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**Trading technology product
of the year (sell side)**

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Trading technology product of the year (sell side)

Droit Financial Technologies

Simple questions, with increasingly complex answers – that’s the way New York-based start-up Droit Financial Technologies characterises the pre-trade decisions traders must make to comply with G20-driven derivatives reforms.

“At any given point in the day, any active trading firm will need to answer three questions: Who can I trade with? What can I trade with this party? Where can I execute and clear this trade? To be compliant with external regulations and internal processes, firms need to be able to answer these questions systematically and consistently across asset classes, execution and clearing platforms, and global regulatory regimes,” says Satya Pemmaraju, founding partner and chief executive of Droit.

Since it was founded in 2012, Droit has signed up five large banks as clients. Its product, Adept, typically links to a bank’s e-commerce and voice-trading platforms as well as to its post-execution workflow. On a pre-trade basis, the engine will analyse details of the proposed trade and provide decisions within milliseconds, enforcing G20 rules, and eligibility at central counterparties, clearing members and trading platforms.

Once executed, Adept then checks the trade was compliant with the relevant rules and generates escalation messages for any issues that may have been detected. It provides detailed audit records of all decisions on a per-transaction basis in a human-readable format. In this way, the platform brings together pre-trade decision-making with post-trade compliance analytics, using the same infrastructure, data and logic.

Adept is currently configured for five separate regulatory mandates across jurisdictions and asset classes: business conduct rules, clearing, electronic execution, transaction reporting and margin for uncleared derivatives. That requires Droit to keep on top of the minutiae of the regulations and the relevant market infrastructures on a global basis.

The firm has built an industrialised process to monitor relevant sources of change, which are detected by automated infrastructure and prioritised by in-house experts, in conjunction with legal counsel, industry groups and client representatives. The changes are then pushed out to the Droit infrastructure at client sites without the need for new software releases.

“One of the things that distinguishes financial regulation from other forms of law is that it has to be applied on a transaction basis, but these transactions take place in fractions of a second. To apply the law consistently and transparently while meeting those latency demands, firms need to schematise the masses of data relating to the rules and apply them in real-time within their trading infrastructure – that is the service our software provides,” explains Pemmaraju.

It is still early days for Droit, with just 14 staff and five clients, although it expects headcount to rise to 20 by the end of the first quarter and is



Satya Pemmaraju, Droit

pursuing an ambitious list of prospects. But part of what makes the company credible at this stage is the calibre of its personnel and the trust they appear to have earned from their first clients.

Pemmaraju spent most of his career at UBS, where he rose up the ranks as a derivatives trader and helped to form the bank’s funding desk. Droit’s other founding partners, Anup Menon and Brock Arnason, came from Barclays and Morgan Stanley respectively, where they held senior roles in OTC clearing and e-commerce.

“There was a lot of personal credibility at stake, as we funded the firm ourselves and haven’t taken any outside capital. Budgets within banks are incredibly tight and decision-making is very fragmented, so it was initially challenging to get the momentum going, but as we have started to onboard banks – and have more reference clients – it is beginning to ease up,” says Pemmaraju.

Given the constraints on budgets and the difficulty of getting sign-off to buy a platform from a tiny, relatively unknown software provider, banks could reasonably be expected to build the relevant functionality themselves. But while most large banks have no shortage of experienced technologists in-house, this kind of project poses a unique set of challenges.

“Dealers have very well-funded multi-year business and technology programmes in place to deal with regulatory requirements, but they seem tactical and fragmented by asset class, geography and even desk. Most banks have never before had to build technology that must respond systematically to very rapid change and fragmentation on a global and cross-asset class basis,” Pemmaraju explains. “Our platform is designed ground-up to meet the challenges of a constantly evolving rule-based world of trading that must be addressed through automated intelligence. Our clients understand this type of platform is mandatory in the new world of compliant trading.”

It’s a business case that seems to have struck a chord, and the backing of industry veterans such as Robert Pickel and Mark Beeston – formerly of the International Swaps and Derivatives Association and Icap, respectively – both of whom have joined the company’s advisory board, certainly adds to its credibility. As Droit’s ambitions grow, the coming months are likely to be critical, for both the company and its clients.

“We went through a very rigorous proof of concept with Droit, which gave us confidence in the product, and so far the implementation has gone smoothly. It may be a small start-up, and it will need to work out how it can scale in the future, but there is nothing equivalent to this in the market at the moment,” says an IT official at a bank implementing Adept. ■

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Who can you trade with?

What can you trade with them?

Where can you execute and clear the trade?

TRADE RIGHT

Droit navigates global regulatory mandates and transactional rules in real-time, ensuring auditable compliance on every transaction, in every location.

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