempts will result in the user being denied access to the system. Once the password is successfully entered (6-8 characters in length, containing only numbers, upper case letters or lower case letters), the system will check on the date the password was established.

If the password was established more than 75 days ago, the user will be warned and given the opportunity to enter a new password. If the user decides to upgrade at this time, she must enter a password and confirm the entry. If the entries match, the new password is recorded and the date of password is updated to reflect the current date.

If the user chooses NOT to update at this time, she will be allowed access to the system. After 90 days without a password update, the user will be disallowed access until the password administrator alters the user's password via PADMIN.

PADMIN

The password administrator accesses the password system via the PADMIN.EXE application.

The first time the application is run, the administrator will need to enter a password that is obtained from LDB Consulting. Upon successfully entering that password, the administrator should establish his own account as an administrator and define his password, using the same rules as for any user password (6-8 characters, numbers, lower case letters, or upper case letters only).

Once admitted to the system, the administrator has 5 options: Add or Edit/Delete (via the Maintain menu), Display or Print (via the Report menu) and Quit. The user should select the appropriate menu item to activate the required functionality.

Add a new user: The administrator enters the Windows user name (capitalization is immaterial, proper spacing is required), indicates if this user is also an administrator and then enters a password.

Edit/delete an existing user: Upon entering the Windows user name, the administrator will be able to alter that user's administrative status and/or password.

Display: Displays the password file contents (user name, date of last password change and administrative status) on the screen.

Print: Prints the password file contents to the printer

Quit: Quits the PADMIN application.

When a new version of an LDB application is installed, passwords from a previous version ARE NOT AUTOMATICALLY MIGRATED. The user should contact LDB Consulting to migrate passwords or re-establish them via PADMIN.

PDF Reports

The purpose is to create PDF reports in addition to the text files automatically created with each run. When the functionality is on, the PDF reports will be created in the ADOBEPORT (see below) directory and backed up to the BACKUP directory when the backup functionality is in use.

Adobe Acrobat Setup

1. Adobe Acrobat must be installed.
2. Navigate to the "printers" directory through Windows Control Panel. Right-click on Adobe PDF and select "properties". Select "printing preferences".
3. Uncheck "view Adobe PDF Results", "Do not send fonts to Adobe PDF", and "Prompt for Adobe PDF Filename", click "apply", and click "OK".
4. Select the "Ports" tab (at top of properties box). Click on "Add Port". Ensure that the Adobe PDF Port type is highlighted. Click "New Port", and then navigate to the desired directory to contain the PDF files (C:\Program Files\BOND\PDFPRINT, for example). Click "close", then "apply", followed by "ok".

Adobe INI Entries

1. PDFREPORT = Y to turn on the logic. Default is N.
2. PDFERASE = Y to delete all of the previously created PDF reports within the Adobe port directory. Default is Y.
3. ADOBEPRN = Adobe PDF to define the printer name. Default is Adobe PDF.