

Regulatory Solutions Provider of the Year Droit

According to technology consultant Celent, conventional rules-based paradigms of approaching risk and compliance obligations have given way to risk-based approaches where greater supervision intensity is placed on high risk or systemically important financial institutions, appropriate conduct, and emergent systemic risks.

In a report published earlier this year, the research firm warned that inadequate responses to regulatory requirements heighten operational risks and add costs. Fortunately for capital markets participants, Droit Financial Technologies, has developed an approach that goes beyond conventional solutions and helped earn it the accolade of *GlobalCapital's* Regulatory Solutions Provider of the Year.

Droit sits at the nexus between computational law and regulatory compliance, systematising the rules of exchange and enabling a decision process where a full understanding of those rules is available to every client and traceable to regulatory text, internal policies or market micro-structure rules.

This can be plugged into the client's pre-trade or transactional reporting process in order to understand which rules apply to the transactions and which obligations are incurred. The result is an 'audit record' that can be used to demonstrate adherence to a specific decision-making process.

Users get a visual representation of the rules and policies they need to follow, which enables them to implement a precise, attributed, transparent and auditable approach to decision-making that can be shown to a regulator.

"Droit's platform implements a high-performance, complex decision-making process incorporating hundreds of different sources of rules," explains Droit chief executive and founder, Brock Arnason. "Our clients benefit from a consensus-driven model informed by some of the world's most sophisticated financial institutions."

This meets the demanding requirements of large sell-side institutions with a significant global capital markets presence. The client base also includes larger regional banks and a growing segment of large asset managers.

Capital markets participants need to quickly understand whether they can trade in compliance with all applicable rules and internal policies.

Once a trade is executed, participants must determine which (if any) global reporting obligations apply and



Brock Arnason,
chief executive and
founder

ensure that where necessary an appropriate report can be generated for submission to the relevant regulators.

Arnason refers to another use case based on position reporting. "Significant long and short positions in listed derivatives and securities can imply a multiplicity of local reporting requirements. Market participants need to understand their full global obligations for reporting such positions," he explains.

When it comes to the intersection between capital markets and wealth management there is a real concern around the types of products that can be marketed to different types of customers.

An example of why it is important for firms to understand why they made a trade as well as how the trade was made can be found in the case of an institution with a certain position at a clearing house which would benefit from being able to clear an incremental product at that venue due to its collateral position.

"Understanding the scope of regulatory obligations is only one dimension of understanding the rules of exchange," says Arnason. "Knowing what is clearable or tradeable at a particular venue is important, as is understanding your own capabilities and positions and how these interact with the needs of the client."

Droit has made particular strides in the area of transaction reporting over the last 12 months in terms of the value it can provide to the buy-side and has also been developing shareholder disclosure functionality.

Significant enhancement in the validation and generation capabilities of Droit's reporting offering has enabled the company to expand its customer footprint and looking ahead there are notable developments in the area of validation explanation and failure attribution in the pipeline.

As Celent observes, firms are standing on the verge of change not only in the way regulation, risk and governance practices are defined, but more importantly how change can be demonstrably and effectively executed. 'Smarter ways are emerging for those willing to embrace them' it states – and Droit aims to take a leading role.