

To: Christopher Kirkpatrick, Secretary of the Commission, Commodities Futures Trading Commission

Re: LabCFTC Prize RFI

Date: July 24, 2018

Secretary Kirkpatrick,

I write to you as Director and Chief Executive Officer of REGnosys Limited (“REGnosys”), in response to your Request For Inputs (“RFI”) regarding the LabCFTC Prize Competitions initiative.

REGnosys is a RegTech company headquartered in the UK which has been trading since June 2016. Since our beginnings we have had the privilege of engaging directly with UK regulators (the Financial Conduct Authority and the Bank of England) on a number of the topics referred to in your RFI, having participated in particular in their “Machine Executable Reporting TechSprint” of November 2017. We have witnessed first-hand the crucial role that regulatory agencies can play to foster innovation in the FinTech and RegTech sectors, in a triple way that improves outcome for the industry, stimulates competition and protects the public interest.

We therefore fully support the initiative of the Commodity Futures Trading Commission (“Commission”) in that area and welcome the opportunity to respond to your RFI.

Regarding prize competition topic selection:

Are there subject matter areas or specific topics that the Commission should particularly consider or focus on for a potential prize competition?

We would encourage the Commission to consider the practical use of technology to start providing an effective “machine executable rule-book” for the derivatives market, which would benefit regulators and regulated firms alike.

The concept of machine-executable regulation, which was pioneered by UK regulators through their RegTech programme, has since generated much enthusiasm globally. Practical steps are now needed to fulfil its potential. Recent industry developments offer scope to transform enthusiasm into reality and regulators should seize on the opportunity to act decisively.

- *In each case, what is the relevant challenge to be addressed?*

Having to comply with the multitude of regulatory obligations now applicable to derivatives market participants since the 2009 Pittsburgh call has put firms under considerable operational strain. The challenge has been well identified and articulated in an [ISDA Infrastructure White Paper](#) of September 2016.

This operational challenge is further compounded by the difficulty of interpreting the various rule requirements in the practical context of the markets that they are meant to regulate, making it hard to integrate these rules into actual compliance software.

The consequences are severe. For firms implementation complexity leads to difficulty to ascertain their own level of compliance and exposes them to the tail risk of non-compliance despite large and increasing aggregate spend on regulatory compliance. For regulators, the poor quality of the data they collect through reporting for instance, impairs their ability to extract insight and damages market transparency.

- ***In what ways can FinTech innovation potentially address this challenge?***

We fully support some other respondents' inputs, that also articulate the above problem statement and promote a greater use of existing standards as a way to alleviate the issue.

We encourage the Commission to be ambitious in its objective and look to implement a properly "machine-executable rule-book", based upon the appropriate digital standards being developed for the derivatives industry. Such rule-book would have the potential to address the above challenges provided that it meets certain criteria such as: a transparent syntax, unambiguous definitions of terms and the ability to generate code that can be directly used as part of programmatic compliance implementations. FinTech innovation should be encouraged to leverage those existing digital standards where it can.

- ***How would a prize competition spur development, interest, or broader adoption? Please be specific as possible or provide examples where appropriate.***

A prize competition sponsored by the Commission looking to implement a machine-executable rule-book would send a powerful message, that transformation is underway to improve the industry's current regulatory infrastructure. A sustained signal by the regulator would help overcome the inertia that has prevented the industry from taking the radical steps required to address the problem.

Alignment with similar initiative taken by the Financial Conduct Authority on "using technology to achieve smarter regulatory reporting" would serve to show that the regulator's effort is not just localised to the US, which is important in a market as globalised as derivatives.

Regarding administration of a prize competition:

What ground rules should govern participation in a CFTC-sponsored FinTech prize competition?

Our previous experience working with the UK regulators is that "collaboration" rather than "competition", is the more conducive way of fostering real industry innovation in the area of RegTech. There is broad-based recognition that regulatory compliance confronts the industry with a uniquely difficult set of challenges, that require a multi-disciplinary approach and a high degree of "sharing" to enhance outcomes.

In the FCA's TechSprint of November 2017, the mix of skill-sets between technologists, consultants, lawyers, industry practitioner and academics led to the break-through that made this two-week exercise a success.

We appreciate that statutory constraints could oblige the Commission to use prize competitions and would urge the Commission to look to introduce collaboration nonetheless in such competition as a way to maximise outcomes.

- ***Should competition entries be designated “open source,” or should each participant retain full control of its entry and any decision about its availability?***

An effective machine-executable rule-book, in the same way as its current “analog” counterpart, shall belong to the public domain.

A prize competition entry that looks to develop such artefact should be clear at the outset that the outcome belongs to the public domain, or at least to all market participants on an equal and open access basis. A practical ownership model for such artefact could be the Commission's itself, if it can find a practical way to in turn make it openly accessible to market participants.

Whether it morphs into a truly “open-source” project with multiple contributions, a governance model etc., should be left to be answered at a later stage as the project evolves.

- ***Should any different rules apply to winning entries?***

We suggest not applying different rules to winning entries.

I would like to thank you for the opportunity to respond to your Request for Inputs on the LabCFTC Prize Competitions. I remain at your disposal to answer any further question you might have regarding our submission.

Kind regards,

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