SUBMITTED VIA EMAIL TO: AIWGConsultation@iosco.org

To whom it may concern,

Re: The IOSCO Consultation Report on Artificial Intelligence in Capital Markets: Use of Cases, Risks, and Challenges

About Global Digital Finance (GDF)

GDF is the leading global members association advocating and accelerating the adoption of best practices for crypto and digital assets. GDF's mission is to promote and facilitate greater adoption of market standards for digital assets through the development of best practices and governance standards by convening industry, policymakers, and regulators.

The input to this response has been written and submitted on behalf of the GDF board.

As always, GDF remains at your disposal for any further questions or clarifications you may have, and we would welcome a meeting with you to further discuss these matters in more detail should that be beneficial as IOSCO continues its work.

Yours faithfully,
Elise Soucie – Executive Director, Board Member – GDF
Rameen Masood – Analyst – GDF

Response to the Public Consultations: Executive Summary

GDF was grateful for the opportunity to engage with IOSCO through their consultations as well as through our membership of the IOSCO AMCC.

Overall, GDF is supportive of the aim of the proposals within the IOSCO AI Consultation. GDF developed this response on behalf of our board and board advisors as part of our ongoing commitment to supporting the work of IOSCO, as well as the GDF mission to support the development of best practices and governance standards across the digital finance industry.

The following letter summarises our feedback to the consultation report, organised via the topics in the report, and highlights the key points of feedback that the board would wish to provide to IOSCO. The executive summary concisely sets out our key points of feedback on the report: Our overarching feedback is as follows:

1. **We support the development of compliant AI systems for use in financial services, and support proportionate oversight mechanisms to mitigate risks;**

2. **We support IOSCO's emphasis on robust and transparent AI design, and recommend the incorporation of Explainable AI (XAI) principles to enhance accountability and mitigate the risks posed by black-box models;**

3. **We caution against biases in financial data, particularly those stemming from historical, demographic, and market stability trends; and**

4. **We encourage IOSCO to also consider the inclusion of small language models in future initiatives of the AI Working Group.**

IOSCO AI Consultation Report

Key Points of Feedback

Risks, Issues, and Challenges relating to Investor Protection, Market Integrity, and Financial Stability

Cyber Attacks

Topic 1: Attacks Using AI
GDF supports the contents of this section and agrees with the points made.

Topic 2: Attacks Targeting AI Systems
GDF supports the contents of this section and agrees with the points made.

Topic 3: *AI Design and Implementation Failures*

We support the inclusion of this section and in particular the emphasis on robust AI design. We suggest that further consideration be given to the integration of legacy systems and data. In particular, ensuring seamless integration not only protects the privacy of legacy data but also preserves its reliability in downstream AI applications.

Topic 4: Fraud, Scams, and Misinformation

GDF supports the contents of this section and agrees with the points made.

AI Models and Data Considerations

Models

Topic 1: Explainability and Complexity

GDF supports the discussion on the importance of transparency in AI systems. We recommend incorporating the concept of Explainable AI (XAI), including references to the risks of "black box" models. Providing stakeholders with a clear and holistic list of the decision criteria used by AI systems can support accountability, facilitate regulatory compliance, and increase trust in the technology's outcomes.

Topic 2: Limitations

We support the content of this section and would suggest further highlighting the importance of human oversight.

Topic 3: Bias

We support the content of this section.

Data

Topic 1: Quality

As noted in the report, we also emphasize that the generation or use of synthetic data can at times cause misinformation and data reliability issues.

Topic 2: Limitations

We recommend expanding this section to further highlight how financial data may present specific challenges. In particular, financial training data is often biased toward periods of market stability, making it unrepresentative of high-volatility environments. Rare or outlier events may be systematically underrepresented, skewing the model's view of risk. In addition, financial data can also be noisy, incomplete, or lack proper labeling, which can lead to inconsistencies during training. Temporal drift in financial data—where economic and market conditions evolve over time—can also render static datasets outdated, further limiting their reliability.

Topic 3: Bias

We are supportive of the contents of this section and recommend further elaboration on the risks associated with historical bias. Historical financial data itself may reflect structural inequities, such

as discriminatory lending or investments, which can unknowingly taint AI outputs and logic decisions. Additionally, bias in financial datasets may also stem from demographic or geographic imbalances, which can further skew model outputs.

Concentration, Outsourcing, and Third-Party Dependency

Topic 1: Concentration
GDF is supportive of the contents of this section.

Topic 2: Outsourcing and Third-Party Dependency
While we are supportive of the contents of this section, it would be helpful to further amplify the risks which may result from reliance on third-party providers in which customers are unaware of the algorithmic criteria driving the AI.

Interactions between Humans and AI

Topic 1: Lack of Accountability and Regulatory Non-Compliance
We support the discussion of accountability concerns and recommend highlighting the financial and legal risks of continued use of non-compliant AI systems. In practice, when AI systems are challenged in lawsuits, they are often decommissioned altogether, resulting in sunk costs, legal liability, and reputational harm. Firms deploying AI without sufficient oversight or accountability mechanisms may be exposed to significant financial risk.

Topic 2: Insufficient Oversight and Talent Scarcity
We are supportive of the contents of this section and agree with the points raised.

Topic 3: Technology Over-reliance (Technology and Automation Bias)
We are supportive of the contents of this section and agree with the points raised.

Looking Ahead: Market Dynamics, Potential Outcomes, and Data and Knowledge Gaps
We are supportive of the sentiment in this section. GDF is in alignment in the importance of monitoring the three areas highlighted and looks forward to continuing to support IOSCO in their work moving forward.

Steps Market Participants Have Taken to Manage Risks, and Govern Internal Development Deployment, and Maintenance of AI Systems
The only additional comment we would raise, is as noted in our previous resopnse to the IOSCO AI Survey which was shared with the AMCC, believe that IOSCO may wish to consider the inclusion of Small Language Model (SMLs) in future research and initiatives of the working group, as the survey and this report only refers to Large Language Models (LLMs). While LLMs are deployed for widespread use cases in many industries including those in the financial services sector, highly regulated firms (activities) will seek to deploy SML's inside of directed / curated "smaller data domains" where a higher degree of quality output / outcome of result is

required by the regulated activity. SMLs can operate on a tier above LLMs to better narrow the focus of LLMs and the specifics of the (regulated area) domain, for example funds, products, compliance, etc.

Overall though, we agree with the points raised IOSCO, or to gather additional data from members to support IOSCO in their work.