Jean-Paul Servais
Chair
International Organization of Securities Commissions

Tuang Lee Lim
Chair
IOSCO Fintech Task Force

CC:
Rodrigo Buenaventura
Secretary General
International Organization of Securities Commissions

Tajinder Singh
Deputy Secretary General
International Organization of Securities Commissions

Re: GFMA Public Comment Letter on IOSCO's Report on Artificial Intelligence in Capital Markets: Use Cases, Risks, and Challenges

Dear Chairman Servais and Mr. Lim,   11 April 2025

The Global Financial Markets Association ("GFMA")[1] welcomes the opportunity to comment on the International Organization of Securities Commission's ("IOSCO") report on "Artificial Intelligence in Capital Markets: Use Cases, Risks, and Challenges" ("AI Report")[2]. GFMA believes AI has the potential to transform financial services and capital markets to make them safer, accessible, more efficient, and tailored to consumer needs, which in turn can bring important benefits to consumers and the wider global economy. To realize these benefits and minimize potential risks, as this technology continues to evolve and new use cases develop, a technology-neutral, principles-based, and outcomes focused regulatory approach must be prioritized. Therefore, global authorities must apply and adapt proven existing standards and frameworks where applicable, rather than creating new AI-specific standards.

Since AI is neither a narrow nor static technology, GFMA advises that IOSCO and the global authorities refine their regulatory focus on AI characteristics, rather than consider developing a single specific definition of AI. The financial services industry has utilized "traditional" forms of AI for many years, and firms have consequently developed governance processes to oversee, manage, and monitor the application of AI, in accordance with their existing regulatory obligations. Referring to AI characteristics focused on risks, rather than developing a definition, will allow authorities to prioritize addressing new AI use cases and applications, where there could potentially be any future identified gaps in existing legal and regulatory frameworks.

A fragmented regulatory approach, with overlapping regimes mandating different requirements, and potentially conflicting with existing governance processes, could be a major risk for entities while adopting and managing AI. International regulatory alignment and coordination will be critical for the application of AI in capital markets. GFMA is especially encouraged that the AI Report calls for coordination and engagement with "other relevant international organizations, such as the FSB" during the next phase of IOSCO's 2025 AI workplan. Notably, GFMA previously expressed that "we value the role the Financial Stability Engagement Group ("FSEG") may play in supporting consistency of regulatory developments, including supervisory oversight, due to the inherent cross sectoral nature of this technology"[3]. AI has

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[1] The GFMA represents the common interests of the world's leading financial and capital market participants, to provide a collective voice on matters that support global capital markets. We advocate on policies to address risks that have no borders, regional market developments that impact global capital markets, and policies that promote efficient cross-border capital flows, benefiting broader global economic growth. The Global Financial Markets Association ("GFMA") brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) in London, Brussels and Frankfurt, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and Singapore, and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA.

[2] IOSCO, Artificial Intelligence in Capital Markets: Use Cases, Risks, and Challenges (March 2025).

[3] See GFMA's letter to IOSCO, the OECD, FSB, BCBS, and CPMI on "Key Considerations for Artificial Intelligence in Capital Markets" (May 2024).

clearly also been a topic of keen interest to other international organizations as seen by Q4 2024 publications from the International Monetary Fund ("IMF"), Financial Stability Board "FSB", and Bank for International Settlements' Financial Stability Institute ("BIS FSI")[4]. The scope and key themes of these reports are closely aligned with those in the IOSCO AI Report, and this raises questions for direct coordination and regulatory alignment going forward. As reference, please find a list of key themes industry has identified in these reports in the appendix to this letter.

Global coordination is necessary when considering the regulatory approach for AI in capital markets since AI is a cross-cutting technology where many existing functional policy areas already apply and are managed on an enterprise-wide basis. A key example of this is related to third-party risk. The AI Report highlights third-party dependency as a potential key risk and IOSCO's 2021 Guidance also states that "regulators should require firms to understand their reliance and manage their relationship with third-party providers, including monitoring their performance and conducting oversight."[5]. While this is an important risk to consider, it is not novel to AI, and the Basel Committee on Banking Supervision ("BCBS"), FSB, and IOSCO have all issued or are expected to issue standards specific to this topic[6]. GFMA recommends that IOSCO and the global authorities coordinate on how to best adapt and apply these standards especially since AI has been considered in the development of these principles.

Proposal for IOSCO FinTech Task Force Phase 2 on AI
As the IOSCO Board, based on recommendations from the Fintech Task Force, considers next steps on AI, we recommend that IOSCO via the FSEG launch an Advisory Group dedicated to AI with the FSB, which aims at a minimum to:

1. Enable a common understanding of use of AI in capital markets;
2. enhance work to assess and monitor financial stability risks of AI use cases;
3. facilitate information-sharing as appropriate; and
4. aid work by the IOSCO, FSB, and/or standard-setting bodies to provide guidance related to AI, including identifying effective governance practices.

GFMA believes this direct industry and public sector engagement should be a key focus during the next phase of IOSCO's AI workplan. Examples of this type of collaboration include the recently announced FSB Forum on Cross-Border Payments Data[7], as well as the FSB Format for Incident Reporting Exchange ("FIRE") Advisory Forum. Similarly, due to its cross-cutting nature, AI is another key topic where an official sector and industry forum should be established to understand how to best address potential risk themes from the latest and emerging use cases, as well as to determine how existing standards apply. These efforts would also mitigate the risks of market fragmentation.

To complement the Advisory Group, GFMA recommends employing other roundtable sessions between the official sector and industry across various regions, along with enhanced engagement with the IOSCO Affiliate Member Consultative Committee ("AMCC").

Private sector industry participants understand and proactively are addressing the potential impact of AI on financial services. A notable example is the Cyber Risk Institute's ("CRI")[8] Financial Sector Artificial Intelligence Risk Management Framework ("FS AI RMF") that was launched in January 2025. This is a

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[4] See IMF Global Financial Stability Report chapter on "Advances in Artificial Intelligence: Implications for Capital Market Activities" (October 2024), FSB report on "The Financial Stability Implications of Artificial Intelligence" (November 2024), and BIS FSI report on "Regulating AI in the financial sector: recent developments and main challenges" (December 2024).
[5] IOSCO, The use of artificial intelligence and machine learning by market intermediaries and asset managers – Final Report, Measure 4, (September 2021)
[6] See BCBS consultative document on "Principles for the sound management of third-party risk" (July 2024), FSB "Final Report on Enhancing Third-party Risk Management and Oversight – A Toolkit for Financial Institutions and Financial Authorities" (December 2023), and IOSCO "Principles on Outsourcing – Final Report" (October 2021).
[7] FSB, FSB Announces Establishment of the Forum on Cross-border Payments Data (March 2025)
[8] See CRI's overview and membership on their website as reference.

comprehensive multi-phase project that will map to the U.S. National Institute of Standards and Technology's ("NIST") AI Risk Management Framework[9]. GFMA is an observer for this project and is helping to advise on related capital markets topics and issues. CRI would welcome IOSCO's engagement and GFMA would be happy to make an introduction if IOSCO is interested in learning more about the project.

GFMA very much appreciates the opportunity to comment on the AI Report and we look forward to engaging with IOSCO as you prepare for the next phase of your 2025 AI workplan. If you have any questions, or you would like to discuss the points raised in this letter further, please feel free to contact us as we look forward to an ongoing collaboration on this important topic.

Yours faithfully,

Allison Parent
Executive Director
Global Financial Markets Association (GFMA)

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[9] NIST, AI Risk Management Framework (July 2024)

Appendix – Themes Identified in International Organization AI Publications

In Q4 2024, the following international organization reports were published regarding AI in financial services:
- IMF Global Financial Stability Report (GSFR) chapter on "Advances in Artificial Intelligence: Implications for Capital Market Activities" (October 2024)
- FSB report on "The Financial Stability Implications of Artificial Intelligence" (November 2024)
- BIS FSI report on "Regulating AI in the financial sector: recent developments and main challenges" (December 2024)

Below, please find a list of key themes identified in each of the reports. These themes also align with those found in the IOSCO AI Report. We note that further study and engagement with the industry may be needed on these topics. As these themes are further considered, coordination and alignment from the global authorities will be critical to prevent fragmentation and overlapping regimes with different regulatory requirements.

- Market Correlations and Increased Market Speed and Volatility Under Stress
- Opacity and Monitoring Challenges
- Increased Operational Risk as Result of Reliance on Key Third-Party AI Service Providers
- Model Risk, Data Quality, and Governance
- Cyber Risks Including Market Manipulation and Fraud