

Hello. I'm Amanda Hale from Citi's Global Trustee and Fiduciary Services Regulatory team.

Joining me to provide an update on the latest regulatory highlights are my colleagues,

Andrew Newson and Matthew Cherrill.

So, what do firms need to be aware of this month?

ANDY: This month we saw several announcements related to AI.

Starting with the UK, the Financial Conduct Authority published a blog discussing its intention for the UK to be a place where beneficial technological innovation can thrive to support growth, and asking the question - how can the FCA build confidence in AI so consumers and markets benefit?

MATT: So, what did the blog authors have to say?

ANDY: Explaining that while AI has the potential to transform decision-making and customer experiences, it also raises concerns about how it can be used safely and responsibly, which can slow the pace of innovation if left unanswered, as well as introducing new risks.

As a result, the FCA is proposing AI Live Testing – which it says is a practical, collaborative way for firms, and the FCA, to explore methods to assure AI systems together, and the blog also sets out why firms should apply to take part.

MATT: In the US, the Securities and Exchange Commission announced the launch of a task force on AI that it says will spearhead its efforts to enhance innovation and efficiency in its own operations through the responsible use of AI. Mandy, can you tell us more?

MANDY: Sure, recognising the transformative potential of AI, the SEC's AI Task Force will look to accelerate AI integration to bolster the SEC's mission.

Saying it will centralize the agency's efforts and enable internal cross-agency and cross-disciplinary collaboration to navigate the AI lifecycle, remove barriers to progress, focus on AI applications that maximize benefits, and maintain governance.

The task force will support innovation from the SEC's divisions and offices and facilitate responsible AI integration across the agency.

ANDY: Matt, looking globally, the Bank for International Settlements announced the launch of Project Noor, an initiative that seeks to equip financial supervisors with independent, practical tools to evaluate and interpret the inner workings of AI models used by banks and other financial institutions. How does the BIS say they are looking to achieve this?

MATT: By combining explainable AI methods with risk analytics, it says that the project aims to deliver a prototype through which supervisors can verify model transparency, assess fairness, and test robustness.

BIS states that new regulations demand that high-risk financial AI be explainable and auditable. But there is no common, practical playbook for supervisors.

BIS says that Project Noor will prototype the latest Explainable AI techniques, which converts complex model logic into plain language and intuitive visuals, making it easier to see which factors influenced a decision and how sensitive that decision is to change, all while preserving privacy, in a controlled setting.

According to BIS, this should result in greater transparency, consistent protection, and responsible innovation.

MANDY: We have also seen movements in regulators approaches to crypto assets. What's the latest?

ANDY: In the UK, the FCA announced that firms will soon be able to give retail consumers access to crypto exchange traded notes (cETNs) that are traded on FCA-approved, UK-based investment exchanges.

MATT: Are there any restrictions that firms must comply with?

ANDY: Financial promotion rules will apply, so consumers get the right information and are not offered inappropriate incentives to invest, and so will the Consumer Duty to firms offering these products to retail investors.

However, there will not be coverage from the Financial Services Compensation Scheme so the FCA says that consumers should ensure they understand the risks before deciding to invest.

The FCA also reiterates that its ban on retail access to cryptoasset derivatives will remain in place and it will continue to monitor market developments and consider its approach to high-risk investments.

The changes will come into force on 8 October.

MANDY: In Hong Kong, the Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) issued a joint statement on recent market movements in relation to stablecoins.

In this, the SFC and the HKMA note recent abrupt market movements linked to the stablecoin concept.

These movements appear to follow corporate announcements, news reports, social media posts or speculations regarding firms' plans to apply for stablecoin issuer licences, engage in related activities or explore the feasibility of such initiatives in Hong Kong.

MATT: What do the regulators have to say on the issue?

MANDY: Well, in the light of this phenomenon, the SFC and the HKMA have urged the public to exercise caution, conduct thorough research, and refrain from making irrational investment decisions based solely on market hype or price momentum.

Also highlighting that the public should remember that well-considered and informed decision-making is essential to mitigate risks in times of heightened volatility.

Whilst market participants are reminded to exercise responsibility in public communications, and refrain from making statements that could mislead investors or create unrealistic expectations.

The SFC says that to safeguard market integrity and protect investors, its dedicated market surveillance team, equipped with advanced and proven systems, will closely monitor trading activities in Hong Kong. It will also take stringent actions against any manipulative or deceptive practices that could compromise the integrity of the market.

MATT: And in a separate circular, the SFC set out its expectations to all licensed virtual asset trading platforms on ensuring the robust custody of client virtual assets, to lay a solid foundation for the industry's transition to more advanced custody technologies under the "ASPIRe" roadmap.

ANDY: What is the SFC asking these platforms to do?

MATT: The SFC states that it sees the need for the platforms to critically review and strengthen their custody practices at a time when multiple cases of custody vulnerabilities have arisen overseas, and the regulator's own targeted review aimed to evaluate the platforms resilience against cybersecurity threats earlier this year revealed inadequacies in some operators' controls.

The SFC says that multiple cybersecurity incidents at overseas virtual asset platforms, resulting in significant client asset losses, have also highlighted persistent risks to custody globally. For example, where key weaknesses in wallet infrastructures and controls include compromised third-party wallet solutions, insufficient transaction verification processes, and inadequate access controls over approval devices.

ANDY: Matt, does the SFC provide examples of good practice?

MATT: Yes, along with its expected minimum standards that VATP operators must meet, covering senior management responsibilities, client cold wallet infrastructure and operation, use of third-party wallet solutions, real-time threat monitoring and others.

Going forward, the SFC says that these standards will also form the core expectations for virtual asset custodians and help foster an effective industry-wide framework for virtual asset custody.

MANDY: If you would like to learn some more about the topics we discussed today, as well as other regulatory developments, you can follow the relevant links in our Bite-Sized publication.