



DORRS

Financial Evolution: A Primer on Private Securities and Digital Asset Securities

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Abstract



This primer provides some illumination of the evolving dynamics of legacy private securities and emerging digital asset securities. The paper spotlights current industry issues and market trends, and offers possible solutions to enhance the ecosystem for both “privates” and “digitals”.



Introduction

Private securities are investments that are not publicly traded, and are only (primarily) accessible to accredited investors. On the other hand, digital asset securities, powered by blockchain technology, offer swifter trading and settlement capabilities with the promise of a potentially wider audience of investors. Though differing in nature, both asset classes intersect in important ways, especially concerning Alternative Trading Systems (ATSs).

Current State of the Industry

Lack of Global Standards: A noticeable absence of cohesive industry standards hampers the growth of both private and digital asset securities.

Fragmented Information: Essential securities data remains dispersed among exchange reference data, regulatory archives, and various blockchain networks.

Interoperability Challenges: Private securities and digital asset securities lack fluid interchangeability across different market centers.

- **Creation Difficulties:** Non-uniform standards across blockchain technologies.
- **Interoperability Issues:** Little, if any, fungibility for private securities and digital asset securities across trading platforms.
- **Reference Data Hurdles:** Absence of a cohesive reference data framework complicates processes like pricing, reporting, and settlements.



Barriers to Integration

- **Regulatory Hurdles:** The SEC's Rule 15c3-3, focusing on ATs's control over client securities, creates challenges, especially when digital assets are involved.
- **Introduction of SPBD (Special Purpose Broker Dealer):** Although introduced to aid in the custody of digital asset securities, the SPBD's practical applicability remains limited.
- **Operational Limitations:** Adhering to KYC regulations often entails gathering comprehensive customer data which major brokerages are hesitant to divulge to ATs's.
- **Market Constraints:** Liquidity and market depth are often compromised as market makers are restricted from assuming short positions in these securities.
- **Access Limitations:** Rule 301(b)(5) necessitates fair access on ATs platforms, but existing structures often restrict this access.
- **Regulatory Ambiguity:** The unclear regulatory framework around digital asset securities, in particular, impedes the ability of ATs to provide real utility to investors.



Market Trends and Implications

- **Trading Environments:** Existing markets grapple with liquidity challenges and complex settlement processes.
- **Settlement Models:** The SEC's prevailing framework in the three-step and four-step settlement process leads to disparities in trade settlements among market participants.



Recommendations for an Improved Ecosystem

- **Clearer Regulations:** SEC should demystify digital asset securities regulations, facilitating compliant trading product development by ATSS.
- **Unified Regulatory Framework:** Collaboration between the SEC and the CFTC could diminish regulatory ambiguity.
- **Standardization Among ATSS:** A unified standard can simplify investor processes, leading to greater asset adoption.
- **Product and Service Enhancement:** ATSS should innovate offerings to ease digital asset trading for investors.



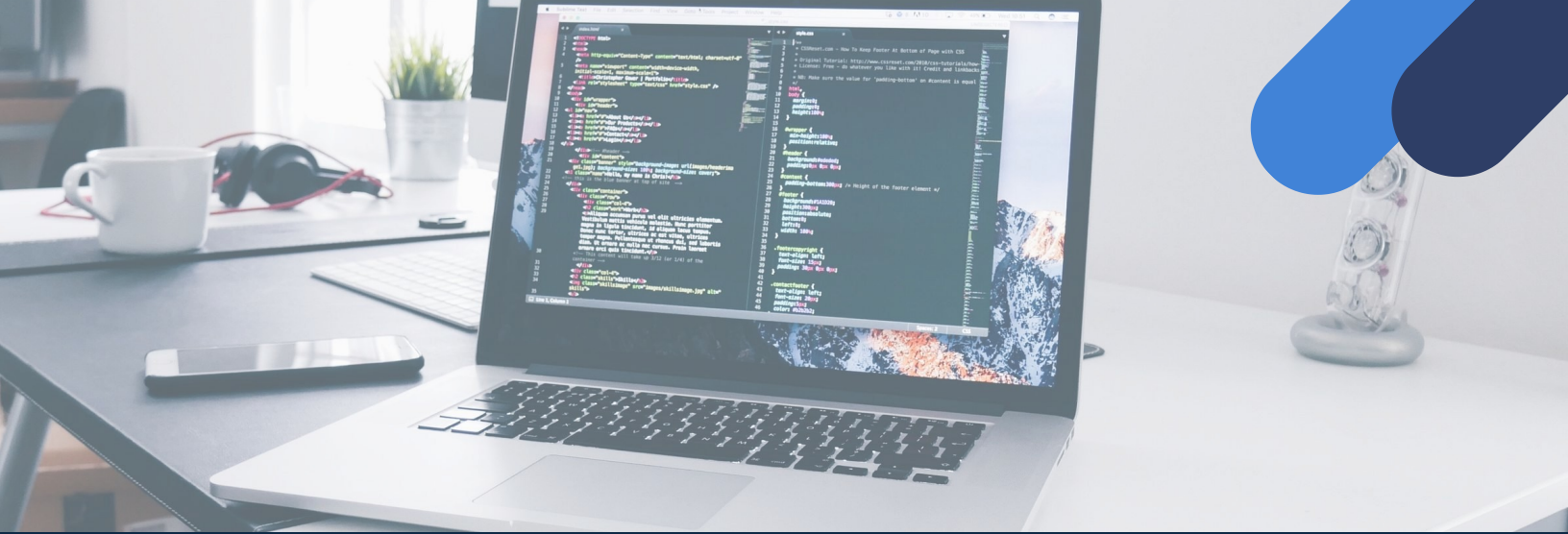
An Industry Utility Must Address

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Introducing DORRS

Decentralized Order Reporting Registry System (DORRS) will serve as a platform for the organizational plan that governs the Collection, Consolidation, and Dissemination of Quotation and Transaction Information for Eligible OTC, Private, and Digital Securities traded on Alternative Trading Systems (ATSs) and with Market Makers. Aiming to consolidate and streamline securities trading information, DORRS will function as an industry utility. It encompasses a comprehensive **registry** of eligible securities, facilitating the harmonization of **last-sale market data** from diverse sources.

Key Features of DORRS:

- **Streamlined Efficiency:** Access to consolidated data sources via convenient web portal and APIs.
- **Promotion of Fairness:** Equal access to all participants ensures equitable market operations.

DORRS Core Components

DORRS will expand using an existing sovereign blockchain platform in a later phase as part of its foundation to distribute market data, and safeguard records for the expanding digital asset domains.

Blockchain market data feeds harness the power of blockchain's unique features, offering notable benefits such as:

- **Transparency:** Transactions are recorded on a public or permissioned ledger, allowing verified data transparency without third-party reliance.
- **Data Integrity:** Blockchain data is immutable, ensuring its authenticity.
- **Decentralization:** This approach minimizes single failure points and boosts resilience against attacks.
- **Instant Updates:** Blockchain provides near real-time market data updates.
- **Reduced Intermediaries:** This can speed up data transmission and potentially cut costs.

DORRS Core Components

- **Smart Contracts:** Automated contracts streamline market processes related to data feeds.
- **Security:** Enhanced encryption techniques protect each transaction.
- **Global Reach:** Blockchain market data is accessible worldwide.
- **Interoperability:** Different blockchain networks can seamlessly integrate.
- **Auditability:** Transactions are time stamped for easy tracking.
- **Standardization:** Blockchain promotes uniform data feeds across platforms, minimizing data discrepancies.

In essence, blockchain-based market data feeds present a transparent, secure, and efficient way to disseminate and validate market data, with immense benefits for stakeholders.



The Role of a Member in DORRS

Members play a pivotal role, from collaborating on innovative data plans to actively shaping the future course of the Consolidated Market Data Plan.

- **Collaborative Endeavors:** Engage, contribute, and jointly blueprint innovative market data plans with peers.
- **Oversight & roadmap:** Play an integral role in overseeing the plan's execution and charting its future course.
- **Contribution:** Actively participate in shaping the Consolidated Market Data Plan from its conception to deployment.
- **Revenue Opportunities:** Members contributing data will be direct recipients (based on clearly defined parameters) of the revenue generated.



Conclusion

The burgeoning digital asset securities market, in conjunction with the established private securities market, presents challenges and opportunities. With platforms like DORRS, ATs are poised to redefine the trading landscape, ensuring seamless, transparent, and efficient transactions for all market participants.

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