



## New MAS Circular Tightens Rules on Establishing Sources of Wealth for High-Net-Worth Clients

On July 26, 2024, the Monetary Authority of Singapore (**MAS**) issued a circular i.e. AMLD 08/2024, aimed at financial institutions (**FIs**) operating in the wealth management sector. The circular provides detailed guidance on establishing the sources of wealth (**SOW**) of customers, a critical component in mitigating money laundering and terrorism financing (**ML/TF**) risks. As Singapore continues to attract high-net-worth individuals (**HNWIs**) seeking wealth management services, this circular emphasizes the need for rigorous due diligence to ensure that the influx of funds remains legitimate.

Singapore has long been recognized as a premier financial center for HNWIs, offering access to global and regional financial markets through a wide range of services and expertise. However, the wealth management business is inherently susceptible to higher ML/TF risks due to the nature of its clientele, the size of transactions, and the complexities involved in managing substantial wealth. Given this, MAS recognizing the crucial gatekeeper role that FIs play in safeguarding the legitimacy of fund flows into Singapore, particularly in the context of wealth management.

To address these risks, the new circular mandates that FIs must take appropriate and reasonable measures to establish the SOW of their customers before commencing any business relationship. This involves not only gathering information directly from customers but also independently corroborating this information against documentary evidence or publicly available data. By doing so, FIs can form a clearer understanding of their customers and assess the legitimacy of their assets, which is essential for ongoing transaction monitoring and risk management.

The circular advises FIs to adopt a risk-proportionate and reasonable approach in designing their policies and procedures for establishing the SOW of customers. A one-size-fits-all approach is discouraged; instead, FIs should consider the unique circumstances and profiles of each customer. For instance, in the case of customers with prominent public profiles, FIs might corroborate their SOW using reliable public information sources to expedite the process without compromising due diligence.

MAS has outlined several key principles that FIs should consider when establishing SOW. These include materiality, prudence, and relevance. Under the principle of materiality, FIs are expected to seek comprehensive information on a customer's entire wealth to the extent practicable, with a focus on identifying the more material or

higher-risk sources of wealth. While it is important to understand how the customer's total wealth was acquired, MAS acknowledges that it may not always be feasible to corroborate every aspect, particularly older SOW. In such cases, FIs should concentrate on corroborating the most material or risky aspects and assess whether any residual risk is acceptable.

Prudence is another critical principle highlighted in the circular. For material sources of wealth, FIs are encouraged to use more reliable corroborative information, such as audited accounts or documents issued by independent third parties like tax accountants. If FIs use benchmarks or assumptions to assess the plausibility of customer-provided information, these must be reasonable, relevant, and appropriate to the customer's specific risk profile. It is crucial that these tools are used to evaluate the plausibility of the SOW rather than to justify or support potentially suspicious circumstances.

The principle of relevance requires FIs to obtain pertinent, fit-for-purpose corroborative evidence where possible. This means exercising reasonable judgment to determine which documents are essential for corroborating a customer's SOW and which can be reasonably omitted, particularly if they are outdated and no longer relevant to the wealth's generation. FIs are encouraged to use independent and reliable documents from credible public sources whenever possible, reducing the reliance on customer-provided evidence.

MAS also emphasizes that establishing the SOW is just one part of a broader set of AML/CFT controls. Senior management within FIs is expected to exercise close oversight, particularly over higher-risk accounts. For example, if an FI is unable to corroborate a significant portion of a customer's wealth, the case should be escalated to senior management for approval before the relationship is established. Additional risk-mitigating measures, such as enhanced transaction monitoring, may also be necessary.

Ongoing monitoring is another critical aspect of the guidelines. FIs are expected to incorporate customer information obtained during the SOW establishment into their ongoing monitoring controls, including the customer's total net worth and expected sources of funds to ensure that account activities align with the customer's profile and risk assessment.

MAS has indicated that it will continue to engage with the industry on these issues and supports ongoing work by the AML/CFT Industry Partnership (**ACIP**) in developing best practices for SOW establishment. The collaborative efforts between the financial sector, regulators, law enforcement, and other government entities are essential in addressing the key and emerging ML/TF risks facing Singapore. By adhering to these guidelines, FIs can better protect themselves and the broader financial system from the risks associated with illicit assets, ensuring that Singapore remains a secure and attractive destination for legitimate wealth management activities.

(Source: [https://www.mas.gov.sg/-/media/mas/regulations-and-financial-stability/regulatory-and-supervisory-framework/anti\\_money-laundering\\_countering-the-financing-of-terrorism/amld-circular-08-2024—establishing-the-sow-of-customers.pdf](https://www.mas.gov.sg/-/media/mas/regulations-and-financial-stability/regulatory-and-supervisory-framework/anti_money-laundering_countering-the-financing-of-terrorism/amld-circular-08-2024—establishing-the-sow-of-customers.pdf))

## **Bahamas Pioneers New Digital Asset Regulations: DARE Act 2024 Takes Effect from 29 July 2024**

On 26 July 2024, the Securities Commission of the Bahamas (**SCB**) announced the Digital Assets and Registered Exchanges Act, 2024 (**DARE Act**) which came into effect on 29 July, 2024. It aims to establish a clear legal framework for the issuance, sale, and trade of digital assets, including NFTs and stablecoins, and to oversee the operations of digital asset businesses and exchanges. The Act replaces the Digital Assets and Registered Exchanges Act, 2020, providing more detailed regulations to adapt to the growing complexities of digital assets and their associated technologies.

The Act establishes a comprehensive regulatory framework for various key structures in the digital asset industry. It mandates that Digital Asset Businesses, including exchanges, custody services, and staking operations, must be registered and regulated. The Act also enforces transparency and investor protection in Token Offerings and imposes stringent requirements on Stablecoins, including adequate reserves and regular audits. The Act introduces detailed provisions for digital asset derivatives and digital asset structured products. Derivatives, which derive their value from underlying digital assets, and structured products, which bundle multiple assets to offer investors regular income, are both subject to stringent regulatory oversight. Digital Asset Derivatives are subject to strict registration, risk management, and capital requirements, while Digital Asset Structured Products must meet thorough disclosure and reporting standards to ensure investor awareness of risks and returns.

The registration requirements under the DARE Act, 2024, mandate that all digital asset businesses must submit a comprehensive application to the Securities Commission, including detailed information about the business structure, key personnel, and specific activities. This includes completing prescribed forms, providing necessary documentation, and paying the required registration fees. Additionally, businesses must demonstrate they have sufficient financial resources, robust systems, and controls in place to operate within the regulatory framework. Schedule 1 contains the essential forms that digital asset businesses must submit for registration, updates, and compliance reporting, ensuring that all necessary details about business structure, key personnel, and activities are documented and accessible to the Securities Commission. Schedule 2 outlines the fee structure associated with various regulatory activities, including registration, annual renewals, and penalties for late submissions.

Key ongoing obligations under the 2024 Act, include financial reporting and auditing, maintaining capital and solvency requirements, ensuring client asset protection, compliance with AML and CFT regulations, notifying the Securities Commission of material changes, implementing market surveillance and anti-fraud measures, undergoing regular audits and inspections, and promoting public education and awareness. These obligations are designed to ensure transparency, financial stability, and investor protection.

The Act prohibits the mining of digital assets as a business activity within The Bahamas unless it is ancillary to a registered digital asset business. Mining involves validating transactions on a blockchain network, often through complex computational processes, in exchange for digital assets such as cryptocurrencies. This means that only entities that are already engaged in other registered digital asset activities may include mining as a part of their operations. Moreover, the Act distinguishes between proprietary mining, where individuals or businesses mine digital assets for their own benefit, and mining conducted on behalf of others. The strict regulation of mining activities is intended to prevent energy-intensive operations from undermining environmental sustainability and to ensure that mining practices do not disrupt the financial stability of the digital asset market.

The Act imposes strict fines and penalties for non-compliance, including operating without proper registration, providing misleading information, or engaging in market manipulation. Penalties can include significant fines, imprisonment, or both, depending on the severity of the offense. The Securities Commission also has the authority to impose administrative sanctions such as freezing assets, issuing compliance orders, and barring individuals from participating in digital asset activities.

In addition to these regulatory measures, the Act emphasizes the importance of public education and awareness. Digital asset businesses are required to provide clear and accessible information about the risks and benefits of digital assets, promoting informed participation in the market. This focus on education reflects The Bahamas' commitment to fostering a well-informed investor base and a transparent digital asset market. By implementing a comprehensive and forward-thinking regulatory framework, the country is setting a high standard for the governance of digital assets. This legislation not only protects investors and maintains market integrity but also encourages innovation in a sector that is rapidly transforming the global financial system.

(Source: <https://www.scb.gov.bs/wp-content/uploads/2024/07/Gazetted-Digital-Assets-and-Registered-Ex-changes-Act-2024.pdf>)

## Singapore Tightens Regulation of Fund Management Companies, Imposes Licensing Requirements & Enhanced AML-CFT Compliance

On 1 August 2024, the Monetary Authority of Singapore (**MAS**) introduced its Guidelines on Licensing and Conduct of Business for Fund Management Companies (**FMCs**), with significant changes taking effect from 1 August, 2024 itself. These revisions are designed to address the evolving landscape of financial markets, particularly with the rising prominence of digital assets like cryptocurrencies. The new guidelines aim to ensure that all entities engaged in fund management within Singapore operate under stringent regulatory standards that prioritize transparency, investor protection, and market integrity.

A FMC is broadly defined as any entity involved in managing investment portfolios on behalf of clients, which can range from individual investors to large institutional clients such as pension funds or insurance companies. The primary role of an FMC is to make informed investment decisions, oversee portfolio construction, and manage the execution of trades to achieve specific financial objectives for its clients. The MAS guidelines stipulate that any entity conducting these activities in Singapore must obtain a Capital Markets Services (**CMS**) license, ensuring they meet the required standards of competency and regulatory compliance.

Under the MAS guidelines, FMCs must engage in substantive fund management activities, which means they must have a direct influence or control over the investment decisions and strategies employed in managing their clients' assets. This includes responsibility for portfolio construction, asset allocation, and the execution of investment transactions. The guidelines also clarify that entities merely acting as intermediaries, conduits for transactions, or marketing agents do not qualify as FMCs, as they do not engage in the core management of investment assets.

The updated guidelines emphasize the importance of substantive fund management activities within Singapore, especially for companies dealing with digital assets. Specifically, these companies must demonstrate their ability to influence or control portfolio management actively. This includes being deeply involved in portfolio construction, having access to detailed portfolio holdings, and being mentioned in marketing materials. The MAS's focus is clear: only entities that engage in genuine fund management activities, with the requisite infrastructure and expertise, are eligible for licensing. Simple conduits or marketing intermediaries are not recognized as FMCs under the updated guidelines.

For crypto funds, this means that entities must now ensure they possess the necessary expertise and infrastructure to exercise control over the assets they manage. The MAS's stringent criteria emphasize the importance of active management over mere facilitation, ensuring that all licensed entities are genuinely engaged in the substantive management of digital assets.

The MAS guidelines introduced disclosure obligations specifically tailored for FMCs involved in digital asset investments to cover unique risks associated with digital assets. FMCs must provide detailed information on several fronts, including the potential for significant price volatility and liquidity risks inherent to digital assets. They are also required to disclose custody arrangements, emphasizing the importance of segregating customer assets and using secure storage methods, such as cold wallets, to mitigate the risks associated with digital asset custody. Furthermore, FMCs must outline any legal and regulatory risks that may arise from investing in digital assets, ensuring that investors are aware of the complex regulatory landscape that governs these investments.

Additionally, FMCs are now mandated to ensure that assets under management, including digital assets, undergo independent valuation for maintaining transparency and accuracy in reporting the value of these often volatile assets. The guidelines stipulate that independent valuation can be fulfilled by third-party service providers or through in-house functions that are distinctly separate from the investment management operations, the guidelines help to safeguard investors and ensure that they receive accurate and reliable information about the value of their investments.

The updated guidelines place a strong emphasis on the mitigation of conflicts of interest, particularly in scenarios where FMCs or their related entities are involved in digital asset investments. FMCs are required to disclose any proprietary investments or investments made by related entities into the funds they manage. For FMCs managing cryptocurrencies or other digital assets, it is now more important than ever to establish clear boundaries to avoid conflicts of interest.

A significant addition to the updated guidelines is the requirement for an appropriate risk management framework, particularly concerning customer assets. FMCs dealing with digital assets are required to identify, measure, and monitor all associated risks, including those unique to the crypto market. This includes managing cybersecurity threats, operational risks linked to the management of private keys, and the inherent volatility of digital assets. The complexities of managing digital assets necessitate a more sophisticated approach to risk management, ensuring that all potential threats are identified and addressed proactively.

The updated guidelines reiterate the need for stringent anti-money laundering (**AML**) and countering the financing of terrorism (**CFT**) measures. Given the global and often opaque nature of cryptocurrency transactions, FMCs are required to implement rigorous checks and reporting mechanisms to prevent the use of cryptocurrencies in illicit activities. This includes thorough client due diligence, ongoing monitoring of transactions, and the reporting of any suspicious activities to the relevant authorities.

The updated MAS guidelines have far-reaching implications for both traditional finance and decentralized finance (**DeFi**). In traditional finance and the decentralized finance space, the inclusion of crypto entities under the FMC definition is a significant step towards integrating digital assets into the regulated financial system. This move by MAS is expected to enhance the credibility of the crypto market, attract institutional investment, and promote a safer, more transparent environment for digital asset management. By subjecting crypto FMCs to the same regulatory standards as traditional FMCs, MAS is fostering a more level playing field, where all market participants are held to the same high standards of transparency and accountability.

(Source: <https://www.mas.gov.sg/-/media/mas-media-library/regulation/guidelines/cmg/guideline-sfa-04-g05-on-licensing-registration-and-conduct-of-business-for-fund-managers/guidelines-on-licensing-and-conduct-of-business-for-fmcs-1-aug-2024.pdf>)

## CFTC Secures \$12.7 Billion Judgment Against FTX and Alameda for Massive Fraud Scheme

On 08 August 2024, the Commodity Futures Trading Commission (**CFTC**) announced a landmark decision by the U.S. District Court for the Southern District of New York, which ordered FTX Trading Ltd. and Alameda Research LLC to pay a staggering \$12.7 billion in monetary relief to victims of their fraudulent activities. This judgment is one of the largest in the history of financial fraud cases, reflecting the scale of the misconduct orchestrated by Samuel Bankman-Fried and his associated entities.

The court's order requires FTX and Alameda to pay \$8.7 billion in restitution to customers who suffered losses due to the misappropriation of their funds. An additional \$4 billion is to be paid in disgorgement, which will be used to further compensate the victims through a supplemental remission fund. This resolution comes after a series of legal actions taken against Bankman-Fried and his companies, which began with the CFTC filing a complaint on 13 December 2022. The initial complaint alleged that Bankman-Fried, FTX, and Alameda engaged in extensive fraud, causing the loss of over \$8 billion in customer deposits.

The court's findings revealed that FTX falsely presented itself as a secure platform for trading digital commodities, such as Bitcoin and Ether. The company claimed that customer assets were held in "custody" and segregated from FTX's own funds. However, the investigation uncovered that these assets were commingled with Alameda's funds and used for various unauthorized purposes, including luxury real estate purchases, political contributions, and high-risk investments. Furthermore, FTX employees, under Bankman-Fried's direction, manipulated the platform's code to allow Alameda to execute transactions even without sufficient funds, effectively granting them an unlimited line of credit at the expense of FTX customers.

In a related settlement agreement approved by the Bankruptcy Court for the District of Delaware, the CFTC agreed not to seek a civil monetary penalty against FTX and to subordinate its monetary claims to those of victims of the FTX fraud scheme.

This legal victory is not only significant for the compensation it provides to the victims but also for its broader implications in the digital asset space. CFTC Chairman Rostin Behnam emphasized that this case underscores the critical need for comprehensive regulation in the digital commodity markets. "FTX used age-old tactics to create an illusion of safety in the crypto markets, but the fundamental regulatory safeguards were glaringly absent," Behnam stated. He further highlighted that, without proper digital asset legislation, similar entities will continue to operate in the shadows, deceiving customers and undermining market integrity.

The swift resolution of this case, achieved just 21 months after FTX's collapse, is a testament to the CFTC's commitment to protecting investors and maintaining market transparency. Ian McGinley, Director of the CFTC's Division of Enforcement, praised the efforts of the enforcement team, noting that this recovery is the largest in the Commission's history and was accomplished with remarkable speed.

The fallout from this case continues to reverberate through the financial industry, as the CFTC remains engaged in ongoing litigation against Bankman-Fried and other key figures involved in the fraud. The CFTC's efforts have been supported by various federal agencies, including the U.S. Department of Justice, the Securities and Exchange Commission, and the Federal Bureau of Investigation, all of which have played crucial roles in uncovering the extent of the misconduct.

This case serves as a stark reminder of the vulnerabilities within the rapidly evolving digital asset markets and the importance of stringent regulatory oversight to protect investors from similar schemes in the future. The CFTC's decisive action against FTX and Alameda sets a powerful precedent for the enforcement of financial regulations in the crypto space, aiming to deter future fraudulent activities and restore confidence in the integrity of the market.

(Source: <https://www.cftc.gov/PressRoom/PressReleases/8938-24>)

## CFTC Awards Over \$1 Million to Whistleblower in Digital Assets Investigation

On August 08, 2024, the Commodity Futures Trading Commission (**CFTC**) announced a whistleblower award exceeding \$1 million to an individual who provided crucial information and assistance that significantly contributed to a successful enforcement action in the digital asset markets.

Director of Enforcement Ian McGinley highlighted the significance of the CFTC's focus on digital asset-related misconduct, stating, "Identifying unlawful conduct in the digital asset marketplace is a major priority for the CFTC, especially as everyday Americans are increasingly victimized by digital asset scams." McGinley also noted that digital asset cases made up nearly half of the CFTC's enforcement docket in the last fiscal year, emphasizing the critical role that whistleblowers play in uncovering violations within this rapidly evolving sector.

The whistleblower in this case provided specific and credible information that the CFTC had not previously known, directly leading to the agency's enforcement action. Brian Young, Director of the CFTC's Whistleblower Office, acknowledged the growing importance of whistleblowers in the agency's efforts, particularly in the digital assets space. "Whistleblowers have increasingly played a significant role in the CFTC's enforcement actions in the digital assets space," Young remarked, commending the whistleblower for their valuable contribution to the case.

The CFTC's Whistleblower Program, established under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, has become an essential tool in the Commission's enforcement efforts. Since issuing its first award in 2014, the program has granted approximately \$380 million in awards, connected to enforcement actions that resulted in nearly \$3.2 billion in monetary sanctions. The program's success underscores the importance of community involvement in the fight against financial fraud.

The program incentivizes the general public to come forward with information by offering monetary rewards ranging from 10 to 30 percent of the monetary sanctions collected in enforcement actions. These awards are funded by the CFTC's Customer Protection Fund, which is exclusively financed through monetary sanctions paid by violators of the Commodity Exchange Act (**CEA**). Importantly, no funds are taken from injured customers to support the program, ensuring that the focus remains on compensating those who help bring wrongdoers to justice.

The involvement of the general public through the Whistleblower Program has proven to be a powerful means of enhancing regulatory oversight. By offering financial incentives, the CFTC encourages individuals to report potential violations, playing a critical role in maintaining the integrity of the financial markets. This collaborative approach not only aids in identifying and prosecuting fraudulent activities but also fosters a culture of transparency and accountability within the industry.

Community involvement in regulatory enforcement is vital, as it empowers individuals to take an active role in protecting the market from fraud. The CFTC's commitment to maintaining confidentiality for whistleblowers further ensures that those who come forward can do so without fear of retaliation, thereby strengthening the overall effectiveness of the program. As the digital asset market continues to grow, the participation of vigilant individuals within the community remains a cornerstone of the CFTC's strategy to uphold the law and protect investors. The CFTC's Whistleblower Program is a clear example of how regulatory bodies can engage with the public to combat financial fraud and ensure a fair and transparent marketplace.

The CFTC's Whistleblower Program, created under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, has granted whistleblower awards amounting to approximately \$380 million to date, associated with enforcement actions resulting in monetary sanctions totaling nearly \$3.2 billion. These awards are paid from the CFTC's Customer Protection Fund, financed entirely through monetary sanctions paid by violators of the CEA, ensuring that no money is withheld from injured customers to fund the program.

Section 23 of the Commodity Exchange Act (CEA), along with the corresponding Whistleblower Rules outlined in 17 C.F.R. pt. 165, establishes the legal framework governing the CFTC's Whistleblower Program. These provisions detail the procedures and requirements necessary for individuals to participate in the program and potentially obtain a whistleblower award.

To become eligible for a whistleblower award, individuals must submit a tip, complaint, or referral using Form TCR that details potential violations of the CEA. Whistleblowers can be anyone—corporate insiders, market observers, investors, customers, or even fraud victims. The information provided must be voluntarily submitted

before the CFTC contacts the individual or initiates any inquiries related to the information. This proactive submission can lead to the opening of new investigations, re-opening of closed cases, or significantly contribute to ongoing enforcement actions, potentially resulting in a whistleblower award.

The CFTC also allows whistleblowers to submit tips anonymously, although providing contact information is encouraged to facilitate communication. The Commission is dedicated to protecting the confidentiality of whistleblowers, treating all information as non-public during investigations. However, in certain legal proceedings, the CFTC may be required to disclose documents that could reveal a whistleblower's identity. Additionally, information may be shared with other government or regulatory entities under strict confidentiality agreements. Despite these exceptions, the CFTC's confidentiality policies are designed to safeguard whistleblowers and encourage the reporting of violations that uphold the integrity of the financial markets.

(Source: <https://www.cftc.gov/PressRoom/PressReleases/8939-24>, <https://www.whistleblower.gov/>)

## CFTC Proposes Joint Rule for Enhanced Financial Data Transparency

On August 8, 2024, the Commodity Futures Trading Commission (**CFTC**) advanced efforts to enhance data transparency within the financial sector by proposing new technical data reporting standards. Developed in collaboration with major financial regulatory agencies, this initiative aims to establish uniform standards for collecting and reporting financial information. The agencies involved include the Office of the Comptroller of the Currency, the Federal Reserve, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Consumer Financial Protection Bureau, the Federal Housing Finance Agency, the Securities and Exchange Commission, and the Department of the Treasury. These standards will also apply to data collected on behalf of the Financial Stability Oversight Council.

The proposed rule, now open for public comment, introduces common identifiers for legal entities, financial instruments, and other critical data points. The goal is to enhance consistency across financial regulatory bodies, making data sharing and analysis more efficient. Additionally, the proposal seeks to standardize the format and transmission of data reported to these agencies, streamlining regulatory processes and ensuring clarity.

This proposal is part of the broader implementation of the Financial Data Transparency Act of 2022 (FDTA), a legislative measure designed to enhance data transparency across the financial sector. Although the CFTC was not initially mentioned in the FDTA, the Secretary of the Treasury officially designated the CFTC as a covered agency on May 3, 2024. This designation aligns the CFTC with other financial regulatory bodies in pursuing greater transparency.

In a concurring statement on the proposal, Commissioner Caroline D. Pham voiced concerns about the potential impact and costs of adopting these new data standards. She emphasized the significant financial burden these standards could impose on many firms across the banking and financial services sector, including small entities. While supporting the FDTA's mandate, Pham believes that the proposal could be improved by directly addressing the costs firms may face in updating their systems and records to comply with the new standards. She encouraged stakeholders to provide feedback on the costs and benefits of the proposal and on the future rulemakings by agencies that will follow. Pham also acknowledged the efforts of the CFTC and other agencies involved in the proposal's development.

The CFTC's proposal represents a decisive move towards greater transparency and accountability in the financial sector. By standardizing data reporting across various regulatory agencies, the CFTC is fostering an environment where data can be more easily shared, compared, and analyzed, leading to more informed regulatory decisions and enhanced oversight. This effort aligns with the CFTC's broader mission to protect market participants and the public from fraud, manipulation, and abusive practices related to derivatives and other financial products.

The adoption of these technical data reporting standards is expected to significantly improve the quality and accessibility of financial data, making it easier for regulators to detect potential risks and ensure the stability of the financial system. By inviting public comment, the CFTC is ensuring that all stakeholders' perspectives are considered, further enhancing the effectiveness of the proposed standards.

As the financial landscape evolves, the CFTC's proactive approach in implementing these data transparency measures will play a crucial role in maintaining the integrity and stability of financial markets. The public has 60 days following the proposal's publication in the Federal Register to provide feedback, offering an important opportunity for industry participants and other stakeholders to shape the future of financial data transparency.

(Source: <https://www.cftc.gov/PressRoom/SpeechesTestimony/phamstatement080824>, <https://www.cftc.gov/PressRoom/PressReleases/8940-24>)

## IRS Unveils Draft of New Digital Asset Reporting Form: Major Step Toward Compliance

On August 9, 2024, the Internal Revenue Service (IRS) released an early draft of the much-anticipated Form 1099-DA, a new tool designed to streamline and enhance the reporting of digital asset transactions. This form will become mandatory for brokers beginning in 2025, marking a significant advancement in the agency's efforts to ensure that digital assets are accurately reported and taxed in accordance with federal laws.

Form 1099-DA, officially titled "Digital Asset Proceeds From Broker Transactions," represents the IRS's response to the growing complexity of digital asset transactions and the need for clearer reporting mechanisms. Brokers will be required to use this form to report sales and exchanges of digital assets, starting with transactions that occur in calendar year 2025. The finalized versions of these forms will be distributed to both taxpayers and the IRS in early 2026.

However, it is important to note that Form 1099-DA is still a work in progress and should not be used for reporting purposes at this time. The draft is currently open for public review and comment, and revisions may be made based on the feedback received before the form is finalized. As such, taxpayers and brokers are advised to wait for the final version of the form before using it for any official reporting.

IRS Commissioner Danny Werfel emphasized the importance of this development, stating, "This new form will provide more clarity for taxpayers and give them another tool to help them accurately report their digital assets transactions. We know third-party reporting greatly improves compliance with the nation's tax law. This step will also help us make sure digital assets are not used to hide taxable income, including in high-income categories, while providing taxpayers who play by the rules more information to accurately report their income."

The draft form is now available for public review on IRS.gov, and the agency is inviting comments from interested parties to ensure the form meets the needs of both taxpayers and the IRS. Alongside the draft form, the IRS has also posted recipient instructions, with filer instructions expected to be released soon. Once the draft filer instructions are published, a 30-day public comment period will begin, allowing stakeholders to provide feedback before the form is finalized.

This initiative is part of the broader IRS effort to address the complexities introduced by the rise of digital assets. Digital currencies, tokens, and other blockchain-based assets have significantly complicated tax reporting, leading to increased scrutiny by the IRS. Commissioner Werfel noted, "Digital assets greatly increase the complexity of our tax system, and the IRS continues to work to make improvements in this area as part of our larger efforts to transform the agency."

The release of Form 1099-DA follows the finalization of regulations announced in late June, which set the groundwork for this new reporting requirement. The regulations, detailed in Treasury Decision 10000, along with related notices such as Notice 2024-56 and Notice 2024-57, provide transitional relief and specific guidance for brokers as they prepare to comply with the new requirements. These measures include penalty relief for brokers who make good faith efforts to meet the reporting standards during the initial years of implementation.

In particular, Notice 2024-56 offers transitional relief from penalties for brokers who fail to file accurate information returns or payee statements for digital asset sales made in 2025, as long as they demonstrate good faith efforts. Similarly, Notice 2024-57 exempts certain digital asset transactions, such as staking and wrapping, from reporting requirements under the new rules, acknowledging the need for further study to determine appropriate reporting standards for these complex transactions.

The introduction of Form 1099-DA is a crucial step in the IRS's ongoing mission to modernize and enforce tax compliance in the digital age. As the agency continues to adapt to the challenges posed by digital assets, it remains committed to reducing taxpayer burden wherever possible while ensuring that all taxable income is properly reported and taxed.



(Source: <https://www.irs.gov/newsroom/irs-updates-draft-version-of-form-1099-da-digital-asset-proceeds-from-broker-transactions-requests-comments-on-form-planned-for-2025>, [https://www.irs.gov/irb/2024-29\\_IRB#NOT-2024-56](https://www.irs.gov/irb/2024-29_IRB#NOT-2024-56), <https://www.irs.gov/pub/irs-dft/f1099da-dft.pdf>)

## ASIC's 2024 Financial Advice Update Highlights Compliance, Cybersecurity, Ethical Practices, and Investor Protection

On 9 August 2024, the Australian Securities and Investments Commission (**ASIC**) released its financial advice update that discusses the importance of compliance across multiple critical areas. This update addresses the need for accurate record-keeping on the financial advisers register, ensuring that advisers meet required qualification standards, and maintaining stringent cybersecurity measures, especially concerning third-party exposures. Additionally, ASIC highlights ongoing concerns about unethical practices in the superannuation switching sector, specifically regarding cold calling and high-pressure sales tactics that can lead to poor consumer outcomes. The update also reminds AFS licensees of the imperative to register financial advisers properly before they provide personal advice, with strict compliance checks already identifying lapses in this area. Through this comprehensive update, ASIC reinforces its commitment to safeguarding investors and maintaining the integrity of the financial advice sector by emphasizing transparency, ethical conduct, and proactive risk management.

AFS licensees are reminded to meticulously maintain accurate records on the financial advisers register. Recent reviews by the ASIC have revealed alarming inconsistencies, particularly in the recording of advisers' qualifications. This is not just a minor administrative task; incorrect or outdated information can lead to severe penalties. The commission has been clear—ensuring that records accurately reflect an adviser's qualifications, ability to provide tax-related financial advice, and current contact details is a fundamental requirement. Any discrepancies must be promptly rectified by lodging a 'maintain' transaction on ASIC Connect. The implications of failing to do so could be dire, as providing false or misleading information to ASIC is a serious offence, carrying significant consequences.

In parallel, the commission's focus on adviser qualifications has intensified. If you're an advice licensee, it's your responsibility to ensure that all relevant providers meet the qualifications standard before they are authorized to provide personal advice. This applies even if the adviser has previously been authorized by another licensee. The deadline for existing providers to meet these standards is 1 January 2026, a date that is fast approaching. The process of assessing adviser qualifications against the prescribed standards is rigorous, and licensees must ensure compliance to avoid potential legal challenges.

ASIC's ongoing review of cold calling practices for superannuation switching has further highlighted the importance of ethical conduct in financial advice. The commission's findings reveal that some operators are using high-pressure tactics to push consumers into unnecessary and often detrimental superannuation switches. These practices not only harm consumers but also tarnish the reputation of the financial advice industry. ASIC has made it clear that it will continue to take strong action against those who fail to act in the best interests of their clients. Licensees must therefore ensure robust monitoring and supervision mechanisms are in place to prevent such unethical practices.

Cybersecurity remains a top priority as well. The commission has identified third-party exposure as a growing risk for financial institutions. With many businesses outsourcing IT functions, the risk of cyber attacks through third-party vulnerabilities has escalated. ASIC's recent Cyber Pulse Survey revealed that a significant percentage of organizations are not adequately managing these risks, leaving them vulnerable to breaches that could have catastrophic consequences. The commission is urging financial services businesses to enhance their cyber defenses, particularly in managing third-party risks. Simple measures like implementing multifactor authentication (**MFA**) can provide a robust line of defense against cyber threats.

Furthermore, the introduction of a new registration requirement for financial advisers marks another critical area of focus. As of 16 February 2024, all relevant providers, except provisional relevant providers, must be registered before providing personal advice to retail clients. This registration is a continuous obligation and is separate from the requirement to be listed on the financial advisers register. ASIC's compliance program has already uncovered instances where advisers were not registered after moving between licensees. Such oversights could lead to significant regulatory action, making it imperative for all licensees to ensure their advisers are properly registered.

In addition to these specific areas of concern, ASIC is taking proactive steps to ensure that the financial advice sector is operating at the highest possible standard. The Commission's approach is not just about enforcement but also about raising awareness among both investors and financial institutions. These efforts are designed to enhance investor confidence, ensuring that they receive advice that is not only accurate and reliable but also in their best interest. For financial institutions, this update serves as a reminder that maintaining high standards of practice is not optional but a fundamental requirement for operating within Australia's financial system.

These steps by ASIC are crucial in ensuring a better regulatory environment that not only protects investors but also fosters a culture of accountability and excellence within the financial advice sector. By addressing key areas such as accurate record-keeping, ethical practices, and cybersecurity, ASIC is working to create a more robust and resilient financial landscape. These measures also serve to educate and inform both financial advisers and their clients, promoting greater awareness and understanding of the importance of compliance and ethical conduct in financial services. Through these initiatives, ASIC is helping to build a financial system that is not only safer for investors but also more efficient and fair, ultimately contributing to the overall stability and prosperity of the Australian economy.

(Source: <https://asic.gov.au/about-asic/news-centre/news-items/financial-advice-update/?altTemplate=beta-newsroom>)

## SEC Charges OTC Link LLC with Failing to Report Suspicious Transactions, Imposes \$1.19 Million Penalty

On August 12, 2024, the Securities and Exchange Commission (**SEC**) took decisive action against OTC Link LLC, a New York-based broker-dealer, for neglecting to file mandatory Suspicious Activity Reports (**SARs**) over a period exceeding three years. The firm has agreed to pay \$1.19 million to settle the charges, marking a significant enforcement effort by the SEC to ensure adherence to anti-money laundering (**AML**) regulations within the securities industry.

SARs are vital for detecting potential violations of securities laws and money laundering activities. Broker-dealers like OTC Link are legally required to file these reports when they identify transactions that appear suspicious. However, according to the SEC's findings, OTC Link failed to submit a single SAR from March 2020 through May 2023, despite operating three active alternative trading system (**ATS**) platforms—OTC Link ATS, OTC Link ECN, and OTC Link NQB. These platforms facilitate tens of thousands of transactions daily, many involving microcap or penny stocks, which are frequently associated with higher risks of fraud and illegal activities.

The SEC's investigation revealed that OTC Link's AML policies and procedures were inadequately structured to monitor and report suspicious activities across its ATS platforms. This shortfall deprived regulators and law enforcement of critical information necessary to identify and address potential misconduct in the securities markets.

"Broker-dealers are critical gatekeepers to the securities markets and must diligently monitor for suspicious transactions," stated Tejal D. Shah, Associate Regional Director of the SEC's New York Regional Office. "When firms like OTC Link fail to file SARs, they deprive regulators and law enforcement of important information about suspicious activity."

As a result of the SEC's findings, OTC Link was found to have violated Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-8. Without admitting or denying the SEC's findings, the firm has agreed to a censure and a cease-and-desist order in addition to the financial penalty. Moreover, OTC Link is required to continue collaborating with a compliance consultant to review and enhance its AML policies and procedures to prevent future violations.

The SEC's investigation was led by William Conway and Sandeep Satwalekar under the supervision of Ms. Shah from the SEC's New York Regional Office, with support from the SEC's Bank Secrecy Act Review Group and Alexander Lefferts from the SEC's Office of Investigative and Market Analytics. The examination that triggered the investigation was conducted by Edward Janowsky, Hermann Vargas, and Steve Vitulano of the SEC's Division of Examinations.

(Source: <https://www.sec.gov/newsroom/press-releases/2024-96>)

## CFTC Penalizes Texas Firm \$100,000 for Unregistered Broker Activities

On August 12, 2024, the Commodity Futures Trading Commission (**CFTC**) imposed a \$100,000 fine on Cost Management Solutions, LLC (**CMS**), a Texas-based corporation, for operating as an unregistered Introducing Broker (IB). The order, which simultaneously files and settles charges, not only mandates the monetary penalty but also directs CMS to cease any further violations of the Commodity Exchange Act (**CEA**).

The CFTC's investigation, covering activities from May 2018 to the present, uncovered that CMS had been actively engaging in IB functions without the necessary registration. CMS's business primarily involved brokering swap and options transactions in energy commodities such as propane, heating oil, and crude oil. The firm's activities included identifying potential counterparties, conducting price discovery, negotiating trade terms, and executing transactions on behalf of its clients—mainly propane retailers looking to hedge against market risks. Despite the extensive brokerage services provided, CMS had not registered as an IB, a clear breach of the CEA.

In its operations, CMS would often solicit quotes from multiple counterparties at the request of its clients. Upon securing an acceptable quote, CMS would execute the swap or option transaction on behalf of the client, all while charging a fee for its services. Crucially, CMS did not handle any client funds or securities to guarantee these transactions. This lapse in regulatory compliance highlights a significant oversight in CMS's business practices, which the CFTC has now addressed through this enforcement action.

The CFTC's order serves as a stern warning to other entities that may be operating without proper registration. The \$100,000 fine underscores the importance of compliance with the CEA and the potential consequences of failing to adhere to regulatory requirements. By imposing such penalties, the CFTC reinforces its commitment to maintaining the integrity of the markets and protecting investors from unregistered and potentially unscrupulous actors. This action sends a clear message that any firm engaging in brokerage activities without appropriate registration will be held accountable.

The enforcement effort was carried out by members of the CFTC's Division of Enforcement, including Michael Amakor, Karen Kenmotsu, A. Daniel Ullman II, and Paul G. Hayeck. Their work ensures that entities like CMS are brought to justice, safeguarding the interests of market participants and upholding the standards of the financial system.

The CFTC strongly advises the public to verify the registration status of any individual or company with the CFTC before engaging in financial transactions. This can be done through the National Futures Association's Background Affiliation Status Information Center (NFA BASIC). By doing so, customers can protect themselves from potential fraud or misconduct.

Furthermore, the CFTC encourages individuals to report any suspicious activities or potential violations of commodity trading laws. Reports can be made through the CFTC's toll-free hotline at 866-FON-CFTC (866-366-2382), via their online complaint filing system, or by contacting the Whistleblower Office. Notably, whistleblowers are eligible for rewards ranging from 10 to 30 percent of the monetary sanctions collected, paid from the Customer Protection Fund, which is financed by sanctions imposed on violators of the CEA.

(Source: <https://www.cftc.gov/PressRoom/PressReleases/8941-24>)

## RBI Deputy Governor Highlights Impact of CBDCs on Deposit Insurance at Asia Pacific Conference

On August 13, 2024, in a compelling address at the International Association of Deposit Insurers (**IADI**) Asia Pacific Regional Committee (**APRC**) International Conference, Reserve Bank of India (**RBI**) Deputy Governor Michael Debabrata Patra highlighted the evolving challenges facing deposit insurers in an increasingly digital and climate-conscious world. Speaking at the conference hosted by the Deposit Insurance and Credit Guarantee Corporation (**DICGC**) in Jaipur, Patra emphasized the importance of fortifying crisis preparedness and the need for deposit insurers to stay ahead of emerging risks.

Patra began by acknowledging the rapid digitalization of financial services and the opportunities it presents for deposit insurers to enhance their efficiency and effectiveness. He noted that while digitalization offers significant economies of scale and modernization in reimbursement, supervision, and resolution, it also brings new risks. The experience of banking sector stress in 2023, where online banking and social media coordination accelerated deposit outflows, shows the potential for digitalization to amplify financial stability risks.

Central to Patra's address was the impact of central bank digital currencies (**CBDCs**) on the financial system. He discussed the potential of CBDCs to serve as legal tender issued by central banks in digital form, offering benefits such as real-time transactions and cost-effective globalization of payment systems. However, Patra cautioned that the impact of CBDCs on traditional bank deposits and deposit insurance remains uncertain. He stressed the need for deposit insurers to closely monitor developments in CBDC adoption, particularly in the context of crises where CBDCs might be perceived as safer than traditional bank deposits, potentially triggering bank runs.

Patra also highlighted the ongoing revolution in the digital payments space, where instant payment systems (**IPS**) are transforming domestic and cross-border transactions. He noted that deposit insurers must re-evaluate operational risks posed by these 24/7 payment systems, especially in cases where depositors and member banks rely heavily on non-domestic depositors. The increasing cross-border banking activities underscore the importance of cooperation between deposit insurers and other financial safety net participants.

In discussing tokenized deposits, Patra pointed to the growing adoption of blockchain technology and its implications for deposit insurance. Tokenized deposits, which are digital representations of traditional bank deposits on a secure blockchain, offer benefits such as increased liquidity and cost-effectiveness. However, they also pose regulatory and financial stability challenges, including the potential to amplify bank runs during stress periods and the need for a robust legal framework to ensure tokenized deposits are treated as traditional deposits for insurance purposes.

Patra then turned his attention to the rising threat of climate change-related financial risks. He noted that 2023 was the warmest year on record, with 2024 likely to surpass it. The increasing frequency and severity of natural disasters are already impacting the balance sheets of banks and financial intermediaries, making it crucial for deposit insurers to prepare for the potential impact of climate change on the institutions they oversee. Patra called for the development of climate risk-based premiums, climate stress testing of funds, and the incorporation of sustainability into fund management, risk monitoring, and resolution plans.

In conclusion, Patra reflected on the challenges and opportunities facing deposit insurance in India. He highlighted India's ongoing pilot programs for wholesale and retail CBDCs and the nation's leadership in digital payments through initiatives like the Unified Payments Interface (**UPI**). Patra emphasized that these developments are defining milestones in the DICGC's journey, as the corporation prioritizes risk management, digital transformation, and public awareness campaigns in response to emerging challenges.

(Source: [https://rbi.org.in/scripts/BS\\_SpeechesView.aspx?Id=1452](https://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=1452))

## US SEC and Latvijas Banka Join Forces to Strengthen Virtual Asset Oversight

On 13 August, 2024, in a significant step towards enhancing the security and resilience of the digital asset sphere, the United States and Latvia have embarked on a joint initiative to bolster supervision and regulation of operational risks associated with virtual asset service providers. From August 13 to 15, Latvijas Banka is hosting an intensive training program where U.S. experts will share their insights with Latvian financial supervisory and law enforcement authorities.

This collaborative effort, spearheaded by the U.S. Securities and Exchange Commission, the New York State Department of Financial Services, the U.S. Department of the Treasury, and Latvijas Banka, is designed to foster a robust exchange of best practices in managing the complexities of virtual assets. The training program emphasizes the importance of a balanced approach to regulation—one that supports innovation while safeguarding market integrity and consumer protection.

The approaches taken by both the U.S. and Latvian governments highlight their commitment to maintaining financial stability in an increasingly digital world. The U.S. has long been a leader in establishing stringent regulatory frameworks to address the evolving challenges of virtual assets, focusing on rigorous compliance and en-

forcement measures. Latvia, on the other hand, is positioning itself as a forward-thinking hub for digital finance within the European Union, with a strong emphasis on integrating innovative technologies while ensuring that the financial system remains secure and resilient. Together, these approaches create a comprehensive strategy that combines the strengths of both nations in combating financial crimes and enhancing the regulatory oversight of virtual assets.

Speaking at the opening session, Christopher Robinson, U.S. Ambassador to Latvia, highlighted the dual potential of virtual currencies and blockchain technology, stating, "Virtual currencies and blockchain technology offer great potential. Striking a balance between regulation and innovation is key to achieving economic growth while maintaining resilience."

Mārtiņš Kazāks, Governor of Latvijas Banka, expressed his gratitude for the collaboration, noting, "We extend our gratitude to the US institutions for the valuable exchange of experience, which will bolster the security and resilience of Latvia's financial sector. This marks a crucial step toward fostering the emergence of new segments within the Latvian financial sector and elevating its competitiveness on the global stage. The financial sector is constantly evolving, and supervisory institutions must enhance their risk-based approach to identify and effectively address financial crimes in the virtual asset domain, while also ensuring that the sector's development and the accessibility of financial services are not impeded. Latvijas Banka and its experts are open to new technologies, knowledge, and the exchange of experience, continually refining their supervisory approach and solutions."

The three-day training will cover a wide array of topics, including compliance, market integrity, and consumer protection within the virtual asset services sector. U.S. lecturers will delve into the intricacies of licensing virtual asset service providers, exploring real-world examples to illustrate the diverse types and functions of these services. Participants will gain deeper insights into the operational risks associated with virtual assets, such as anonymity-enabling technologies, various blockchain platforms, and the potential for traditional banks to transition into virtual asset service providers.

This collaboration is expected to have lasting impacts on the digital asset space, not only within Latvia but across the broader Nordic and Baltic regions. By strengthening regulatory frameworks and enhancing the capabilities of financial supervisors, this initiative paves the way for a more secure and competitive financial environment. The training will bring together more than 30 experts from Latvijas Banka, the Ministry of Finance, the Financial Intelligence Unit, and neighboring countries, creating a strong network of professionals committed to advancing the digital asset industry.

This collaboration between the U.S. and Latvia represents a crucial development in the global effort to regulate and oversee the rapidly expanding digital asset market. By pooling their resources and expertise, these nations are setting a standard for how countries can work together to address the unique challenges posed by virtual assets. The emphasis on balancing regulation with innovation is particularly noteworthy, as it acknowledges the need to foster technological advancement while ensuring that such growth does not come at the expense of financial stability or consumer protection. This partnership is a promising step towards creating a more transparent, secure, and resilient global financial system.

(Source: <https://www.bank.lv/en/news-and-events/news-and-articles/news/17014-the-us-and-latvia-will-strengthen-supervision-of-operational-risks-for-virtual-asset-service-providers-as-part-of-their-training-programme-2>)

## MAS Signs MoU with Banks and Tech Partners to Bolster Quantum Computing Security Against Emerging Threats

On 14 August 2024, the Monetary Authority of Singapore (MAS) signed a Memorandum of Understanding (MoU) with major banks and financial institutions to reinforce the country's financial sector against potential cybersecurity threats from quantum computing.

This MoU, which involves collaboration with major banks like DBS, HSBC, OCBC, UOB, and technology partners SPTel and SpeQtral. The companies involved in this initiative represent a cross-section of Singapore's financial and technological leadership. DBS, HSBC, OCBC, and UOB are among the largest and most influential banks in the region, while SPTel and SpeQtral bring cutting-edge technological expertise to the table.

The initiative follows the announcement of the National Quantum Strategy by Deputy Prime Minister Heng Swee Keat on 30 May 2024 and builds on MAS's commitment, announced on 18 July 2024, to allocate an additional S\$100 million under the Financial Sector Technology and Innovation Grant Scheme (**FSTI 3.0**) to support the development of quantum and artificial intelligence (**AI**) technologies in the financial sector.

Under the framework of this MoU, MAS and the participating institutions will engage in proof-of-concept trials using Quantum Key Distribution (**QKD**) technology. These trials are intended to rigorously test the viability and effectiveness of QKD in securing financial communications, leveraging controlled sandbox environments to simulate real-world scenarios. A key focus of the trials will be validating QKD's security features, such as its capacity to detect eavesdropping and prevent unauthorized access or tampering with encrypted data.

The MoU further emphasizes the importance of knowledge exchange among all participants, ensuring that the financial sector is well-prepared for the transition to quantum security solutions. By fostering enhanced technical competencies, this collaboration aims to equip institutions with the expertise necessary to implement and manage quantum-safe communications effectively.

**What is Quantum Computing?** It is a type of computation that harnesses the principles of quantum mechanics, the fundamental theory in physics that describes nature at the smallest scales of energy levels of atoms and subatomic particles. Unlike classical computers, which use bits as the smallest unit of information (either 0 or 1), quantum computers use quantum bits, or qubits.

Qubits can exist in multiple states simultaneously, thanks to quantum phenomena like superposition and entanglement. This allows quantum computers to perform complex calculations much more efficiently than classical computers by processing a vast number of possibilities simultaneously. Quantum computing holds the potential to revolutionize fields like cryptography, material science, medicine, and artificial intelligence, but also poses significant challenges, especially in cybersecurity, as it can potentially break many of the encryption methods currently used to secure data.

This capability could render existing encryption methods, especially asymmetric cryptography, vulnerable to being compromised. As a result, the security of financial transactions, data exchanges, and digital signatures—cornerstones of the financial system—are at risk.

On 20 February 2024, MAS published its advisory to mitigate these risks and outlined several key actions that FIs should undertake. First is the development of "crypto-agility," which refers to the ability to seamlessly transition from current cryptographic algorithms to post-quantum cryptography (**PQC**).

Second, MAS recommends that FIs explore QKD technology. QKD uses quantum mechanics to securely distribute encryption keys, offering a potential solution for maintaining secure communication channels in the quantum era.

Further, MAS advises FIs to continuously monitor the latest advancements to stay ahead of potential cybersecurity threats. Moreover, it is important for senior management and relevant stakeholders within FIs to understand the risks posed by quantum technology and the importance of transitioning to quantum security solutions.

Moreover, FIs should maintain a detailed inventory of their cryptographic assets. This inventory should identify vulnerable assets, including details on cryptographic algorithms, key lengths, and the systems they protect, allowing FIs to prioritize the migration to quantum-resistant encryption methods. Additionally, FIs should classify their IT and data assets based on sensitivity and risk exposure to ensure that the most critical assets are protected first. Assessing whether existing systems can support necessary upgrades is also crucial to facilitate a smooth transition.

MAS further emphasizes the importance of building technical competency among staff to manage the shift to quantum security solutions effectively. This includes reviewing and updating internal policies to align with the latest quantum security requirements. FIs are also strongly encouraged to conduct proof-of-concept trials with quantum security technologies, which will help them understand the practical challenges of implementing these solutions and prepare adequately for the transition.

The leaders of the institutions involved in the recent MoU with MAS have expressed strong support for the initiative. Mr. Eugene Huang, Group Chief Information Officer at DBS; Ms. Tancy Tan, Chief Operating Officer at HSBC Singapore; Mr. Praveen Raina, Head of Group Operations & Technology at OCBC; Mr. Albert Kho, Head of Group

Retail and Channels Technology and Operations at UOB; Mr. Lum Chune Yang, Co-Founder and Chief Executive Officer of SpeQtral; and Mr. Titus Yong, Chief Executive Officer of SPTel, all praised the collaborative effort to address the cybersecurity challenges posed by quantum computing.

They highlighted the critical importance of MAS's proactive measures in safeguarding the financial sector. The leaders emphasized the MoU as a pivotal step towards future-proofing Singapore's financial services, with a focus on innovation, security, and resilience. The commitment to exploring QKD and enhancing the sector's technical capabilities was recognized as essential for maintaining a robust and secure financial environment in the face of emerging quantum threats.

(Source: <https://www.mas.gov.sg/news/media-releases/2024/mas-collaborates-with-banks-and-technology-partners-on-quantum-security>, <https://www.mas.gov.sg/-/media/mas-media-library/news/media-releases/2024/annex-a—quotes-from-the-industry.pdf>, <https://www.pmo.gov.sg/Newsroom/DPM-Heng-Swee-Keat-at-the-Asia-Tech-x-Singapore-2024-Opening-Ceremony>, <https://www.mas.gov.sg/-/media/mas-media-library/regulation/circulars/trpd/mas-quantum-advisory/mas-quantum-advisory.pdf>)

## SEC Chairman Warns of AI's Impact on Investment Decisions and Potential Conflicts of Interest

On 14 August, 2024, the Securities and Exchange Commission (**SEC**) Chairman Gary Gensler released a statement highlighting the growing influence of artificial intelligence (**AI**) in financial markets and the potential risks it poses to investors. With AI increasingly embedded in everyday digital experiences, from search algorithms to personalized marketing, the SEC's attention has turned to its application in the financial sector, particularly in investment platforms and brokerage services.

The rise of AI has brought significant advancements in the ability to process vast amounts of data, recognize patterns, and make predictions. This technology allows companies to “narrowcast,” tailoring messages, pricing, and products to individual consumers with unprecedented precision. In the financial sector, this manifests in the use of Robo-advisors and brokerage applications that rely on AI algorithms to provide personalized investment recommendations and alerts.

However, as SEC Chairman Gary Gensler pointed out in a recent address, the same AI-driven systems that enhance user experience could also introduce new risks. These algorithms, designed to predict how individuals might respond to specific prompts or offers, could potentially be manipulated to serve the financial interests of the platforms rather than the investors. Gensler raised concerns about AI's ability to detect subtle individual preferences, such as color choices or psychological triggers, which could be exploited to influence investment decisions in ways that might not align with an investor's best interests.

In a humorous twist, the video of Chairman Gensler delivering his warning appeared almost AI crafted—some joked it might have been AI-tailored itself. The lighting, the color schemes, and even the pacing of his speech seemed almost eerily optimized for maximum engagement, as if an AI system had meticulously calculated how best to hold the audience's attention. This stands on the very point Gensler was making: in a world where AI knows our preferences better than we do, the line between genuine human communication and algorithm-driven persuasion becomes increasingly blurred.

Drawing from a personal anecdote, Gensler illustrated how AI could tap into deeply ingrained preferences, such as his own aversion to the color green due to childhood experiences. He warned that AI systems, by optimizing for the platform's revenue or profit motives, could prioritize the firm's interests over those of the investor, leading to conflicts of interest. This, he cautioned, could result in investors making suboptimal financial decisions or even suffering financial harm.

The SEC is keenly aware of these potential conflicts and is actively working to address them. Gensler emphasized that regardless of whether financial advice is delivered by a human advisor or an AI-powered system, it must always serve the client's best interests. To this end, the SEC has proposed new regulations aimed at mitigating these conflicts across various investor interactions, from Robo-advisors to traditional brokers.

The proposed rule, introduced last year, seeks to ensure that AI-driven financial platforms adhere to the same standards of transparency and fairness as their human counterparts. By addressing the evolving challenges posed by AI, the SEC aims to protect investors while fostering innovation in the financial industry.

As AI continues to make waves in the financial sector, its impact is also being keenly felt in the world of cryptocurrencies and digital assets. In a market that is already known for its volatility and rapid pace of change, the integration of AI-driven algorithms presents both opportunities and challenges. On one hand, AI can provide crypto traders with sophisticated tools for market analysis, sentiment detection, and predictive modeling, potentially giving them an edge in navigating the often unpredictable crypto markets. On the other hand, the very same technology could be leveraged by platforms and exchanges to subtly influence trading behavior, possibly exacerbating market swings or encouraging trades that benefit the platform over the trader.

As decentralized finance (DeFi) platforms and crypto exchanges increasingly rely on AI to optimize user interactions and trading strategies, the potential for conflicts of interest grows. Investors must remain vigilant, ensuring that the AI tools they use are aligned with their financial goals, rather than being manipulated to serve the interests of the platform.

In this rapidly evolving landscape, the SEC's focus on AI's role in financial markets could soon extend to the crypto world, where the stakes are high and the margins for error are thin. The same principles that apply to traditional investments—transparency, fairness, and the prioritization of investor interests—must be rigorously upheld in the digital asset space to ensure that innovation does not come at the expense of investor protection.

(Source: <https://www.youtube.com/watch?v=mpAE230mrdU>, <https://www.sec.gov/newsroom/speeches-statements/gensler-transcript-artificial-intelligence-081324>)

## Korea Fintech Week 2024: Pioneering the Future of Finance with AI and Global Innovation

On July 25, 2024, the Financial Services Commission (**FSC**) officially announced the schedule for this year's highly anticipated Korea Fintech Week, set to take place from August 27 to 29 at the iconic Dongdaemun Design Plaza in Seoul. This event, the largest of its kind in Korea's history, is poised to be a landmark gathering for the fintech industry, focusing on the transformative impact of artificial intelligence (**AI**) within the financial sector. Under the theme "Beyond Boundaries: Fintech and AI Redefining Finance," the expo will not only showcase cutting-edge technologies but also explore how these innovations are reshaping the global financial landscape.

The expo will feature participation from leading fintech companies, financial institutions, academic bodies, and international organizations, making it a truly global event. Over the course of three days, attendees will have the opportunity to explore 85 meticulously curated exhibition booths spread across four specialized halls—Fintech, Financial, Cooperating Organizations, and Global. These exhibitions will highlight the latest AI-driven financial technologies designed to enhance user convenience, improve security, and drive innovation within the industry.

A significant focus of this year's event will be on knowledge sharing and thought leadership, with eleven specialized seminars scheduled to take place. These seminars will delve into a range of topics including AI integration in fintech, strategic investment approaches, environmental, social, and governance (**ESG**) considerations, and the evolving landscape of financial services. Each session is designed to provide participants with deep insights into the trends shaping the future of finance and to foster in-depth discussions on the challenges and opportunities that lie ahead.

Beyond the educational components, Korea Fintech Week 2024 is also set to be a prime venue for networking and investment. The FSC has introduced a mobile business meeting platform to facilitate seamless interactions among industry professionals. Additionally, the IR Open Stage and Networking Lounge will be significantly expanded this year, providing fintech startups and entrepreneurs with valuable opportunities to pitch their ideas, secure investments, and build partnerships. The Korea Development Bank (**KDB**) will further enhance these efforts with a special Fintech Round and reverse IR sessions, specifically designed to attract global investments and support the international expansion of Korean fintech firms.

One of the standout features of this year's expo is the inclusion of a global talk concert on fintech and AI, moderated by renowned AI experts from both domestic and international arenas. This event will provide attendees with a comprehensive understanding of the implications of AI technologies and their potential to revolutionize the financial industry. The concert will serve as a platform for discussing technological convergence and the future of financial services, offering invaluable insights to industry leaders and innovators alike.



In addition to these high-profile events, Korea Fintech Week 2024 will also host a variety of interactive programs aimed at fostering creativity and career development. These include a fintech idea contest, a finance-themed musical, and a career mentoring program designed to guide young professionals and students interested in pursuing careers in the fintech sector. These initiatives are expected to contribute significantly to the growth of Korea's fintech ecosystem, nurturing the next generation of innovators and ensuring that the industry continues to thrive.

The FSC's efforts in organizing Korea Fintech Week 2024 reflect its commitment to creating a vibrant and secure environment for financial innovation. By bringing together diverse stakeholders from across the globe, the event aims to catalyze the development of new technologies, spread awareness among investors and financial institutions, and reinforce Korea's position as a leader in the global fintech landscape. Entry to the event is free, encouraging broad participation and engagement from all corners of the industry, further underscoring the FSC's dedication to fostering an inclusive and forward-thinking financial ecosystem.

(Source: <https://www.fsc.go.kr/eng/pr010101/82745?srchCtgry=2&curPage=&srchKey=&srchText=&srchBeginDt=&srchEndDt>)

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