



FedFin Client Report

Tuesday, October 31, 2023

FedFin Assessment: New White House AI Policy Promises New KYC Requirements, Banking-Agency Guidance

Client Report: AI3

Executive Summary

In this report, we assess the detailed [executive order](#) (EO) issued late Monday afternoon after days of private showings of selected versions. Much in the EO's binding provisions address near-term AI-related threats to national-security, pandemic-risk, and infrastructure vulnerabilities and much related to AI-related opportunities derive from internal procedures Mr. Biden urges the federal government to develop along with workforce protections and biomedical research. The EO also reiterates the Administration's values and presses agencies to work still harder on voluntary industry standards that many have been drafting or disagreeing on since the White House and Congress first called attention to AI risk. What comes of these provisions in the EO remains to be seen, but the Administration has also used tools such as the Defense Production Act's authorization for direct economic intervention to mandate an array of new AI commercial and technology safeguards. We expect near-term financial-agency activity to include finalization of the AI framework outlined by the banking agencies in 2021 ([see FSM Report AI](#)), continuing attention to AI-related underwriting from all of the banking agencies along with FHFA and the CFPB, and more FSOC attention to SEC Chair Gensler's plans to address not only [predictive analytics](#), but also AI's long-term risk to financial stability. Anything more than an FSOC report is, though, at best uncertain given all else on its agenda.

Analysis

With particular regard to financial services, the executive order stipulates that:

- new KYC and related rules should govern all foreign resellers and users of U.S. infrastructure for AI-related activities including with regard to the financial institutions involved, beneficial owners, and payment-related instructions (including those related to digital wallets);
- Treasury is to issue a report within 150 days including an order on AI-specific cyber-security best practices for financial institutions. The independent agencies are then encouraged to issue these best practices as regulatory standards;
- the FHFA and CFPB in 365 days should use their authority as appropriate to

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require regulated entities to use tools, including AI, to ensure compliance with anti-discrimination standards related to credit underwriting and automated valuation;

- agencies should consider doing what they can to reduce AI threats to financial stability;
- agencies should do their best to ensure that regulated entities govern risks related to reliance on AI third-party service providers;
- agencies should emphasize or clarify standards designed to ensure that entities which use AI models can explain and validate them; and
- agencies are to develop internal standards to make the best use of AI.