

## Asset Managers Tech

November 30, 2018

Marcia E. Asquith  
Office of the Corporate Secretary  
FINRA  
1735 K Street, NW  
Washington, DC 20006-1506

**Subject: FINRA’s White Paper relating to Technology Based Innovations for Regulatory Compliance (“RegTech”) in the Securities Industry**

Dear Ms. Asquith:

### **INTRODUCTION**

Asset Managers Tech (“AMT”) appreciates this opportunity to submit comments concerning FINRA’s RegTech white paper. As noted below, it is our position that the white paper facilitates debate by relevant parties in the financial services industry concerning not only how regulation is likely to be affected by new technologies, but also how market participants and others might establish their own frame of reference to better understand innovations such as Blockchain and Artificial Intelligence.

In fact, AMT itself is a start up trade group that is principally focused on buy-side technology; our initiatives include educational activities that are geared to the asset management industry. We believe it is clear that these new technologies can be applied by investment managers to foster the interests of ultimate investors in stocks, bonds and related financial instruments.

### **ASSET MANAGERS AND TECHNOLOGY**

Significantly, senior executives in the asset management industry are very aware of how to critique new securities industry rules. The first question relating to any new industry proposal is typically, “where does the proposal stand in terms of regulatory requirements?” Therefore, the Reg side of FINRA’s RegTech process can conceivably put Blockchain driven initiatives, for instance, in a familiar analytical context for the buy-side. However, AMT’s experience to date is that some firms in the securities industry are sticking with a somewhat wait and see attitude regarding the Tech side of RegTech. Combining Reg and Tech, as FINRA has done, can possibly cause more financial services leaders to take a closer look at the potential value of today’s technology movement.

AMT’s further assessment of RegTech is that folks are inclined to believe that operational or processing matters lend themselves more easily to the new technologies. Thus,

with respect to the point in time when securities trades are effected to their settlement, today's industry professionals (including custodian banks) seem to feel that a Blockchain driven service would generally be beneficial if one is seeking to take advantage of the so-called immutable record of a trade. In this instance, the underlying or imbedded Blockchain technology would conceivably reduce the cost of maintaining multiple records of these trades (as the same ledger would be made available to broker-dealers, banks and managers) and thereby also cut back on the total number of errors that would need to be corrected.

Notwithstanding the degree of interest by buy-side professionals in these latest trade processing opportunities, asset managers are somewhat less aggressive when it comes to introducing clients to more sophisticated tech such as "disruptive technology" or hybrid cloud services, particularly if doing so might be tied to relationships with clients who are consistently indicating satisfaction with the services they are already receiving from investment managers.

### **BUY-SIDE TECH GOALS**

At AMT, our goal is not to force the new tech movement. However, we also realize that many start up technology developers have been formed in recent years. Some are independent entrepreneurs and others have been engaged directly with large banks or asset management firms on very large scale tailored programs or proprietary products. In these situations, the tech developers are charged with working directly with advisers or traders to forge such new proprietary technology products, in the interests of ultimate investors. Accordingly, our trade group's take on this is that the Tech portion of RegTech is fast approaching. We believe there is more room for a tech focused trade association such as ours to be helpful to the industry as all of these variable approaches to the new tech movement play out. AMT, of course, is committed to the process of getting all the relevant financial tech information that is publicly available out in the open for all industry participants to freely access.

Moreover, as indicated above, AMT should provide its members with a context in which they can explore tech opportunities. One version of such a context would certainly seem to be RegTech. Thus, for this reason, we wholeheartedly recommend an extension by FINRA, when appropriate, of its RegTech program. Moreover, we believe that your broad RegTech initiative will continuously benefit investors and the integrity of the securities markets.

### **ABC's OF TECH**

The views expressed above are obviously connected to AMT's *raison d'être*. Our goal is for these kind of views regarding the new technologies to receive instant exposure with all long only and alternative investment firms – and we feel the word should be spread by existing multi-purpose financial services trade groups or any other types of relevant non-profit organizations. In this connection, AMT's by-laws permit these other organizations to become AMT members. And the organizations would then be free to share or use AMT's various resources with their own members or clients. These resources include Webcasts produced by our co-founders and Question & Answer docs that describe the ABC's of Tech. We also make these resources available on a private label basis, should that be helpful to any of our member organizations. These resource distribution efforts constitute AMT's version

of reaching the “Crowd” (meaning just about anyone in the industry who is on line!) concerning today’s extensive technology movement in the securities markets.

AMT’s top priority in submitting this comment letter relates to the ABC’s of Tech. Our position is that the “tech alphabet” is still very much a work in progress. Thus, AMT subscribes to having senior managers in the asset management or alternative investment management industries break out in small groups whenever possible. In turn, these small groups tend to encourage “trial and error” projects on a hypothetical basis. Typically, this results in broad, theoretical tech suggestions that can ultimately be the basis for real world solutions. Of course, such solutions are by no means AMT’s own end game because we are structured as a trade group. We certainly do not participate in for profit ventures given our trade group status. Our goal is to share common information regarding today’s technology so that our industry group can continue to foster enhanced best execution and other related standards that are consistent with investment managers’ fiduciary duties.

## CONCLUSION

We would like to conclude on another important note; namely, AMT truly believes that many major industry-wide tech projects lie ahead. For example, there is some degree of interest in having an asset manager combine the input that it receives from various third party vendors and then to apply that to a customer’s unique profile which would give rise to state of the art information about the customer’s account. This would be a service to the customer. Also, on a totally different matter, the challenge of dealing with extensively variable documentation to close large private investment transactions on a common ledger still needs to be solved to the satisfaction of the buy-side. Accordingly, we are fully committed to our own recommendation to move forward with developing the ABC’s of the new technologies.

Our closing suggestion would be for FINRA and perhaps other regulators to consider engaging in regular dialogue with all trade groups, including ours, so that there can be a reasonably consistent understanding of the status of the tech movement at all times by all entities that serve as industry spokespersons regarding tech policy matters. Otherwise, because technology is fairly challenging at this stage, we might all be slowed down in our efforts to keep the securities industry on track regarding tech basics.

Should FINRA’s representatives have any questions regarding these comments, AMT would be pleased to follow up. In any event, we look forward to participating in all of FINRA’s forthcoming activities in the constructively expanding area of technology in the securities industry.

Very truly yours,

s/ Joseph W. Sack

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