28 November 2017

Dear Madam/Sir:

Sorry for the late response.

I disagree with the standards presented in the exposure draft. There are various measures of "margin" that distort returns. For example, a firm would have to tally way too many composites to account for Portfolio Margin, Reg T, and Cash overlay accounts.

In addition, collateral balances also suffer from margin considerations. As an example, a portfolio margin account may require 1/6 of the hedged asset value while Reg T may require 50% and Cash may be 100%. Each of these classes of margin/collateral can be impacted by the use of option spreads or swaps coupled with swaptions. In these cases, the collateral aka denominator can be significantly reduced.

In addition, some brokerages permit "house margin" which allows one centralized asset base to serve many different trading strategies, e.g. option overlay and beta adjustment. We struggle to find a one size fits all formula for overlay managers. If we define the composite by strategy, we run the risk of different collateral values. If we define the composite by margin type and strategy, we then run against separate collateral or centralized collateral.

I know I am late to the game here so forgive my disjointed comments. I trust my friends from ACA offer a more coherent set of principles as we have had this discussion with them over several months.

Thanks,

Joe DeSipio, CFA, FRM