REGTECH

Vision

H1 2021

Current themes, topics and the landscape of Regulatory Technology for US Institutional Broker-Dealers.

STATE OF THE UNION
Regulation under a climate of Reddit mania

FINRA
Report: FINRA's examination & Risk Monitoring Program

SIFMA
SIFMA's FMS Virtual Education Day (March 11, 2021)

OTHER BUSINESS
Various other matters & industry news

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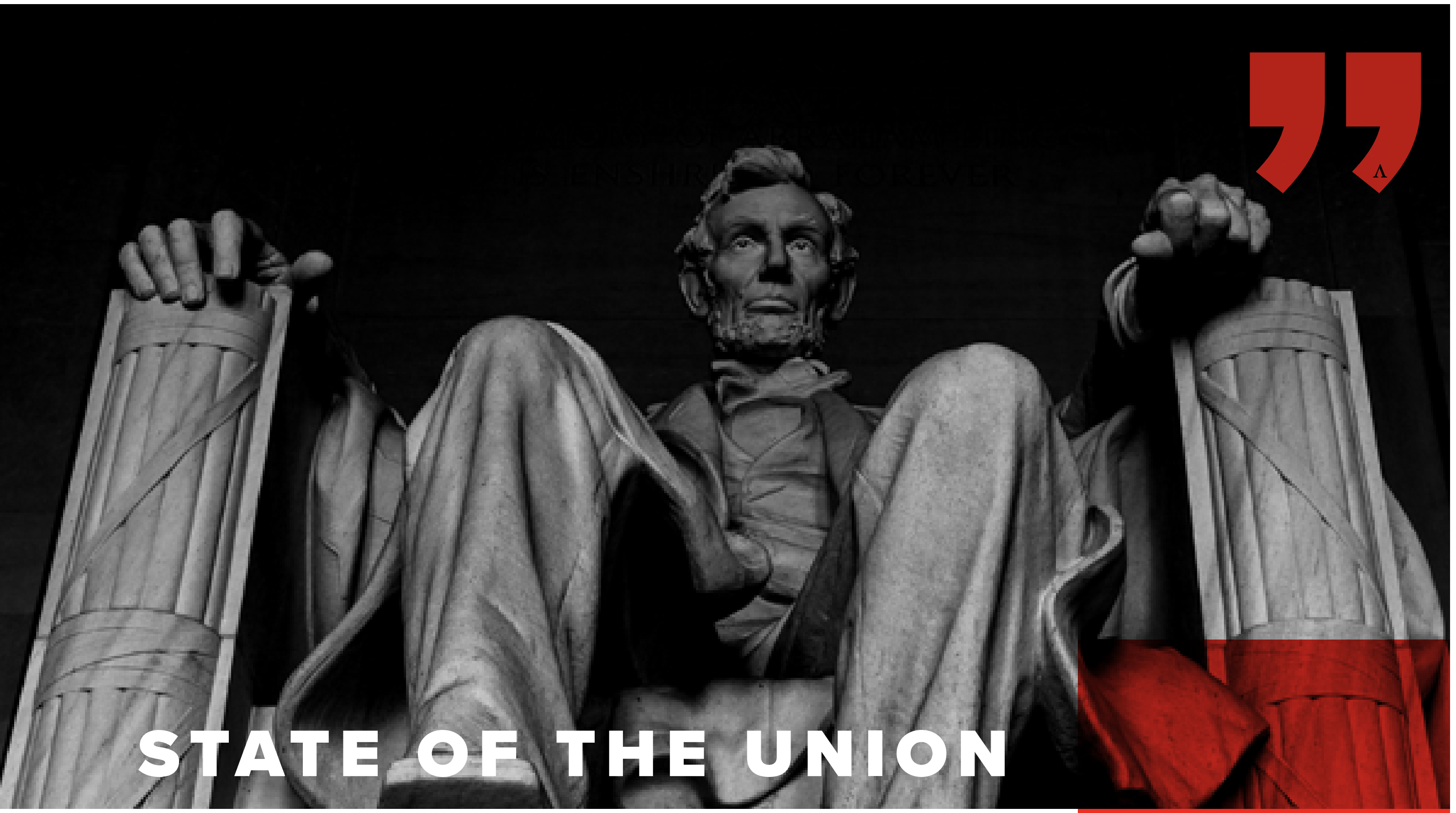
The Gold Standard Solution for US Regulatory Capital Compliance.



STATE OF THE UNION

(i) The Reddit Mania:

Margin & Settlement Implications

By Venu Palaparthi & Madhur Sarda
DASH Regulatory Technologies

Introduction

It would be remiss to talk about the regulatory climate in 2021 without mentioning the retail trading mania that captured the global markets' attention at the end of January.

With the onset of the pandemic last year, retail trading saw massive growth thanks to zero commission trading apps. The retail trading fever hit a crescendo with a massive short squeeze and rally of a retail crowd favorite stock - GameStop (GME).

The wild upswing was spurred by an online army of investors on Reddit's *r/wallstreetbets* forum that began with the appointment of Chewy co-founder Ryan Cohen to the GME board on Jan 11th, reigniting hope of a turnaround of the struggling retailer. This event set in motion the retail traders' march on Wall Street.

The massive increase in trading interest in GME was also driven in part by the volume of bearish options and equities bets in GME, and individual investors being egged on the sidelines to take on these bears by celebrities like Elon Musk of Tesla, Chamath Palihapitiya of Social Capital, etc.

This powerful convergence of unlikely forces drove up GME stock from $20 to about $500 in just 2 weeks!

The pandemic investor

Retail investors, who were mostly fueling this unprecedented ride, found their wings clipped when Robinhood suspended trading of GME, AMC and other meme stocks late January. The no-fee platform, extremely popular among millennials, halted all margin trading involving GME and the movie theater chain AMC.

Robinhood's users blamed the stock's abrupt downfall on the brokerage's suspension of trading in the stocks. Robinhood defended its actions by stating that the additional restrictions on trades of GameStop and other retail stocks were dictated by cash and increased margin requirements by the NSCC (an affiliate of the clearing house, DTCC).

As prices of some meme stocks skyrocketed, NSCC/DTCC raised its margin requirements, in an attempt to mitigate the risk to the system and to address fears that the brokers might not have capital to cover losses if the prices collapsed between trade date and settlement date.

A silver lining, if any, of this epic market turmoil was the reignition of the T+0 trade settlement debate. Robinhood CEO Vlad Tenev wrote in a February blog post that "the clearinghouse deposit requirements are designed to mitigate risk, but last week's wild market activity showed that these requirements, coupled with an unnecessarily long settlement cycle (T+2), can have unintended consequences that introduce new risks." In effect, he pushed for T+0 settlement.

DTCC's Settlement Vision

DTCC and many market participants have long advocated for shortening the settlement cycle to enhance market resilience, reduce margin requirements and lower costs for investors.

The SIA (the precursor of SIFMA) published its "T+1 Business Case Final Report" in July 2000, in which they estimated that moving to T+1 would cost approximately $8 billion but would save the industry $2.7 billion a year, while also reducing settlement exposure by 67%. Back then, US was still on T+3 settlement. After what seemed like eternity, the settlement cycle was reduced to T+2 in 2017.

In February of 2021, DTCC published its whitepaper on accelerated settlement. The two major proposals in the whitepaper — accelerated time to settlement and settlement optimization — will enable participants of NSCC and DTCC to improve workflows, optimize capital and reduce risk, further reducing settlement processing inefficiencies through automation.

Proposal # 1: Accelerated Time to Settlement

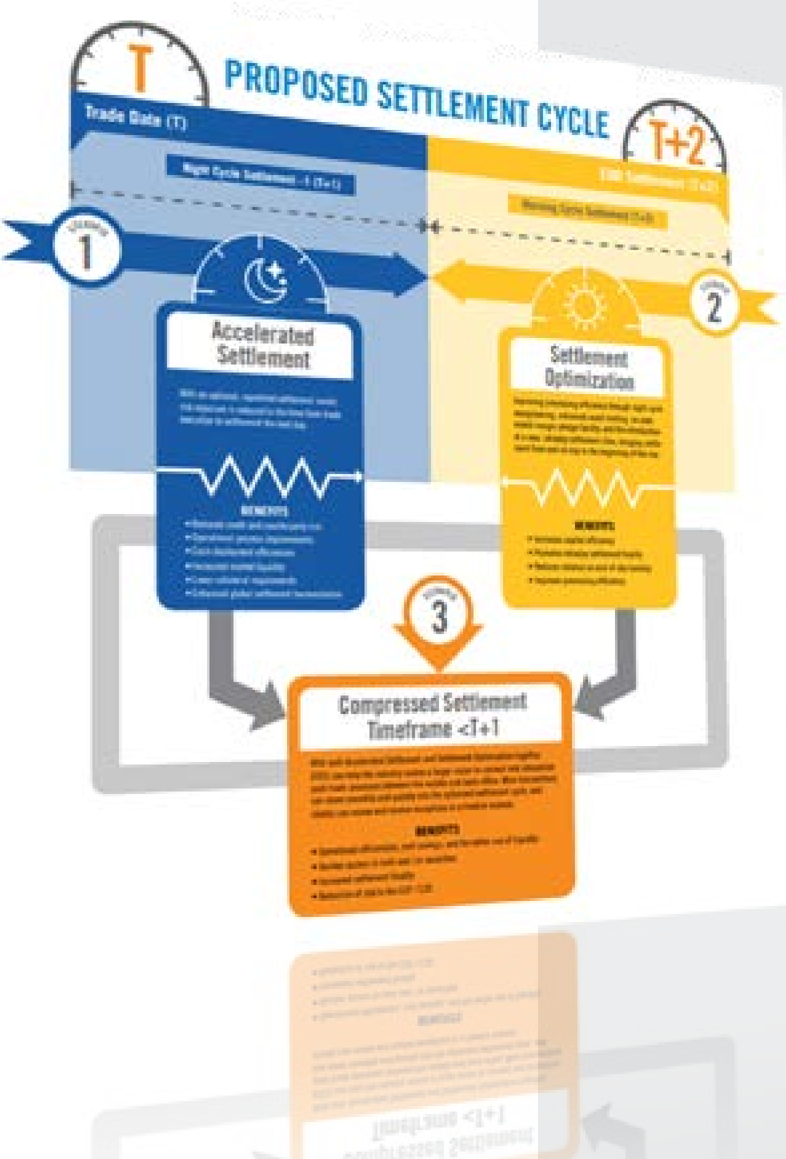
On average, over $5 billion is still held in risk margin to manage counterparty default risk in the system.

In addition to holding risk margin, NSCC requires additional liquidity resources for peak settlement days, further adding to the costs and risks to U.S. markets. These capital costs could be mitigated by further reducing the time between trade and settlement, and thus DTCC is considering a proposal to move settlement of eligible trades to the morning before market open on settlement day, effectively eliminating a day of settlement risk without removing a calendar day.

Proposal # 2: Settlement Optimization

With money settlement not occurring until the end of the day, capital can become trapped in the very same system designed to manage securities processing and cash movements. The long-held traditional focus on end-of-day processing has overlooked the possibilities for intraday movement and settlement of money and securities.

In summary, the events of the past few months have practically ensured that the industry will need to get past the status quo and embrace T+1, even as there remain reservations regarding T+0.



SCENARIO 1 | Accelerated Settlement

The traditional approach to shrinking the time gap between trade and settlement has been to maintain the current process but reduce calendar days. DTCC is considering a proposal to move settlement finality of eligible equity trades from the afternoon of settlement date to the morning before market open, which means an entire market day of settlement exposure could be eliminated without removing a calendar day.

SCENARIO 2 | Settlement Optimization

The current methods for settlement, and especially rigid processing rules in the night cycle, can actually inhibit the efficient movement of transactions through the system. Improving processing efficiency through night cycle reengineering, enhanced asset lending, an automated margin pledge facility, and the introduction of a new, intraday settlement slice could bring settlement from end-of-day to the beginning of the day.

SCENARIO 3 | Compressed Settlement

By optimizing settlement and optionally, accelerating settlement beyond T+2, clients will be able to significantly reduce capital requirements, systemic risk and operational costs while still preserving the resiliency of the current infrastructure.

Of course, any reduction in trade settlement timelines will require regulatory approval and industry wide engagement with all market participants alike. If history is any guide, any revamp will take years to materialize.

SEC & FINRA's take on market volatility

On May 6, 2021, the House Committee on Financial Services summoned the SEC and FINRA chiefs to opine on the market volatility in January.

The new SEC Chairman, Gary Gensler said: "While entities such as GameStop, Melvin Capital, Reddit, and Robinhood have garnered a significant amount of attention, the policy issues raised by this winter's volatility go beyond those companies. Instead, I think these events are part of a larger story about the intersection of finance and technology."

"[The decisions that led to restrictions on certain meme stocks] call into question whether broker-dealers are adequately disclosing their policies and procedures around potential trading restrictions; ***whether margin requirements and other payment requirements are sufficient; and whether broker-dealers have appropriate tools to manage their liquidity and risk***. I've asked staff to look at these issues carefully," Chair Gensler added.

Robert Cook, FINRA CEO, in his testimony, directed attention towards the FINRA Regulatory notice 21-12 shared earlier this year: "[FINRA] published a Regulatory Notice in March reminding member firms of their obligations during periods of extreme market volatility. The Notice reinforced members' existing obligations with respect to handling customer orders, maintaining appropriate margin requirements and effectively managing their liquidity during extreme market conditions, such as those that occurred in January."

"The Notice also provided guidance on sound liquidity practices that firms can use to meet their obligations to maintain reasonable funding and liquidity risk management during periods of extreme market volatility", he added.
The above testimonies clearly indicate growing regulatory pressure towards adequate management of liquidity and margin requirements, especially for broker-dealers.

To mitigate heightened regulatory risk, broker-dealers and market participants should work towards building a robust internal governance framework per regulatory guidelines. It is critical that member firms revisit their existing overall policy and procedures and enhance them in order to weather bouts of market volatility.

Conclusion & T+1 settlement impact

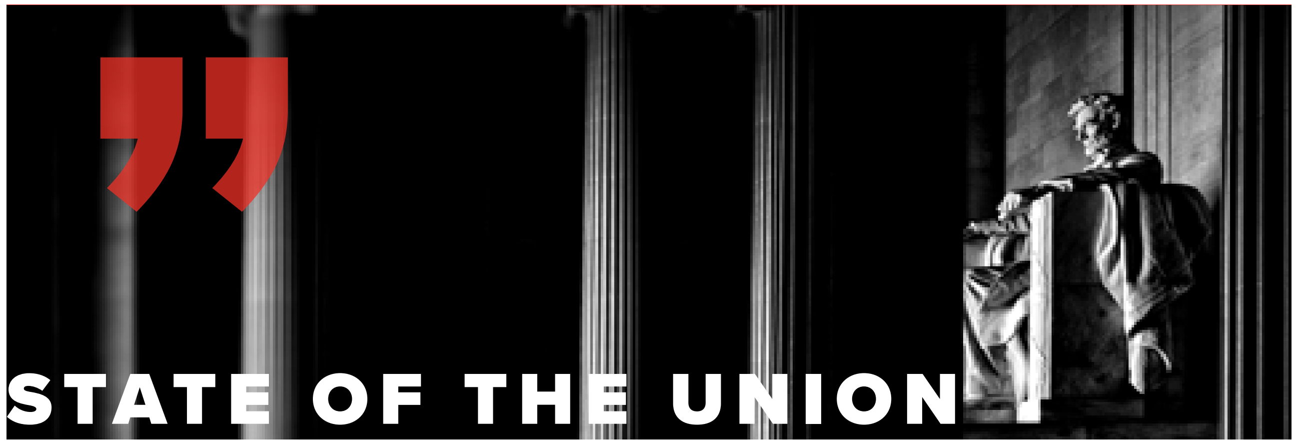
Settlement optimization and accelerated settlement will improve clearing and settlement processing efficiency, promote settlement finality, reduce equity clearing margin requirements, and provide participants with liquidity enhancements.

However, a move to T+1 will likely increase fails, which in turn will increase the regulatory agency attention paid to stock borrow and stock loan policies and procedures. As a reminder, our haircut and margin offerings provide all the sophisticated tools necessary to keep track of charges related to stock borrows, stock loans and fails.

Shorter settlement also brings into sharp focus the importance of maintaining, monitoring and forecasting adequate capital and margin requirements on a moment-to-moment basis. With **DASH 360R's SOC certified capabilities**, your capital requirements can be monitored on a real-time basis and adjusted depending on the market.

In conclusion, the entire episode spotlights systemic risk from the settlement cycle, the need to continually seek efficiency in se ttlement, an d th e im portance of ro bust tools and solutions for calculating and monitoring your capital and haircut/margin requirements.

Resources:
It's Time for Real-Time Settlement
Settlement: From Optimization to Modernization
SEC Testimony to the House Committee on Financial Services
FINRA Testimony to the House Committee on Financial Services
FINRA Regulatory Notice 21-12



STATE OF THE UNION

(ii) Report: FINRA's Examination & Risk Monitoring Program

By Nikita Kapshuk
DASH Regulatory Technologies

In February 2021, FINRA issued its annual Report on Examination and Risk Monitoring Program, providing insights into its findings as well as effective practices for compliance with FINRA and SEC rules, including Rule 15c3-1. Exam findings and effective practices for firms following Exchange Act 15c3-1 were communicated in the report.

Specifically, FINRA noted the following key findings regarding processes to identify, track and age fails at firms (especially in the context of a B-D operating a 15a-6 chaperoning business):

Inaccurate Net Capital Charge:
Failing to compute and apply the correct applicable net capital charge for aged fails;

No Information from Clearing Firm:
Failing to request or confirm receipt of timely information relating to Fails from their clearing firms;

Gaps in Policies and Procedures:
Failing to address monitoring, reporting and aging of Fails in the b-d's policies and procedures;

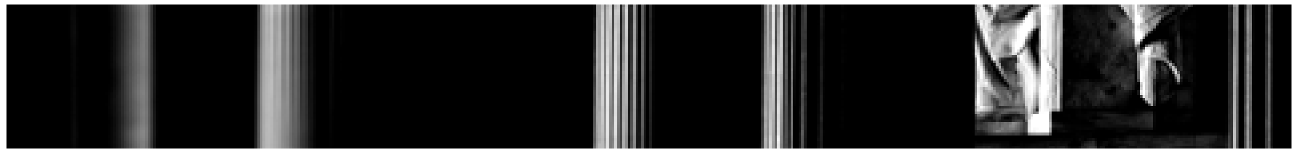
Incorrect Balance Sheets and FOCUS Reports:
Failing to record Fails on firms' balance sheet, and, as a result, filing incorrect FOCUS reports; and,

Blotters:
Failing to maintain blotters for Fails.

FINRA's report underscored the need for firms to review their net capital treatment and to track and monitor fails, properly calculating the net capital charges and applying deductions to net capital.

DASH RegTech's LDB Suite covers stock borrow/lending and fixed income fails, helping our clients address their reporting needs with automated efficiency tracking the age of fails and, if necessary, calculating any net capital deficit resulting from aged fails using the Fixed Income Haircut (FIH) module and any charges resulting from stock borrow/stock loan activity via the Stock Borrow/Loan (SBL) module.

Resources:
Report on FINRA's Examination and Risk Monitoring Program
Interpretations of Financial & Operational Rules



SIFMA'S FMS VIRTUAL EDUCATION DAY

MARCH 11, 2021

By Madhur Sarda
DASH Regulatory Technologies

DASH was a proud sponsor of SIFMA's Financial Management Society Virtual Education day, covering all things net capital and customer protection for the broker-dealer community.

The educational event was hosted by an experienced industry panel consisting of:

Mark Axelrod | Deutsche Bank
VP COO Divisional Control & Regulatory Office

Ralph Mattone | UBS
MD, Finance

Christine Schaffner | Nomura
ED, Head of US Regulatory Reporting

Christine Jenkins | UBS
ED, Regulatory Reporting & Legal Entity Controlling

Anthony Scalise | KPMG
Audit Partner

Adam Nava | Citrin Cooperman
Partner

Key takeaways:
New guidance/rule(s) to note:
- *Footnote 74*: This refers to the updated guidance for Rule 15c3-3 re: item 24, FOCUS report (Part IIA). the exception does not fit into one of the k(2)(i) and k(2)(ii) exemptive provisions.

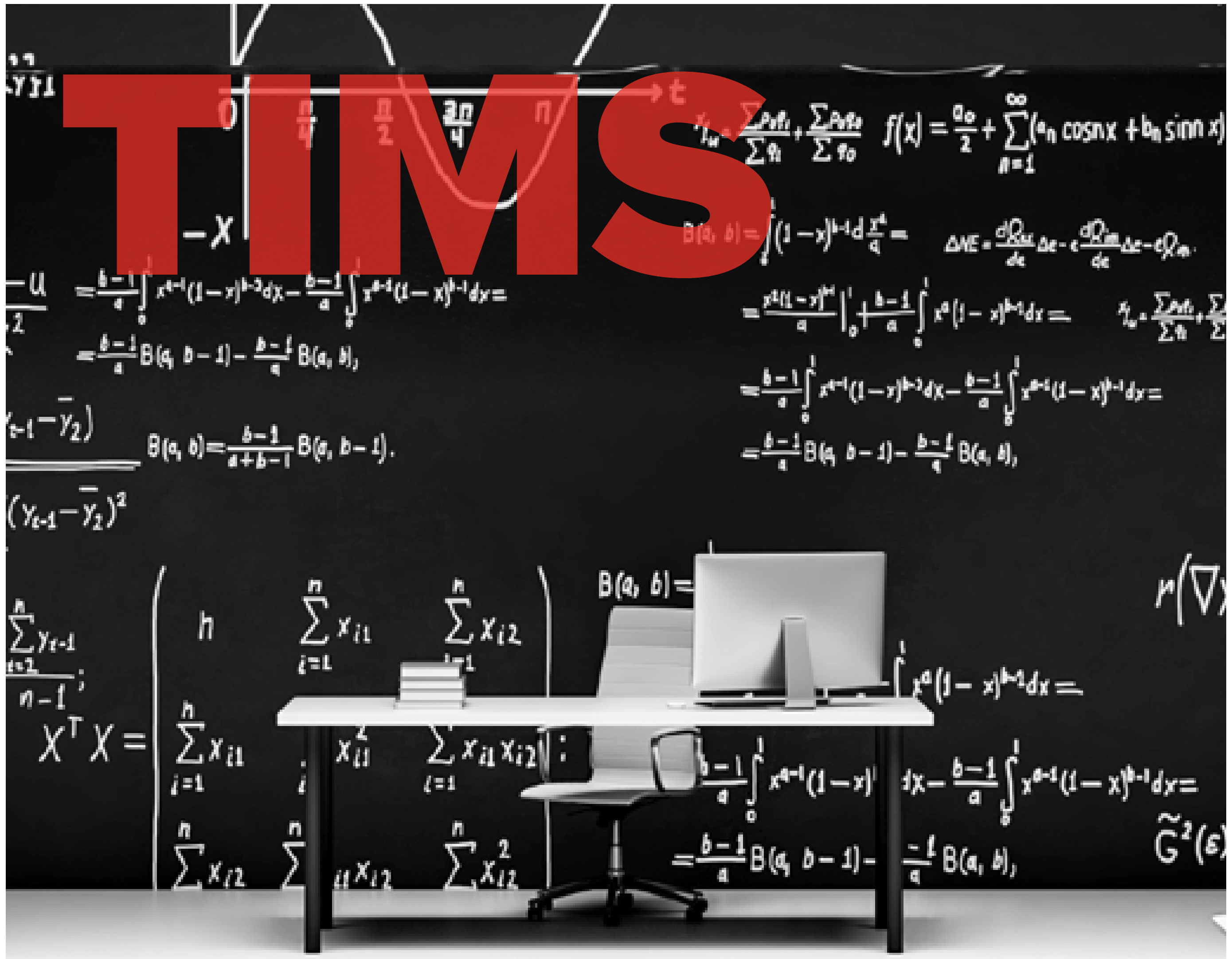
- TBA Rule 4210
- Internal Controls
- Records Retention

DASH is at the forefront of innovation and creating customized solutions for the broker dealer community. Given our industry leading SOC1 Type 2 capability on the cloud, DASH 360R already boasts of the best in-class controls around your financial data. The robust controls ensure the ease of audit and regulatory compliance for broker dealers' regulatory reporting processes.

DASH is also looking to develop a WORM compliance feature in the future, where DASH can assist with your complete record retention needs and safeguard your financial records for FINRA compliance - all within our SOC attested cloud environment, DASH 360R.

In addition, DASH is an active participant and sponsor of relevant industry (SIFMA and FINRA) conferences, with the goals of sharing knowledge, gaining insights on industry trends and networking with industry peers.

Resources:
FINRA Annual Conference: May 18-20, 2021 (Virtual)
FMS Regional Forum: June 9-10, 2021 (Virtual)
FMS Operations Conference & Exhibition: Oct 4-7, 2021 (Miami)



TIMS

OTHER BUSINESS

OCC's Enhanced TIMS Model

By Nikita Kapshuk
DASH Regulatory Technologies

OCC is proposing to enhance its margin methodology by introducing a new model to estimate the liquidation cost for all options and futures, as well as the securities in margin collateral.

The proposed liquidation cost model calculates liquidation cost based on risk measures, gross contract volumes and market bid-ask spreads.

In general, the proposed model would be used to calculate two risk-based costs for a portfolio: Vega test and Delta test. Options products will incur both Vega and Delta tests.

Delta-one products such as futures contracts, Treasury securities and equity securities will have only a Delta charge because a change in the value of the underlying asset results in a change of the same, or nearly the same, proportion in the value of the product.

DASH RegTech is monitoring the approval of the rule by the regulators. Once OCC finalizes the updated stress testing structure, DASH will ensure that our clients will have all the necessary tools to compute capital charges in accordance with SEC 15c3-1 and FINRA 4210 rulesets.

OTHER BUSINESS

Decommissioning of OCC's FMS Files

Effective November 12, 2021, OCC will discontinue support of the Foreign Marginable Securities ("FMS") program. FMS data is currently available at no additional cost as part of the daily Risk Based Haircut / Customer Portfolio Margin ("RBH/CPM") theoretical output files.

The FMS content is comprised of a report listing securities trading on non-US markets that meet the conditions described as having a "Ready Market" pursuant to paragraph (c)(11) of SEA Rule 15c3-1.

This report is published on the public website and included in RBH/CPM FXML file transmissions. The FMS content also includes theoretical price and profit/loss values on FMS eligible stocks and related options distributed within the RBH/CPM Theoretical Profit and Loss Values files.

The final file distributions will occur the evening of November 12, 2021, and the web site listing will be decommissioned on November 13, 2021. DASH's RBH & RBM modules are currently configured to consume FMS files to allow an additional capital charge optimization loop for our clients.

DASH has begun reviewing options to mitigate the impact of the upcoming decommissioning. Specifically,

a) RBH and RBM modules will accept client supplied data,

b) DASH is assessing clients' requirements in connection with FMS data to see if we're able address challenges faced by users in the absence of this data.

DASH requests your feedback on this important topic.

Resources:
OCC Decommission Memo

By Madhur Sarda
DASH Regulatory Technologies

DASH Regulatory Technologies' 360R Broker-Dealer Regulatory Capital Compliance Suite received its' SOC 1 Type II Attestation on Feb 15th, 2021. ***DASH 360R thus becomes the first and only regtech solution in the broker dealer industry to attain this unique milestone.***

The SOC 1 Type II (System and Organization Controls) audit of DASH 360R was completed by a "Big Four" global accounting firm under the attestation standards established by the American Institute of Certified Public Accountants (AICPA).

DASH 360R is the next-generation of the industry-leading LDB platform, on which scores of broker-dealers depend on for U.S. regulatory capital calculation and reporting compliance. The SOC 1 Type II project was undertaken in 2020 to specifically address the needs of DASH 360R customers and their auditors who rely on the effectiveness of DASH 360R controls as they review the user entity's financial reporting.

The attestation covers the web-based 360R systems as well as the information technology general controls over all of LDB's calculation modules that generate key inputs to various regulatory reports: Risk Based Haircut, Fixed Income Haircut, Repurchase/Reverse Repurchase, Stock Borrow/Loan, Risk Based Margin, Option Margin Optimizer, Security Allocation Information Engine and the Supplemental Inventory Schedule System.

In the U.S., broker-dealers are required by the SEC and FINRA to maintain specified levels of capital, and to be able to demonstrate moment-to-moment compliance with the SEC Net Capital Rule. In order to do so, brokers must have the ability to calculate, on an intra-day basis, their capital charges, which can be an extremely complex process. DASH 360R completely automates the calculation and reporting process around these regulations as well as any firm-specific requirements, easing one of the most significant back-office operational challenges faced by brokers and clearing firms.

Commenting on the SOC 1 Type II certification, Venu Palaparthi, DASH Regulatory Technologies' Managing Director, said: "*Following the acquisition of LDB Consulting in 2017, DASH made a strong commitment to updating and modernizing the LDB system. In furtherance of that objective, we implemented the cloud-enabled DASH 360R version, which can be accessed via the web.*

During 2020, the pandemic-induced remote work environment provided an impetus for adoption of the 360R suite. Simultaneously, we doubled down on our investment in DASH 360R by embarking on a SOC 1 Type II independent attestation.

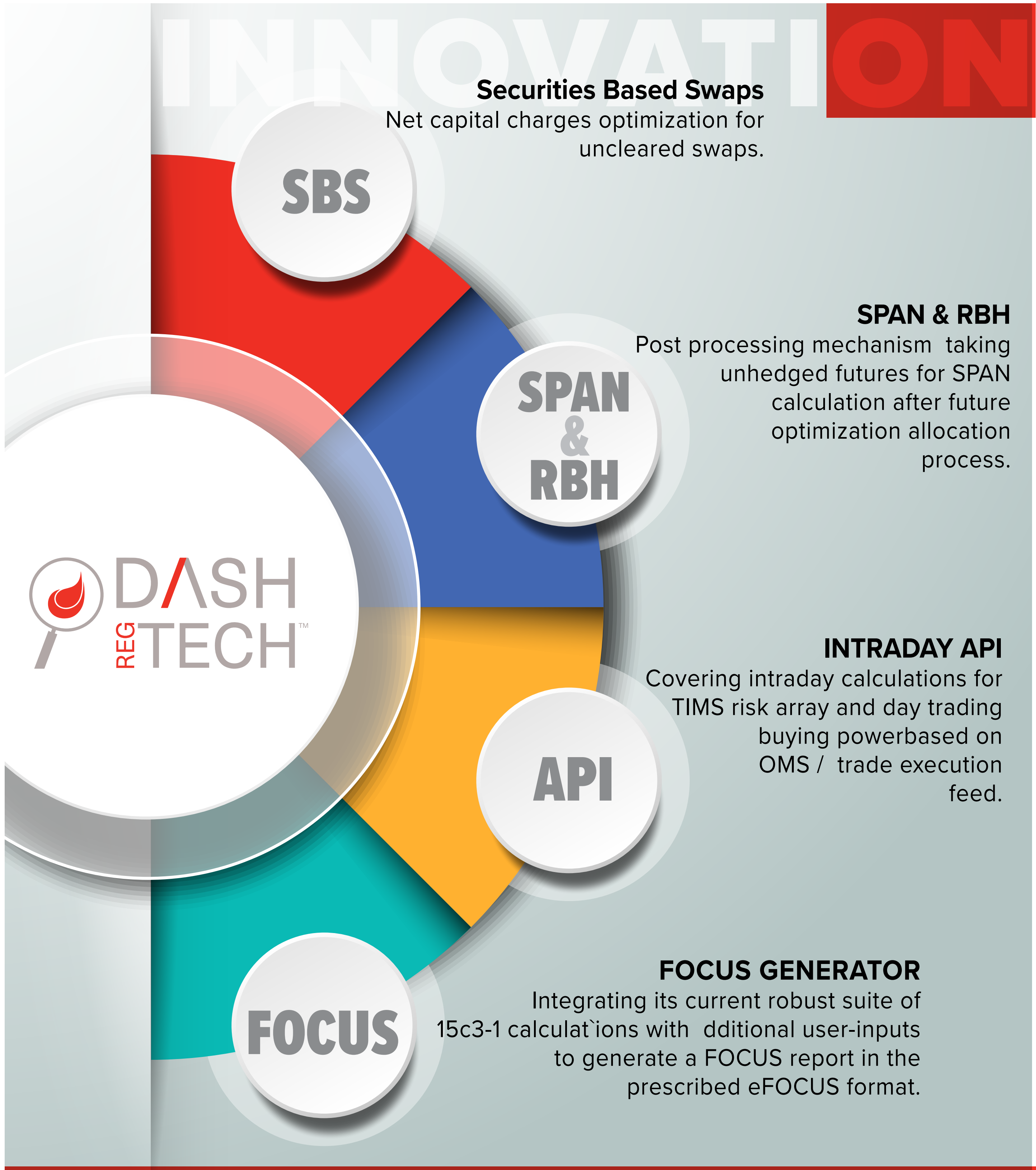
We are confident that the in-depth SOC 1 Type II attestation provides additional comfort to our users regarding the effectiveness of our controls, quality of our calculations and the security of user information within 360R and builds on the trust that our customers place in the calculations."

UPCOMING PRODUCTS

by Madhur Sarda

DASH is always on the leading edge of innovation. DASH continues to garner and listen to client feedback to be able to prioritize new product development for the benefit of the broker dealer community.

The 2021 product roadmap includes:



Vision

DASH REG TECH™

THE GOLD STANDARD SOLUTION
FOR US REGULATORY COMPLIANCE

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FOR MORE INFORMATION REGARDING OUR PRODUCTS OR SERVICES,
PLEASE CONTACT US AT:
SALES@DASHREGTECH.COM

About us

DASH Regulatory Technologies delivers the gold standard solution for US regulatory capital compliance. Our highly experienced group of industry experts deliver an elegant, precise, enterprise-wide solution to manage risk with innovative software solutions.

With a comprehensive suite of out-of-the-box tools, custom solutions and consultancy, DASH Regulatory Technologies provides everything required to satisfy the complex reporting requirements surrounding regulatory capital and compliance for the US broker-dealer industry.