

Risk Awards 2018

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**OTC infrastructure
service of the year**

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OTC infrastructure service of the year

Droit Financial Technologies

Wind the clock back a decade, and a firm such as Droit Financial Technologies would probably not have been regarded as a piece of market infrastructure – but that’s because the regulation that brought the company to life did not exist.

Since 2009, new rules have piled up across the over-the-counter derivatives market, determining which counterparties can face each other, what products they can trade, and what they have to do after the trade is executed. Droit’s Adept platform contains digitised versions of all these rules, telling firms how to trade without getting lost in a maze of lines.

In that sense, its role is not dissimilar to that of the more traditional infrastructure firms it beat to this year’s award: it helps the market function.

“Our engagement with Droit has been very positive and they are increasingly accepted as the default provider in this area,” says an executive at one large bank.

“The idea behind Droit was always that trading is going to become more automated, governed by complex rulemaking, and the only way to deal with this is through systematic automation,” says Satya Pemmaraju, founder and chief executive of Droit. “We now have 15 global institutions signed up and we feel we have reached the point where it is de facto the industry standard, given the profile of the clients and the size, leadership and influence they have in the industry.”

Those clients include BNP Paribas, Crédit Agricole CIB, Goldman Sachs and UBS.

The firm’s ability to raise funds is just as impressive. In October 2016, it landed a \$16 million investment to support its expansion. Goldman Sachs, Pivot Investment Partners and Wells Fargo led the funding round.

But, apart from growing, what has the firm done in the past 12 months to deserve an award?

The imminent implementation of the second Markets in Financial Instruments Directive in Europe has been a game-changer for Droit. While Adept had been built to support compliance with multiple detailed rulebooks – from business conduct to margining and swap execution – the complexity and scope of Mifid II forced Droit to expand beyond OTC products so as to offer a more complete service to European institutions.

“What began as primarily an OTC derivatives service has expanded to all asset classes. We understood fairly early on that if we were going to develop a decision-making solution for Mifid II, it wouldn’t be of much value if we only did OTC derivatives, because clients would have to build something separate for listed derivatives,” Pemmaraju says.

As well as expanding its product capabilities, Droit has added traceability to the platform by digitising legal texts into a standardised format, so users can track implementation decisions back to a specific paragraph of



Satya Pemmaraju

regulation. In an environment of diverse and sometimes conflicting regulatory requirements, traceability improves banks’ ability to audit their business and monitor compliance on an ongoing basis.

Further advances in the Adept technology have made for a much smoother and more efficient implementation process, users say, which has the potential to accelerate Droit’s growth in the years to come. While client onboarding was a lengthy and complex process in the early days, a new lightweight application programming interface (API) was rolled out last

year and has cut time to market dramatically, allowing banks to lead the implementation themselves.

“Our investment in technology has completely changed the way we integrate with clients; what used to be a time-consuming, resource-intensive integration process has been completely transformed. We now give clients the API so they can run the integration themselves, and a process that once took up to six months can be completed in 10–14 weeks,” Pemmaraju says.

Support from top-tier financial institutions has helped to bolster Droit’s offering and credibility. Earlier this year, the company joined JP Morgan’s prestigious ‘In-Residence’ programme, which nurtures promising start-ups and gives them access to the bank’s resources, while Goldman Sachs has worked closely with Droit on Mifid II.

Droit remains a fairly lean company, with just 31 employees and offices only in London and New York. Expansion in Europe has been a priority this year ahead of Mifid II and the firm hired Keith Tippell, formerly of MarkitServ and Swift, to run sales and business development. Next year, Droit will focus on Asia, with the likely opening of a regional office in Hong Kong, as well as the addition of more buy-side firms to its client base – it signed its first this year.

“We would like every major financial institution – both banks and asset managers – to be a client within the next three years. Firms need to make intelligent, complex decisions all through the transaction lifecycle and we have created a unified mechanism for making those decisions, both before and after execution,” says Pemmaraju. ■

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