



September 3, 2024

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE.,
Washington, D.C. 20549

RE: File No. SR-OCC-2024-010; Notice of Filing of Proposed Rule Change by the Options Clearing Corporation (“OCC”) To Establish a Margin Add-On Charge That Would Be Applied to All Clearing Member Accounts To Help Mitigate the Risks Arising From Intraday and Overnight Trading Activity

Dear Ms. Countryman:

DASH Financial Technologies (“DASH”) is writing to the U.S. Securities and Exchange Commission (the “Commission”) to respectfully express our concerns with the implementation of the “Margin Add-On Charge” and the universal application across all Clearing Member Accounts¹. We appreciate the need to effectively margin those industry participants taking risk in the market; however, we believe the approach taken in this filing is too expansive and disproportionately allocates the expense to Executing Brokers and Correspondent Clearing firms who are ultimately not carrying positions.

Executing Brokers and Correspondent Clearing firms provide valuable services to the end consumers of this industry, primarily without offering financing or capital-intensive services. The proposed rule would treat these firms on par with a Prime Broker; the latter of which is capitalized very differently and is in the business of providing financing and custody services for clients taking risk. We believe this treatment will have a negative impact and impose a significant burden on competition in the Broker-Dealer and Clearing Firm businesses. Therefore, we ask the Commission to consider a more targeted approach to effectively protect the industry and address the concerns around intraday risk taking and short-term option exposure.

Executing Brokers

The Executing Broker landscape is highly competitive today, with a diverse mix of firms servicing various client needs. These firms are forced to compete based on trading products and services, technology offerings, customer experience and support, and innovation. These firms have capital requirements based on their Self-Regulatory Organization (“SRO”) and the types of

¹ See Release No. 34-100664; File No. SR-OCC-2024-010 [August 6, 2024]



services provided. Agency-Only Executing Brokers, those not holding positions or taking balance sheet risk, are generally not overcapitalized relative to their SRO obligations. This practice is logical given their function in the industry; these firms act as intermediaries on behalf of their clients - facilitating trading and price discovery, providing access to markets, offering basic clearing and settlement services, etc. but ultimately do not hold positions themselves.

Under the proposed rule, we believe it's probable that the landscape will become less competitive, and that Agency Brokers will be forced reevaluate their ability to offer execution services in US Options given the capital implications. Accepting orders on behalf of certain clients (or clerical mistakes at time of order entry) could result in a significant margin obligation for the Broker-Dealer. For example, there is a well-established industry convention of processing option allocations on behalf of large institutional clients post-trade, frequently at end-of-day. It is highly unlikely that this client base will be able to adopt an allocation method that allows the broker to comply with the proposed 20-minute thresholds. Therefore, the Broker, directly or through its Clearing Firm, will incur the margin cost associated with any positions executed on behalf of this client. This could result in pre-funding and intraday margin calls for the Broker that significantly exceed the firm's Net Capital position.

This outcome will create a significant burden on the small and medium-sized Brokers, the firms not highly capitalized today. This could result in a dramatic reduction in the number of Brokers able to support this type of client going forward; only the most well-capitalized Brokers would be able to incur the incremental margin obligation. This adversely impacts competition in the industry and disproportionately harms smaller Brokers.

Correspondent Clearing Firms

We believe there are comparable arguments to be made for the OCC Member Firms providing Correspondent Clearing services. The risk profile of clearing-only firms (i.e. firms not holding positions at the end of day) does not change because of this rule. However, the increased capital obligations required to meet the pre-funding and intraday margin hurdles would be significant if the rule is adopted. As a result, it's logical to assume that fewer firms will offer Correspondent Clearing services, once again harming the competitive environment and resulting in fewer Clearing Firms, with fewer Executing Brokers as clients. This would further concentrate the margin obligations to a small number of OCC Member Firms.

Implementation Challenges

As per the rule filing, the OCC will "implement the proposed changes into production within one hundred and twenty days after the date that OCC receives all necessary regulatory approvals," making an early Q1 2025 implementation possible. That would allow industry participants only five to six months from the date of rule filing to prepare for this initiative. By comparison, other large industry initiatives provided considerably more lead time before adoption. For example, OCC provided approximately 20 months of lead time for OCC Rule 401, requiring



an Actionable Identifier to be included on all customer executions². Furthermore, DTCC provided roughly 15 months between rule filing and adoption of Rule 15c6-1 as part of the settlement shortening cycle to T+1³. Compliance with SR-OCC-2024-010, specifically for Executing Brokers and Correspondent Clearing firms, may require considerably more work to comply with the rule.

Examples of system enhancements necessary to comply with this rule:

- Executing Brokers will need to enhance their risk management tools to block or more effectively surveil orders by clearing attributes, time of day, and/or margin profile.
- Executing Brokers and Correspondent Clearing firms will need to model how to effectively parse intraday positions and attribute the margin across their respective client bases.
- Executing Brokers and Correspondent Clearing firms may need to build new Allocation tools to process CMTA Transfers more efficiently in real-time to OCC. This functionality would first need to be built for the legacy Encore technology, only to be re-written in order to comply with the OCC's migration to Ovation in summer of 2025.
- Executing Brokers and OCC Member Firms will have to create new surveillance processes regarding post-trade clearing adjustments to effectively monitor for misallocation.

This list is by no means comprehensive, merely an illustration of what DASH considers necessary given the requirements as proposed. Significant outreach to educate clients on the Rule and potential impacts will further inform our team regarding incremental technology needs. It's also worth noting that the margin rate increases noted in the Rule is a historical industry average. For instance, the "proposed add-on would have generated an average margin increase of less than 5% in the aggregate" or the "average daily margin percentage increases range from approximately 3% to 35%, based on data from October 2023."⁴ These metrics do not account for the impacts on individual Executing Brokers; for instance, an Agency-Only Executing Broker could have an Excess Net Capital position of \$10MM. If this broker executes regularly on behalf of large institutional buy-side clients, the firm's Phase 3 margin prefunding obligation as per this Rule could easily be \$50MM or more based on our analysis. This represents an enormous step change in capital requirements for the Executing Brokers in the industry, especially those that do not custody client positions today.

In conclusion, we agree that risk-taking in the marketplace should be margined appropriately and that further safeguards should be considered to protect the industry from intraday exposure. However, we strongly recommend that the Commission consider the impacts this proposal will have on the Executing Broker and Correspondent Clearing businesses. DASH is of the opinion that these businesses should be margined materially less, if at all, for this intraday

² See OCC Information Memo #46453, Implementation Schedule defined on page 2 [February 6, 2020]

³ See Release Nos. 34-96930, IA – 6239; File No. S7-05-22 [March 6, 2023]

⁴ See Release No. 34-100664; File No. SR-OCC-2024-010, pg. 65697

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exposure. Furthermore, the implementation timeline proposed will be unfeasible for many firms to adequately comply with the requirements and to secure the funding and/or credit facilities necessary. We welcome the opportunity to engage in further conversations on this topic and appreciate the opportunity to submit this Comment Letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Miller".

Timothy Miller
Chief Operating Officer
DASH Financial Technologies LLC