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Introduction to Droit Financial Technologies

Founded in 2012, Droit is a technology firm producing software automating global regulations in real time trading and operational systems. Droit provides infrastructure to simplify decisions in an ever-complex rule driven landscape. With offices in New York, London, Zurich and Hong Kong, Droit's client roster includes many large, complex, global financial organizations, both buy and sell side. Investors include Goldman Sachs, Wells Fargo, Pivot Investment Partners and DRW. Droit's award-winning platform, Adept, has been in live production since March 2014, and is used to process more than 10 million transactions per day.

Background and Objectives for the LabCFTC Prize

In the decade following the 2008 financial crisis, buy-side and sell-side market participants and market infrastructure providers are faced with increasing regulatory complexity across global jurisdictions. A daunting challenge in their attempt to comply is the absence of standards and harmonization in global rulemaking. While this reflects the reality of today's global markets, technology can help advance and clarify approaches to standardization.

The approach of imposing rigid semantic and data standards on legal texts risks curtailing interpretive richness and complexity and is of limited utility. Financial products, markets and institutions are all complex. Their complexities are inevitably mirrored in regulatory rule-making and in the density of regulatory language. The real challenge lies in striking a balance between semantic standardization and the necessary flexible interpretive richness needed to capture the regulatory spirit.

Suitable competition topics should be directly relevant to market participants and the Commission. A prize competition should inspire participants to propose solutions to a common problem, reducing frictions in the rulemaking process and facilitating ease of compliance.

Successful competitions should avoid the prescription of overly experimental or modish technologies, so that successful entries are likely to yield viable solutions that can add value to the industry in the short term. For example, a prize competition focused on efficient solutions for trade settlement or confirmation should focus on target outcomes (faster affirmation and payment exchange) rather than the specific means of achieving those outcomes (e.g. blockchain or distributed ledger).

Structure of Competition

Competitions should be open to all U.S.-based independent technology providers for the Commission to access the widest pool of motivated participants. Many of these technology providers will be private commercial enterprises. Therefore, we suggest that participants be allowed to make the commercial decision of whether and how to “open source” the specifics of their individual entries. Winning entries should be showcased or adopted by the CFTC for specific use cases, and in this way the public will benefit from exposure to their ideas.

Droit suggests that the Commission select a panel of judges representing perspectives from different stakeholders in the industry. This would include regulators (members of the Commission as well as other regulatory bodies), buy-side and sell-side institutions, market infrastructure providers, and academia. The diversity of perspectives represented in the existing technology advisory committee is a good starting point.

In keeping with idea of targeted prize competitions that generate practical solutions, Droit proposes the CFTC specify time-bound open competitions with clearly defined requirements, objectives and rules for entry. Competitions that take the form of “hackathons” or “camps” result in poorly conceptualized entries that require significant development to become viable in the real world.

Ideally, each contest would resemble an open-entry RFP. A defined proposal adhering to the RFP specification is due on the submission date. Following a review period, the panel of judges invites a published short list of applicants to present their entries in the final round of competition, from which a winner is chosen.

At this stage, the prize is not a technology contract. Rather, the prize is openly publicized use of the winning entry by the Commission to address a specific problem or highlight an innovative idea.

Prize Topics

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Droit submits the following prize topics for consideration by the Commission:

1. **Publication of rules as standardized versioned digital texts.** Regulations should be published as structured digital documents that can be versioned and amended using standard tools and frameworks. What is that standardized format? How can technology help to convert documents to that format? Can regulators, without having to modify content of regulations, modify the format and process of issuing and publishing new regulations, to advance machine-readable versioned digital formats?
2. **Cross-regulatory rule comparison.** How can technology help expose and normalize the underlying structure in existing regulations provided by the CFTC and its global counterparts? Normalized structures can then allow comparison between regulations from different jurisdictions and help facilitate the assessment of equivalence.

It may be instructive to compare the sets of derivative products subject to mandatory clearing and execution under CFTC and ESMA rules. Can technology provide visualization tools to clarify this comparison?

3. **Annotation of regulatory text for interpretive guidance and public comment.** Regulations of particular interest to market participants often receive hundreds of public comments. In the process of finalizing proposed regulations, the Commission will publish and reference comments as part of the rule-making process, noting how these comments have influenced the evolution of the rules. It would greatly improve the efficiency of review if commenters had a framework for digital annotation of regulatory text in their public comments. Comments could then be traced to chapter and verse of the reference regulation.

The Commission itself could use the same technology when issuing interpretive guidance and No Action letters, and indeed when referencing individual comments.

We thank you for the opportunity to comment on this initiative.

Respectfully submitted,

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