

Corlytics is pleased to submit the following comments in response to FINRA's request for comment on financial technology innovation in the broker-dealer industry, specifically the development of a taxonomy-based machine-readable rulebook.

Corlytics shares FINRA's observation that "financial institutions are faced with the challenge of keeping pace with changes to regulatory requirements and are devoting significant resources to their internal regulatory compliance functions." We believe that improving the accessibility of FINRA's Rulebook through digitization will reduce risk, lower costs and improve operational performance.

Our direct feedback from regulated firms indicates that complying with the scope, complexity and frequency of regulatory updates imparts a significant administrative and cost burden on the organization: Determining which rules are relevant, what the associated obligations are, and structuring a compliance program around those obligations can involve legal, risk, compliance, systems and operations resources. However, opportunities to achieve economies of scale are limited due to the unstructured format in which regulatory information is made available.

A regulatory taxonomy that incorporates legal, business and control factors significantly enhances a regulated entity's ability to

- Monitor and manage regulations and rules, notably the determination of relevancy, ownership and priority;
- Evaluate the significance/impact of regulations and rules in the context of their business, notably which operations and control processes are impacted;
- Evaluate and report the potential risk to the organization; and
- Formulate policies and practices to ensure compliance obligations are met.

Corlytics agrees that a machine-readable rulebook is valuable both in its own right and also as a stepping stone to machine-executable regulations. An appropriately "tagged" rulebook can be made available to regulated entities via: (1) the FINRA website and/or (2) a machine-readable XML feed to a business or compliance application at the regulated entity:

- A web hosted, taxonomized and searchable regulatory rulebook would bring a distinctly business orientation to compliance. Regulated entities would be able to locate and understand their regulatory obligations in a more straight-forward manner, leading to greater efficiency, lower costs and reduced risk of non-compliance.
- Providing a structured, machine-readable file to market participants using a standardized taxonomy would facilitate integration into internal applications and enable the automated interrogation of regulatory content and the determination of relevancy, ownership and priority. Legal, compliance, risk, operations and systems resources would be used more efficiently and with greater efficacy.

Following are Corlytics' responses to FINRA's specific queries:

- *Who is likely to benefit if FINRA were to develop a machine-readable rulebook using an embedded taxonomy? For what purpose would it be used by market participants? What types of market participants would be most likely to use it?* Corlytics' direct experience with both regulated entities and with regulators indicates benefits would accrue to individual firms and the industry at large. Regulated entities would benefit from a business-contextualized taxonomy that would simplify the sourcing of relevant obligations. The industry would benefit from the establishment of a common framework around which compliance programs and applications can be built.
- *Would firms or third-party service providers seek to develop tools to interact with a machine-readable rulebook? Would such a rulebook assist with compliance efforts? If so, in what ways would it make compliance more efficient or effective?* A standardized taxonomy of regulatory obligations, when combined with a standardized taxonomy of business functions and control processes, would significantly assist in compliance efforts. A machine-readable rulebook provides regulated entities with clarity on their regulatory obligations, thus enabling firms to implement more effective governance, compliance and operational control measures. Likewise, applications can be developed that leverage the taxonomy to, for example, associate obligations with internal processes and controls.
- *Is there a risk of over-reliance on output provided by a machine-readable rulebook, such that insufficient analysis may be done by individuals? What measures, if any, could be taken to limit the potential for over-reliance?* A machine-readable rulebook makes regulation more accessible, therefore, easier to organize for analysis. However, the obligation to interpret remains with individuals. Incorporation of workflow tools into that process can help ensure the necessary oversight, such as routing information to relevant personnel and auditing actions taken.
- *As noted previously, certain regulators have developed, or are considering developing, a taxonomy-based machine-readable rulebook. What are the potential benefits and challenges associated with developing a consistent or harmonized taxonomy across regulators? What regulatory areas would have the greatest benefits or challenges from any such harmonization?* The benefit of developing a consistent taxonomy across regulators means that firms can streamline their compliance processes in order to ensure they interpret rules and regulation consistently. In addition, this allows for greater ease for regulated firms to map the regulators taxonomy to their own controls and processes which could enable (where appropriate) straight through processing of regulation. The challenge of developing a consistent taxonomy across regulators lies in securing cooperation and buy in from a number of regulators and ensuring the taxonomy approach is agreed by multiple parties.
- *Absent the development of a consistent or harmonized taxonomy across relevant regulators, would the creation of a machine-readable rulebook by FINRA be useful? Are there technology tools or processes that decrease the need for a consistent or harmonized taxonomy?* There is a significant benefit to both FINRA and its members to develop a FINRA rulebook taxonomy. This will allow users to navigate the rulebook from a business centric view where expert legal knowledge would not be a pre-requisite. Making the FINRA rulebook accessible will have a direct impact on the time and

resources needed by member firms (in particular smaller, less resourced firms) to interpret and comply with the rules. Part of building an intelligent rulebook involves embedding a taxonomy within the rules. This allows for visualization of the rulebook to be built on top of the taxonomy in order to make it accessible. Other tools or processes would not include a FINRA taxonomy and therefore could not benefit from this level of metadata.

- *What role should vendors and regulated firms play in the adoption, development and ongoing taxonomy maintenance?* Corlytics believes that taxonomy ownership should reside with the regulator. However, regulated entities, service providers and vendors all are stakeholders in the outcome and should be involved as part of a consultation process.

Respectfully submitted,

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