OECD – FSB Roundtable on Artificial Intelligence in Finance

Session 2: AI in Asset Management and Securities Markets

IOSCO Chair's Briefing & Speech

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Wednesday, 22 May 2024, 11:30 - 13:00
OECD Headquarters, CC4 (in person event),
2 rue Andre Pascal, 75116, Paris

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Good morning everyone,

Let me first thank the OECD and the FSB for organizing this event, and for inviting IOSCO to share our experience on Artificial Intelligence (AI) from securities regulators' unique regulatory perspective.

We are delighted to be here with you today in Paris to share some insights on IOSCO's work on AI, a topic of growing urgency for the financial sector.

As the global standard setter for capital markets, IOSCO is committed to protect investors; to ensure that securities markets remain fair, efficient and transparent; and to reduce systemic risk. Hence, IOSCO's strong interest in AI.

I'm here with Tuang Lee, the Chair of IOSCO's Fintech Task Force (FTF), Valerie Szczepanik, the lead of the FTF Artificial Intelligence Working Group, and a few colleagues from the IOSCO General Secretariat, who are involved in our work on AI.

The attention that AI has received over the past few years speaks volumes about the opportunities arising from the integration of AI in the financial sector. AI is already being used across financial markets ecosystem to optimise portfolio management, improve internal research capabilities and to make investment recommendations. These may lead to reduced cost and increased efficiency, as well as enhanced customer experience.

Alongside the opportunities, there are potential risks that must be addressed to safeguard investor protection, market integrity, and financial stability.

These risks can be classified into two levels: micro and macro.

Micro level includes, among others, explainability of AI processes, biases within data or models, the robustness of outcomes, the conflicts of interest arising from the use of AI, and the fraud and deception enabled by AI.

Macro level, on the other hand, encompasses system-wide risk concerns, including financial stability concerns, herding behaviours brought about by broad use of common datasets, base models, or data aggregators, and fair and efficient competition amid dominance by a few AI providers.

Such issues raise questions about the type of influence AI models can wield upon price formation, discovery, transparency and potential for market disruptions.

I'm sure that some of these risks will be covered in more details today.

AI is not new in the financial markets. Machine Learning (ML), a subset of AI, has also been around for over a decade, and growth in new AI tools, platforms and techniques is a continuum and an ongoing evolution in financial markets.

Both IOSCO and the FSB have been actively working on topics related to AI[1] and ML for a number of years now. IOSCO published a *Final Report on The Use of Artificial Intelligence and Machine Learning by Market Intermediaries and Asset Managers* in September 2021.

The IOSCO guidance consisted of six measures[2] (see annex A) that seek to ensure that market intermediaries and asset managers have:

i. appropriate governance, controls and oversight frameworks over the development, testing, use and performance monitoring of AI and ML;
ii. staff with adequate knowledge, skills and experience to implement, oversee, and challenge the outcomes of the AI and ML;
iii. robust, consistent and clearly defined development and testing processes to enable firms to identify potential issues prior to full deployment of AI and ML; and
iv. appropriate transparency and disclosures to their investors, regulators and other relevant stakeholders.

Let us be clear, in just the past 24 months, as everyone here will be aware, we have witnessed tremendous advancements with predicative and generative AI becoming more mainstream and accessible in an open-source manner. We have truly entered a new era.

As the global standard setter for securities regulation and given our core objectives, it is essential for IOSCO to continue monitoring technological developments in financial services assessing risks to investors and markets posed by emerging technologies, including AI.

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[1] FR06/2021 The use of artificial intelligence and machine learning by market intermediaries and asset managers (iosco.org); FR02/2017 IOSCO Research Report on Financial Technologies (Fintech); and Artificial intelligence and machine learning in financial services - Financial Stability Board (fsb.org)

[2] For a complete description of these six measures, please refer to Annex A.

To respond to the rapid AI-related developments in the exploration and adoption of predictive and generative AI technology by market participants, the IOSCO Board recently agreed to set up the AI Working Group (AIWG) under our Fintech Taskforce (FTF) chaired by Tuang Lee Lim. The AIWG is led by Valerie Szczepanik from the US SEC, who you will hear from later today.

Building on IOSCO's prior work on AI, the objective of the AIWG is to develop a shared understanding among IOSCO members of the issues, risks, and challenges presented by emerging AI technology through the lens of market integrity, financial stability and investor protection, as well as assist members in their policy responses.

Within IOSCO, the FTF AIWG will also be working closely with our Financial Stability Expert Group (FSEG) which will serve as a central interface with the FSB in seeking to address any financial stability issues raised by AI in a coordinated manner.

The objective is to issue a public report early next year. This will detail the current and near-term use cases by market participants that incorporate emerging AI technologies, as well as the issues, risks, and challenges that IOSCO members should understand as they consider potential policy responses.

As the regulators go through their policy-making process, it is essential that we - along with other regulators and international organizations, including the FSB and the OECD - adopt a coordinated cross-sectoral approach in developing policy in response to potential benefits and emerging risks of AI technology across the financial sector.

I firmly believe that collaboration and coordination among regulators and international organizations is key to ensuring that the global policy response is coherent, prevents regulatory arbitrage to the extent possible, and does not create regulatory gaps

Given that much of the expertise and developments in AI are occurring outside financial services, we shall continue to engage with academics, technologists, and other experts across the AI industry. This underscores the importance of an event like today. And tomorrow afternoon, in Zurich, the IOSCO FTF will be hosting its own AI stakeholder roundtable, kindly hosted by Swiss FINMA.

Thank you for your attention, and I look forward to our continued collaboration in this critical endeavour.

Now, let us dive deeper into the use of AI in securities markets!

With that, I hand you over to Tuang Lee, Chair of IOSCO's FTF.