



Canadian Index Arb Optimizer System Overview

The Canadian Index Arb Optimizer (CIAO) developed by LDB Consulting, Inc. calculates haircut charges according to IDA Regulation 100.10 as amended, effective January 1, 2005. The strategies identified normally result in the LOWEST allowable charges.

The system will calculate charges for:

- 1) Common stock
- 2) Futures
- 3) Exchange Traded Funds/Index Participation Units (ETFs)
- 4) Baskets
- 5) Options on common stock
- 6) Options on Exchange Traded Funds/Index Participation Units
- 7) Options on indices

The user interface system is used to import user-supplied data, format data for and retrieve data from the Optimizer, allow viewing of pertinent data files and create various reports with the computed information. The user may also maintain files containing tracking error rates, floating rates and per contract haircut charges.

The Optimizer works on each holding individually. A holding is a unique combination of firm, account, and consolidating ticker. A consolidating ticker such as SPTSE would include all futures, ETFs, options and baskets traded on that index. Within the unique holding, the Optimizer identifies all potential strategies and removes each successive strategy that would generate the greatest margin savings in the position.

The Optimizer will identify each of the following situations:

- 1) Futures, ETFs and baskets hedged against each other
- 2) Options only strategies where allowed, including
 - spreads
 - straddles
 - boxes
 - butterflies and
 - long call/long put/short call
- 3) Allowable combinations of options and underlying stocks, baskets, futures and ETFs including
 - Covered calls and covered puts
 - Hedged calls and hedged puts
 - Conversions and long tripos
 - Reverse conversions and short tripos
- 4) Unhedged ETFs, futures, baskets, stocks and options

The system will:

- Import a user provided Basket Composition file and verify that all baskets are properly comprised and capitalized
- Run in either Batch/Unattended or Interactive mode
- Provide a Reconcile report containing counts and value for long and short securities in each security type.
- Create ASCII copies of all reports and retain them in a backup directory
- Export supporting information to a delimited text file
- Allow the user to alter or add positions and run a simulated haircut calculation
- Provide user with online help documentation.

Prices include **unlimited phone and email support and all upgrades** for first year. Continued unlimited support and upgrades are available thereafter for a flat annual fee.