Public Statements & Remarks

Keynote Remarks by Commissioner Kristin N. Johnson at NYU AI Convening: The Potential, Promise, and Limitations of Integrating AI in Financial Markets

April 10, 2024

Good morning. I must thank Charlton McIlwain, Vice Provost for Faculty Advancement at New York University, Director of NYU Alliance for Public Interest Technology, and former President of Data & Society as well as Margaret Hu, Taylor Reveley Research Professor and Professor of Law and Director of the Digital Democracy Lab at William & Mary Law School and Faculty Affiliate with the Global Research Institute and Data Science.

We are grateful to each of you and the New York University Center for Critical Race and Digital Studies, the New York University Alliance for Public Interest Technology, New America Public Interest Technology University Network and the William & Mary Law School Digital Democracy Lab as well as Oxford University Press AI in Society: Oxford Intersections.

It is my pleasure to join you this morning for the opening keynote and fireside chat. The theme for today's conference rightly outlines the challenge for those of us tasked with creating, implementing, and enforcing law and regulation: AI Visioning the Future of Rights in AI Governance. I am a Commissioner at the Commodity Futures Trading Commission (Commission or CFTC) where I also sponsor the Market Risk Advisory Committee (MRAC). The remarks that I will offer this morning are my own.

MRAC Adopts AI Working Plan

I join you this morning on the heels of two convenings of the MRAC. Several weeks ago, on March 15, 2024, a Subcommittee of the MRAC voted to approve a working plan for advancing the Commission's oversight of market integration of AI. Yesterday, the MRAC adopted this working plan.

The Subcommittee introduced to the MRAC for consideration:

- **A Survey on the Use of AI in CFTC-regulated Markets**. The Subcommittee believes that it may be useful for the Commission to conduct a survey of CFTC registrants' use of AI in CFTC-regulated markets, including possibly integrating the survey in the examinations and other oversight and monitoring tools of the Commission. The survey would be designed to inform the Commission and its staff on how different types of AI are being integrated and details regarding relevant risks and risk mitigation.[1]

- **Recommendations on New Guidance, Advisories or Rulemaking**. The Subcommittee may advance a recommendation that the staff should consider new guidance, advisories or formal rulemaking, based on how CFTC market participants are using AI to conduct regulated activities and any gaps identified in existing regulations and guidance. Areas of focus may include, without limitation, framing the risk of AI models; robust monitoring and testing of AI models, including to address cybersecurity, data controls, bias, privacy, and output consistency; and oversight of AI models.

We will work to improve and refine the working plan in the coming months. In the interim, allow me to focus on some of my reflections from my work as an academic—a tenured faculty member researching and publishing on financial markets and AI in financial markets for over decade—and in my current role as a CFTC Commissioner.

As I noted yesterday, for many years, I have demonstrated a deep and abiding commitment to researching and proposing regulatory solutions to challenges presented by integrating AI in our society. Five years ago, I began to convene and participate in convenings of AI developers, adopters, academics, government and industry researchers, regulators, and public interest organizations. In 2020, a co-author and I received invitations to publish two books, one of which examines the ethical implications of AI across diverse sectors of our society.

Recently on a trip to Southern Africa, where I was invited to deliver keynote remarks at a conference on emerging technologies organized by the South African Reserve Bank, I recognized that many of the challenges that arise in the introduction of AI in one jurisdiction are present in other jurisdictions. My remarks addressed the regulation of novel financial products as well as the rapid development and deployment of generative AI and its impact on financial markets. Three weeks ago, at Japanese Fintech Week in Tokyo, Japan, I advocated for the CFTC to begin to identify best practices for integrating AI in our markets.

While the use of AI in financial markets may hold the potential for substantial benefits, such use may also introduce unprecedented risks concerning market integrity, customer protection, governance, data privacy, bias, and cyber threats.[2] The CFTC is exploring answers to these and many other questions.

I have advocated for interventions that foster responsible use of AI in financial markets, and will continue to do so.

Greater Transparency and Visibility

Echoing the MRAC Subcommittee, I have encouraged greater visibility and transparency regarding our registrants' use of AI by expanding our annual systems examination questionnaire to incorporate questions that directly inquire about the adoption of AI and related risks.

Principles-Based Framework

Additionally, I have proposed the development of a principles-based framework. In consultation with members of the Subcommittee of the MRAC, I look forward to exploring a principles-based regulatory framework that underscores intelligibility, risk management, compliance, oversight, market responsibility, notice, and explainability.

Heightened Penalties for Intentional Use of AI to Engage in Fraud or Market Manipulation

Further, I have advocated for the Commission to consider introducing heightened penalties for those who intentionally use AI technologies to engage in fraud, market manipulation, or the evasion of our regulations.

An Inter-Agency Task Force on AI

Finally, the Commission should lead in creating an inter-agency task force focused on information sharing and composed of market and prudential regulators including the CFTC, SEC, Federal Reserve System, OCC, CFPB, FDIC, FHFA, and NCUA. The task force would support the AI Safety Institute in developing guidelines, tools, benchmarks, and best practices for the use and regulation of AI in the financial services industry. It may also provide recommendations to the AI Safety Institute as well as evaluate proposals coming out of the Institute.

With sincerest gratitude, I would like to acknowledge the hard work of the organizers of today's convening. I am looking forward to the presentations and discussions today.

[1] For citations supporting this discussion, see Statement of Commissioner Johnson at the Market Risk Advisory Committee Meeting, *CCP Resilience, AI and Risk Management Implications, Market Structure Reforms, and Climate Related Market Risks*, April 9, 2024 available at https://www.cftc.gov/PressRoom/SpeechesTestimony/johnsonstatement040924#_ftn34 (https://www.cftc.gov/PressRoom/SpeechesTestimony/johnsonstatement040924#_ftn34).

[2] CFTC, Request for Comment on the Use of Artificial Intelligence in CFTC-Regulated Markets (Jan. 25, 2024), CFTC Staff Releases Request for Comment on the Use of Artificial Intelligence in CFTC-Regulated Markets | CFTC (https://www.cftc.gov/PressRoom/PressReleases/8853-24).

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