

Remarks by Deputy Assistant Secretary for the Financial Stability Oversight Council Sandra Lee at the Conference on Artificial Intelligence and Financial Stability



June 6, 2024

As Prepared for Delivery

Good afternoon and welcome to the Conference on Artificial Intelligence and Financial Stability, hosted by the Financial Stability Oversight Council (FSOC) in partnership with the Brookings Institution. I am pleased to welcome everyone who has joined us here in person at the Treasury Department, as well as those tuning in via webcast. This is the first time in almost a decade that FSOC has hosted a conference like this, and we look forward to facilitating an enriching discussion and a thoughtful exchange of ideas over the next two days.

The FSOC was established by the Dodd-Frank Wall Street Reform and Consumer Protection Act following the 2008 global financial crisis. Its mission was, and remains, to monitor the stability of the U.S. financial system. The FSOC brings together federal financial regulators and state regulators to identify risks to financial stability, promote market discipline, and respond to emerging systemic threats.

Over the past few years, the FSOC has been working to enhance how the financial regulatory community understands evolving risks and assesses vulnerabilities in the financial system. The Council has advanced work on climate-related financial risk; digital assets; nonbank financial intermediation; Treasury market resilience; and financial market utilities. Last November, the Council published a new analytic framework for financial stability, which provides a detailed explanation on how the Council monitors, assesses, and responds to potential risks to financial stability.

Every year, the FSOC presents an annual report to Congress that provides the Council's view on vulnerabilities in the financial system and recommendations to address them. In the 2023 Annual Report, the increasing usage of AI in financial services was cited as a vulnerability for the first time. The Council recommended monitoring the rapid developments in AI to ensure oversight structures stay ahead of emerging risks and also recommended that financial

institutions, market participants, and regulatory and supervisory authorities deepen their expertise and build capacity to effectively monitor AI innovation and usage.

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Later today, you will hear from Council member Michael Hsu, the Acting Comptroller of the currency, on the potential systemic risk implications from the use of artificial intelligence in banking and finance as both a useful tool and as a harmful weapon. He will also share his views on the accountability challenges with AI and the need for a shared responsibility framework for AI safety.

We will also have three panel discussions, with the first panel focusing on the potential financial stability risks posed by AI. The second panel is centered on how to promote the safe adoption of AI across the public and private sectors. Our third panel will provide regulatory perspectives on AI in the financial system and feature staff from three FSOC member agencies.

Tomorrow, at the Brookings Institution, we will continue to explore AI in the financial services industry and focus on data quality for AI models and the intersection between the tech sector and finance, among other topics.

Now, it is my honor to welcome the 78th Secretary of the Treasury, Janet Yellen. One of the nation's preeminent economists, Secretary Yellen is the first person in American history to have led the White House Council of Economic Advisors, the Federal Reserve, and now, the Treasury Department. Secretary Yellen is chair of the FSOC, and I can think of no one better person to set the tone for these next two days of collaboration, learning, and discussion. Secretary Yellen, thank you for your leadership of the FSOC and for your remarks today.

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