[Music Intro]

[Nataly Arber] Welcome back to Shaping Global Markets, a series focused on key topics in the regulatory and financial technology space. I'm Nataly, your host. And every episode, I'm joined by industry experts to discuss interesting and relevant ideas and answer timely questions about where the industry is headed. As always, we would love to hear from you about topics you want us to cover. So please, subscribe, leave a comment, or follow us on Twitter @DFINsolutions.

This is actually part two of a mini-series we're doing around RegTech, so if you're just tuning in, you might want to go back and check out part one, where we speak with Eric Johnson, president of Global Investment Companies at DFN. With Eric, we focused more on the regulatory, or reg, side of things. We talked about what makes RegTech unique and its potential future applications. We also touched on the challenges the industry might face when adapting to a more automated regulatory compliance landscape. So, definitely check that episode out.

Today, I'm speaking with DFIN's Chief Product Officer, Floyd Strimling, to talk more about the evolution that led to today's greatest RegTech opportunities. And we'll be focusing more on the tech side of things, getting his perspective on the future of next generation technologies in this space. So, without further ado, I'd like to welcome Floyd to the podcast.

Hi Floyd, thanks so much for joining me.

[Floyd Strimling] Hi Nataly, thanks for having me.

[Nataly] It's certainly an interesting time to be discussing the advancements in the regulatory compliance space, but before we dive in, can you tell me a little bit about yourself and your career leading up to today?

[Floyd] Sure. I would say that I'm a man of faith, a husband, a father, friend, person who is extremely busy with all that brings. I have had a bit of an unconventional path to where I am today, and unfortunately, I've seen a lot; been through the tragedy of 9/11, the dot com bust, the great recession #2, and of course now this current pandemic. I fell in love with startups, and that gave me a chance to do many different jobs and meet many interesting people who shaped really who I am in business, and who I am as a person.

Prior to coming to DFIN, I was working at SAP, and that's where I fell in love with really what they described as "end-to-end enterprise application software," and really its role in automation and how it fits within at that time the changing world of cloud computing and also this digital transformation that's going on. So, for me, I came to DFIN as my chance to simply stop talking about this digital transformation and actually do one. So, what's great is that as Chief Product Officer I have direct responsibility for engineering and for product and work closely with every aspect of the business, and really help drive this digital transformation, and I'm really, really encouraged by the trajectory and the path that we're on, and can't wait to see what the future brings us.

[Nataly] Thanks for that introduction, Floyd. I love what you said about being excited to do a digital transformation and not just be talking about one. Transformation is actually a beautiful segue to my next question and a great place to for us to start this discussion, because RegTech was born out of necessity for change in a lot of ways and has pushed the industry to move faster through its own digital transformation.

So, let's just take a little step back. Can you talk about what the initial catalyst for regulatory technology was?

[Floyd] Yeah. Unfortunately, regulatory technology has always been the product of something that's happened that has created a climate where regulation becomes necessary. If you think about it, regulation is a topic that continues to be a hot topic in the country, in the United States but also in the world on how much is too much and what do we actually need.

But really the first piece of regulatory legislation that I look at is really the Sarbanes Oxley Act of 2002. And that act really was a way to really apply regulation to privately held companies, and it was a way to really look at how things were happening with some of the public companies and other things that were going on around Enron and WorldCom, which were huge names at the time. So, it also covers the responsibilities of a public company, and especially how its board of directors should act.

That Act itself changed a lot of things, it created a lot of companies and a lot of momentum for what I would say is the beginnings of this RegTech kind of world. And I think it kept going, and really, the next one that I would point to probably is 2010 with the Dodd Frank Act, which was because of what had happened with Wall Street and the crashes we experienced. It changed the way that we would look to regulate ourselves and the things that we're looking for around different agencies and the government, and what the government's looking for in each of these pieces.

I also think just the very act of the SEC is there to protect investors, and as things get bigger and bigger and more important, I think that you're starting to see that the role of the SEC is getting more expansive, especially as things move more towards digital and less towards paper, where things move so fast, you need to change the way you view things to get through it.

[Nataly] Exactly. I like how you phrase that. As we continue to move faster, we rely on technology to gather information, but also organize it in a way that can be consumed easily. So, to your point, as the SEC plays a bigger and bigger role and regulations have more of an impact on businesses, it's natural to look for optimizations that will aid us in moving faster. But I'm also curious because in an industry that relies heavily on compliance and risk management, it would seem the barriers for adopting new technology would be quite high, so can you talk a little bit about the greatest challenges that you see standing in the way of RegTech and its applications across the industry?

[Floyd] Yeah, I think the challenges around RegTech are really, are, there's a lot of them. And, you know, one of the big challenges is in the changing regulations themselves, within the

federal government and the other governments that you look at. It's not just at a federal or at the highest levels, it's now down to, in the U.S., state levels, in Europe it's the E.U. and the individual countries, in Asia you have different countries that have different types of Acts that they have to adhere to.

I think really the barrier here is how to get more modern technology involved in regulatory tech. And then also how to share information and share really important information and be able to analyze it at a much faster rate, so that people can use that information for a desired outcome. It's got to be more than just reporting in and then figuring out what you did wrong, it's got to be able to be used by individual investors, by individual companies, by other entities to push this forward. And of the big things that the way that we want to use this versus how it's being used today is very interesting to say the least.

One of the examples I use, and I will still use it, is if you just look at automobiles, and in an automobile sense we all drive a car. I've had many different brands in my life. I have some loyalty to some things I don't have to others, but I never felt I was drawn to something or part of a movement. If you just look like, what companies, like Tesla have done, to take something like build a car, make changes, yes there's enhancements and features like over the air software and other things, and the electric part of it. But, at the end of the day they've now transformed something that we all use and thought we knew, into something new and exciting, and they've given birth to other companies that are doing similar things in trucks, and in big rigs, and other things, that are moving this forward.

So, I think what's truly fascinating is how something that we know, and we think it needs to be done, it's a good idea to have regulatory technology, it's a good idea to regulate and to have information available, but how to make that into something much more. A movement or an exciting type of space that people want to be in and want to be a part of.

[Nataly] There's got to be more to it than finding an exciting niche, right? I think a large part of it is showing a company's expertise and foresight for reimagining what the technology could be used for. To say it in a different way I suppose, there's a lot of value in imagining the unique applications of, in our case RegTech, and defining the various problems it can solve. But before we can all reimagine that future, maybe you can share a little bit of what the current use cases for RegTech are; and then I'd love to hear from your perspective what a potential future application could look like making RegTech more exciting.

[Floyd] Yea, so if I look at, if I just look at what people are doing with this right now, you know RegTech started off with just filing a report, and there are wholesale parts of the industry that you still file, print and publish a report and hand it in. You know, turn in your term paper and now I'm in compliance. And then we started moving towards this ability to do more with HTML and EDGAR HTML and really pushed that into a way to signal and move things into the regulatory bodies.

And then something called XBRL was born. And XBRL was really born out of this need to do more than what you can get out of this standard type of HTML and even EDGAR HTML, but it

had its shortcomings as well, and now we're on our next generation, which is really called Inline XBRL, which, I believe, has the ability to take off beyond where it is today. We're seeing now not only are the governments using it but we're seeing it now being used by state and local municipalities and specific industries are looking at it because it has so many advantages, and allows really for the tagging of an object inside of a document or of a piece of data that can then be used comparatively and analytically around multiple different sets of data. It has a fascinating use case that you can use to help the regulatory bodies as well as the individual companies.

It also has the ability for, say, you and I to build really interesting applications with that data itself that enables you to do comparisons without having to store that information, without even really knowing nothing more than the tag name that would contain that data itself.

So, I think this next substantiation of how we're going to communicate, we're at a path now where I believe we're finally at a unified state where iXBRL is the right way to do this, and then this is leading to a lot of innovations in the space. Most of it really has been in the creation of that information that we want to file. And that means how do I as a company, public, private entity, create this information and then provide it to the government in a way that they need it, or in a way that the entity, the way that they need to consume it, and then know for a fact that I'm compliant based on what was given. So, I see a next generation of RegTech now, coming up because of this application around this kind of unification around one way of tagging and marking it, and I also see that a lot of people are seeing the benefit of the technology as a whole.

[Nataly] Maybe it would be helpful if you could define a few of the benefits of using RegTech, not so much the surface level ones that might come to mind like organizing data, optimizing reporting, obviously supporting regulatory compliance, but what are some of those farther-reaching benefits and values to using RegTech that we don't always bring to mind?

[Floyd] There are two sides to this coin. On one side is the content creators, and on the other side is going to be the people that consume the information. A content creator, I think if you went out and polled all of the CFOs around there, they will tell you this is something that they do because they have to, not necessarily that they do because they want to or have a deep affection for it. It's a part of their job and they need to get it done. For them, it's all about automating, and making this more efficient, as they have to file these documents. It also enables that business to grow because if you don't file and if you don't do this, you can't get into different areas, you can't extend your business, you can't really grow. So, it's still important but it really is to make them more efficient in the collection and the documentation and ultimately the composition, tagging and filing of this information to whatever entity you want. So, their benefits are all going to be around efficiencies, around doing more with less and then around using that data themselves in creating that information that they need to create.

On the other side, you've got more of the regulatory bodies, and the regulatory bodies are going through their own generation of data science, and artificial intelligence, and trying to be able to use this information quickly to detect something that we can all get our arms around, fraud, but also to detect anomalies in what's going on in the companies, or in the reportings, so they can

get that out to rest of the investor community or whatever community they're in to tell them what's going on. And then there's a third constituent that we don't ever really think about, and that's you and me. That's the individual consumer that maybe a hedge fund manager that maybe someone else, there's value in this data itself that manifests this way where it's really, really…critical data, when it's not public, and then it becomes public and then it's in the public domain, so it's critical because we all have access to it. But those that can take that information and find strategically bits of that reporting, whether that's would be something as simple as a revenue number or something as complex as some derivative or some information they're looking for can use that as an advantage to make decisions that I'm making about you, or about your comparative companies, or about comparative spaces or about different areas. I think that's where it gets really interesting, the untapped space, there are tools that allow us to do it but I would tell you most people don't really know because it's not the technology, it's not what's important, it's what you do with it. We gotta get to the point where we could do something with this, not that I care, or you care, or a CFO, or anyone, cares about iXBRL, but will care about what the end result is of that technology.

[Nataly] It seems that right now, the sky is the limit, given the way you're describing data almost having this potential energy waiting for the right moment, but it sounds to me that the challenge is in finding a way to harness it, and scaling the solution. So, are those future ideas and use cases for the technology already in play? Has anyone in the regulatory space thought to that next generation?

[Floyd] So let me answer this in a couple different ways. So, the first way I answer is like this: the ability to use technology and to use techniques which is all ML is, is a technique, is it has to be used in conjunction of an outcome that can be consumed by somebody or something, and it's right now it's we have all this cool technology out there and there's a lot of great things we could be doing, but what are we doing with it truly? There are a lot people with ideas. How many of us read a financial report? Not many. Matter of fact, according to the rules, the government has already changed with 30e-3, another regulation that you don't have to have printed copies, that they default to the electronic and why is that? Well, it's because most people aren't reading the copies anyway, so it's a faster, cleaner way to deliver it via email, or whatever medium that you want to deliver it by.

So, you have all of this information and it's sitting there, is it waiting for the next great idea of how to use it? I think it is. I mean there's an example that I would use, and it's one that is around that we all use it, but if you just look at something like text messaging, and the reason why I bring this up is that text messaging is nothing new. It was there from, almost the beginning. We used to tap on our phones, believe it or not, before phones had keyboards, we used to tap "2 2 2" to get to your letter that you wanted and you would, you'd have to write out a message, so it was not useable to most people, it was a something of, "why do I want to do this?" Lo and behold, here comes things like the Blackberry, but actually I think it was Apple that really took it to the next level, and all of sudden now who could live without texting? It brought new applications like chat applications, iMessage, WhatsApp, Snapchat, god knows what's coming next. You've got all this stuff out here, and it really was based around the one piece which is you just want to communicate via text. I believe that we'll see a bunch of different types of

applications come out of this data, out of this information that RegTech companies are providing, and we won't think about it as RegTech, we'll think about it as, "oh this is just really cool for me, how to do it." It may be a comparison of funds, that might be where we'll start, but it's going to go someplace that probably I don't know yet, and you don't know yet, but somebody's going to create an application or a use case for this that's going to take it beyond where we are. And the only reason why I can't tell you right now where that's going, is because we're still in the infancy of where are we are today. We're still automating that back end and the SEC is modernizing their side, and we haven't really been concentrating on what you and I could do with it, but it is something that we're all thinking about and will be something that we can more understand and utilize in our day to day lives.

[Nataly] Yeah, it's certainly an interesting idea, and that potential which I mentioned earlier is palpable; definitely something for many of us to continue thinking about, which leads me to my next question. As we're all dealing with the current global pandemic, do you think it's offering a space and even inspiring more innovation within RegTech?

[Floyd] Yeah, so the key to that is that we're global, and there are regulations in the E.U. like PRIIPS and ESMA, there are regulations in the U.S. around iXBRL filings and tagging, and this is a global world, in Asia, like you said it's everywhere. What does this pandemic do to that global world or that globalization, and I'm one that thinks that a couple of things are going to happen. First thing is I don't believe that globalization is going to stop. Once the smarter than I doctors and scientists find a way to have a vaccine and a treatment for this, life will return to some type of new normal, but we all have to realize that as much as we know is as much as we don't know, which probably scares all of us, because we're so advanced, yet we're not. And that's more on the medical side of the place, and I'm not going there.

And then on the other side, now what does that mean for companies? And I think it's going to mean a couple things. I think larger corporations, public corporations that are under a heavy burden of regulation are going to have to look at ways to automate and to make this easier to present this information to the bodies that they have to report it to. I also think that the modernization of the bodies is going to continue, and that means that perhaps someday the SEC is not going to want a large verbose document that's tagged with information on your company, perhaps they're only going to ask you to upload the tables and maybe they don't even want the printed, or the HTML version, they just want the iXBRL tags of that table sent up to them. That's going to change the way that companies think about how they prepare and how they do this, and it's going to change the way that they want to move forward, and the way they can address this.

This as we talked earlier, this isn't really what I would call a sexy industry. For a lot of companies, this is an introductory job for people to get introduced to a company. Now there are people that love it, and I've met them and I think it's fascinating myself, but for the most part it's seen as a stepping stone to move on to other things. So, these types of industries will require us in this new world, is A) you're going to have to find talent that wants to do this, B) you're going to have to train them and you're going to have to get them to understand both regulations and the technology in a work from home environment, so maybe the way that people have done it today

isn't going to work. We're not going to be able to sit in a room arm in arm and figure this out, we're going to have to do it over collaborative technologies, over distances that have been…I think the key to this is they've been purposely built to solve the problem at hand. This is not simple composition; this is much more than that. Tagging is not as easy as just selecting something and looking at a list of tags, there's things like custom tags and there's a lot of different things that you can do with it. Its's very complex, so how do you train somebody, how do you give them the tools that they need to get there? And I think that type of collaboration and workflow is going to be critical to how people will operate in the new world. And even the way people review and the people distribute this is going to change, because there's going to be some people that are never really going to be comfortable again in that room with you that are going to need to review this. How do they sign off? How do they make changes? How do they get this to the right place? All of this requires technology, and thankfully a lot of this is in place today. And we're doing a lot of wonderful things in this space around being able to this, but it needs to go further than where we are today to really take advantage of these changes that are happening.

[Nataly] You bring up another important point about the act of not being able to share space right now, or be in the same room, and it's definitely driving the use of technology as well as pushing for innovation. But you also mention the complexity of some of these processes, specifically you were talking about the difficulty of tagging, or iXBRL. Do you see a time where that becomes more simple, in a way that allows for greater collaboration and more involvement from those that aren't experts?

[Floyd] I think it's happening right now, but it's happening within the industry itself is what's transforming it. For example, the act of tagging, and if you ever have a podcast on the intricacies of iXBRL tagging, I'm sure your viewers and your listeners would love to hear that, that is an extensive solution stack and an extensive education in things that are extremely complex in how you do this and the mentions and the way that you decide what gets tagged in what way is really an interesting you know way of thinking of the space. But to the average user? "I don't really want to know. Do I really care how the music is coming into my ear? Do I want to know how the internet works?" I don't think a lot of people, they just want to know the apps work. Who wants to know the inner workings of Netflix? I do, but that's because I'm a technical geek at heart. Most of the people don't care. So, the simplification of the apps themselves is what needs to have to happen. And the use of technology in a simple manner. Just having the technology itself, is one piece of it, but if I can't figure out how to make it so simple and easy for anybody to use it, to make it this automation so part of my regular routine, then it's not going to take and I'm not going to want to do this. It's going to be more of a burden and not something I want to do. So, I think we as a company are looking at ways to simplify, purpose-built ways to use this technology to accomplish a goal. And I think this whole idea of, you know, single, generic solutions that do everything need to give way to these purpose-built ways of doing it underneath a suite, and that's what companies will need to get where they want to go. So yes, I think it's going to happen and I think we're going to get there ourselves.

You know, I for one, as an extrovert, and as a person who likes to be around people, don't really fancy a world where I'm sitting at home, where I go into the office with a mask and a plexiglass

shield and a "do not come into this line," so I'm, expecting that this new normal has to be somewhere in between it, because at the end of the day, we're all human, so we need those interactions, we need them through technology, but we need them through each other and actually being in the same room, but there needs to be a way that technology can automate and really help this process throughout, from that beginning to end, and that end-to-end process, again going back to my roots of that end-to-end enterprise applications. I would love to see RegTech look at things that way, instead of simply tooling that handles one simple solution at a time.

[Nataly] Yes, absolutely. And I think that notion of an all-purpose application, where users can log in and go through their entire process and workflow, without exporting to something else or having to get into the weeds is exactly what people are looking for, because to your point, the experts behind the tech have already done that work and understand what the user needs.

So, I think I only have one more question for you, and it's a personal favorite of mine. It's one that I end every episode on. Can you tell me about your favorite application or tool that you use personally, or professionally, that helps you do more with the day or at work?

[Floyd] That's a great, great question! If you think that my phone was full of a thousand applications, and you would be completely wrong. I have no idea how my kids find anything with their hundreds of folders and way too many applications that they use, but somehow, they do find it. But you know, recently, and this will probably be a little bit funny to some people, I discovered while helping my daughter with her math homework in high school, an application that she was using on the iPad that we were actually, doing the math homework on the iPad, at which time I turned to her and said," So what is that application, and is this something that I could use? Or is this something the school uses?" And snarkily, she turns and says, "Dad, that's just Notability, don't you know what Notability is?" And of course, I had no clue.

So, for me, that, [Notability](#) has completely transformed me from needing paper and to be able to take notes, share notes across devices, and really even to use it on my laptop, which I still do use. I found that to be probably one of the most powerful applications that I've seen in the way that it's changed the way that I interact, and really the way that I organize my notes and the way that I use them. I think it's a fantastic application, and it works on any device.

[Nataly] Awesome. Is it different than OneNote?

[Floyd] Yeah, it's very different.

[Nataly] Oh, yeah, ok, I don't think I've ever used Notability. I've just always relied on OneNote on my work computer.

[Floyd] Yeah, the ability to import a PowerPoint and take notes on it. I mean all of us have sat in a meeting and we took notes on the paper, what do we do with the paper? You know, I know what I do with the paper. I recycle it.

Now I take notes and then I can go back, and for me, you know someone that is not naturally the most organized person in the world but craves more of a technology solution, it has given me both of those cases to be able to do that and to be able to help hold myself accountable.

I have a running to-do list on Notability that's fantastic, where I can erase things and move things off and I can go back and check to see what I was doing, and it's, it works for me, it's great. Plus, when I doodle around, and I'm the kind of person that even in this conversation I take notes as we're talking, those are nothing that I need to keep, so it's just great to be able to click it and say delete, and it's gone, and I didn't kill a tree and didn't waste ink, and it's something that's always there for me, so…

[Nataly] Very eco-friendly of you.

[Floyd] Added benefit of the piece.

[Nataly] Absolutely. Well, Floyd, thank you so much for taking the time. This has really been a great conversation and an absolute pleasure.

[Floyd] Yeah thank you for having me, and I enjoyed the conversation as always.

[Nataly] Thanks.

[Music outro]