Public Statements & Remarks

Opening Statement of Commissioner Christy Goldsmith Romero at the Technology Advisory Committee on Responsible AI in Financial Services, DAOs and Other DeFi & Cyber Resilience

July 18, 2023

I welcome you to the CFTC. With artificial intelligence (AI) at the forefront of public discussion, significant movements in digital asset markets to decentralized finance (DeFi) after the collapse of unregistered centralized exchanges and several enforcement actions, as well as escalated and persistent cyber threats, I look forward to presentations and discussion from recognized technology experts who serve on the TAC. I want to thank TAC Chair Carole House and Vice Chair Ari Redbord for their leadership of TAC, including putting together today's agenda. I also want to thank CFTC staff Tony Biagioli who is the designated federal officer (DFO) of TAC, our two new assistant DFOs Drew Rodgers and Lauren Bennett, and Scott Lee in my office, and others in the CFTC who keep TAC running and helped organized today's event.

I am excited to recognize our new subcommittee co-chairs. Carole House and Dan Awrey will serve as co-chairs of the Subcommittee on Digital Assets and Blockchain Technology. Tim Gallagher and Dan Guido will serve as co-chairs of the Subcommittee on Cybersecurity. Nicol Turner Lee and Todd Smith will serve as co-chairs of the Subcommittee on Emerging and Evolving Technologies. I am grateful for their willingness to lead the work of the subcommittee and all of the members who are willing to serve on these subcommittees.

Responsible Artificial Intelligence

Artificial intelligence is at the heart of much public conversation right now, including the tremendous opportunity presented as well as some fear of the unknown. Questions swirl around whether we know what we are unleashing? AI is not new. AI has long been a part of our everyday life, as well as a part of financial services. From your Netflix algorithm to your bank's chatbot, Americans come across AI often without thinking about the idea of AI. At some point we may have thought the question, am I making this decision because it is something that I want, or am I being prompted. But often that may have been a passing thought, easily dismissed. That all changed with generative AI, which is new.

While there are tremendous benefits of AI, there are growing concerns about harmful outcomes. Particularly with generative AI, the list of potential risks to both individuals and society may not yet be determined.

The concept of Responsible AI is also not new. AI algorithms, logic, and outcomes should be transparent and explainable, in a way that can be audited by humans. Unbiased and representative data has never been more important. Harm should be minimized. It is easy to think of AI-enabled market manipulation, fraud, and cyber-attacks. There are real concerns of societal harms like bias, abuse, and disinformation. And, it is important to think through other societal issues, such as privacy as well as what type of jobs could generative AI replace, and are we losing some aspect of human judgment in those jobs that is important to retain.

The CFTC has an important mission that includes promoting responsible innovation. It is important to increase our understanding of the use of AI in our regulated markets. When it comes to our regulated entities, responsible AI raises questions related to an organization's responsibilities when it comes to AI, including governance—how are decisions being made and who will make those decisions. Additionally, there could be greater opportunity for the CFTC to benefit from AI. As a long-time enforcement attorney, surveillance and data analysis immediately come to mind, but there could be many others. But I also recognize the benefit of human judgment in these areas, raising the same issues of responsibility when it comes to the Commission's own responsible use of AI.

In continuing TAC's examination of AI, I look forward to the presentation today on Responsible AI from TAC member Dr. Nicol Turner Lee, who is a senior fellow in Governance Studies, and the Director of the Center for Technology Innovation at the Brookings Institution. Dr. Turner Lee serves as the co-chair of TAC's Subcommittee on Emerging and Evolving Technologies, along with Todd Smith from the National Futures Association.

TAC will continue to coordinate with others in the Biden Administration evaluating Responsible AI. I look forward to the presentation on the Request for Comment released in April by the Department of Commerce's National Telecommunications and Information Administration (NTIA) and we welcome Travis Hall, NTIA's Acting Deputy Associate Administrator. NTIA's request for comment advances "its effort to ensure AI systems work as claimed, and without causing harm." These efforts build on the Blueprint for an AI Bill of Rights, which was presented at the last TAC meeting by Alan Mislove of the White House Office of Science and Technology.

As we consider potential harms of AI, we will also hear from TAC member Dan Guido, co-founder and CEO of Trail of Bits on the impact of the proliferation of AI Cybersecurity Capabilities. Mr. Guido serves as a co-chair of TAC's Subcommittee on Cybersecurity.

DAOs and other forms of DeFi

TAC also continues its deep dive examination of regulatory issues related to DeFi. This examination has become increasingly important as more of the digital asset market is shifting to DeFi, and Congress is considering additional legislation that includes DeFi.

As I said at the start of TAC's examination of DeFi, the central issue is accountability. We will continue that examination today. Financial regulators are used to central actors. Today, we continue the discussion about what decentralization means, and the sliding scale that is often DeFi.

DeFi is not one size fits all, and DeFi can take different forms. One form is a decentralized autonomous organization (DAO). Today we will hear about the CFTC's recent novel enforcement case against Ooki DAO, from TAC's very own DFO Tony Biagioli who was the trial attorney in the case. We will also have a presentations by TAC members Justin Slaughter of Paradigm and Ben Milne, the Founder and CEO of Brale, Inc. They will discuss DeFi models, smart contracts and governance. We will also have a presentation by Professor Dan Awry on regulating decentralization. Professor Awry serves as a co-chair of TAC's Subcommittee on Digital Assets and Blockchain Technology along with TAC Chair Carol House.

Cyber Resilience

Third party service provider vulnerability is one of the top cyber threats. In June, the banking regulators issued their long-awaited guidance on third-party service providers. This guidance was largely modeled after OCC guidance. Today we welcome from the OCC, Kevin Greenfield, Deputy Comptroller for Operational Risk Policy to discuss the guidance. This is relevant for not only swap dealers who are also subject to bank regulation, but also as best practices for risk management in the financial industry to build cyber resilience and business continuity.

We will hear from TAC members Professor Hilary Allen and Tim Gallagher on challenges with understanding cybersecurity risk and implications for operational risk regulation. Mr. Gallagher serves as the co-chair of TAC's Cybersecurity Subcommittee.

Finally, we will have a presentation on the State of Financial Sector Defense and Collaboration to Combat Cyber Threats by Steven Silberstein of the Financial Services Information Sharing and Analysis Center (FS-ISAC). FS-ISAC is a non-profit organization that advances cybersecurity and resilience in the financial system, whose board of directors is composed of cybersecurity executives at financial institutions.

Each of these issues is front and center before us. I really appreciate each of the TAC members' willingness to share your technology expertise and viewpoints. As always, I encourage a broad discussion of a diversity of views, today and going forward.

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