



OICU-IO스코

USE OF ARTIFICIAL INTELLIGENCE and MACHINE LEARNING BY INTERMEDIARIES and ASSET MANAGERS

CONSOB EVENT

Artificial intelligence, asset and wealth management

September 30, 2022

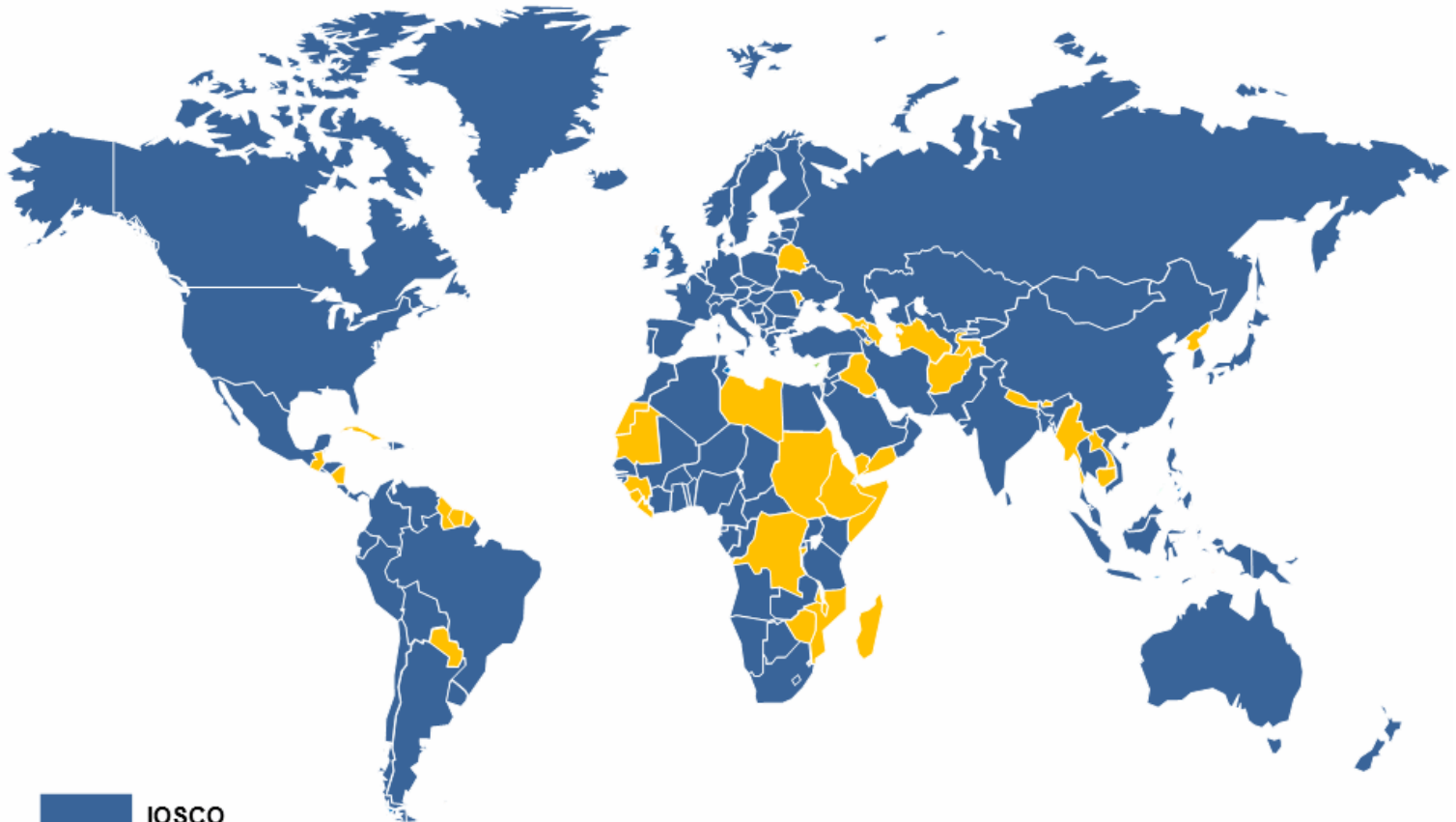
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IOSCO : A BRIEF INTRODUCTION

- IOSCO is recognized as the International Standard setter for Securities Regulation
- IOSCO Objectives:
 - *Protecting investors*
 - *Ensuring that markets are fair, efficient and transparent*
 - *Reducing systemic risk*
- 130 + jurisdictions, more than 95% of world capital markets;
- Growth and Emerging Markets (GEM) : 107 members
- IOSCO Principles are one of the 12 key standards and codes recognised as key to sound financial systems
- IOSCO MMOU recognized as a benchmark for international cooperation and enforcement - 125 signatories

Our membership regulates more than 95% of the world's securities markets in more than 130 jurisdictions and includes all the major emerging markets



CORE CHALLENGE for REGULATORS

How to foster a regulatory environment conducive to technological innovation while at the same time ensuring financial stability and investor protection.

IOSCO WORK on AI

- The need to be ahead of the curve
- Use of AI/ML in securities sector - a priority topic for IOSCO
- Joint Committee 3 – Committee 5 project
- A detailed guidance to assist IOSCO members in supervising firms' use of AI and ML
- Broader applicability to other market players
- Evolving nature of AI – Report to be reviewed in the future

WHY AI ?

- Increased regulatory compliance costs
- Use of AI frees up resources
- Helps firms to focus on more cognitive aspects

HOWEVER,

- The use of AI may change firm's risk profile
- Regulatory guidance and avoiding regulatory fragmentation will be essential

USE CASES in SECURITIES MARKETS

By market intermediaries:

- Advisory and support services
- Risk management
- Client identification and monitoring
- Selection of trading algorithm
- Asset management/Portfolio management

USE CASES in SECURITIES MARKETS

By asset managers:

- Optimise portfolio management
- Complement human investment decision-making processes by suggesting investment recommendations
- Improve internal research capabilities, as well as back-office functions
- Order execution
- Broker selection and order routing purposes (including through methods such as algo-wheels)

RISKS in USE OF AI

- Governance and oversight
- Algorithm development, testing and ongoing monitoring
- Data quality and bias
- Transparency and explainability
- Outsourcing
- Ethical concerns

THEMES THAT UNDERPIN GOOD ETHICS IN AI

- **Beneficence – “do good”**
- **Non-maleficence – “do no harm”**
- **Human autonomy, including auditability**
- **Justice - Accountability and transparency**
- **Explainability**

MITIGANTS OF AI RISKS AT THE FIRM LEVEL

- Culture
- Accountability
- Knowledge/expertise/skills
- Operational resilience
- Client disclosures

IOSCO GUIDANCE

- Objective: Assisting IOSCO members in supervising use of AI
- Proportionality in application
- Regulatory initiatives around the world (by NCAs and IOs)

IOSCO GUIDANCE – SIX CORE PRINCIPLES

- Governance and oversight
- Algorithm development, testing and ongoing monitoring
- Adequate skills, expertise and experience
- Outsourcing
- Disclosure on the use of AI
- Data quality (Ethical concerns and bias)



Thank you