Swiss FINMA Issues Guidance on Governance and Risk Management in Artificial Intelligence Applications

On 18 December 2024, the Swiss Financial Market Supervisory Authority (**FINMA**) issued FINMA Guidance 08/2024 'Governance and risk management when using artificial intelligence' for supervised financial institutions using artificial intelligence (AI). This move highlights FINMA's focus on addressing the operational, legal, and reputational risks associated with AI while promoting robust oversight practices in Switzerland's financial sector.

The rapid adoption of AI has transformed financial markets, presenting significant opportunities but also risks that are often difficult to evaluate. FINMA's guidance aims to ensure that supervised institutions adopt a proactive approach to identifying, assessing, and managing risks associated with AI. This effort reflects FINMA's commitment to maintaining the reputation of Switzerland's financial centre while helping institutions safeguard their business models in an evolving technological landscape.

FINMA has observed that most institutions remain in the early stages of AI adoption, with governance and risk management frameworks still under development. Risks identified include model risks such as a lack of robustness, explainability, or bias, as well as data-related risks including security, quality, and availability. Additional concerns relate to IT and cyber risks, legal exposure, reputational harm, and growing dependencies on third-party AI providers. Switzerland's principle-based regulatory framework emphasises technology neutrality and proportionality to ensure Swiss institutions remain competitive.

Governance and Responsibility

FINMA observed that many supervised institutions focus heavily on data protection but often neglect critical model risks such as robustness, bias, and explainability. Additionally, decentralised development of AI applications frequently results in inconsistent standards and unclear accountability. FINMA's guidance emphasises the importance of centralised governance structures, requiring supervised institutions to maintain comprehensive inventories of AI applications, define roles and responsibilities clearly, and implement training measures. For outsourced AI solutions, institutions must ensure rigorous due diligence and include contractual clauses addressing liability and responsibility.

Inventory and Risk Classification

Institutions often narrowly define AI applications, failing to account for the breadth of potential risks. FINMA stresses the need for a broad and inclusive definition of AI, encompassing traditional and generative models alike. Institutions are encouraged to create complete inventories of AI systems and classify risks based on the materiality and specific challenges posed by each application. This classification helps in identifying applications that require heightened risk management.

Data Quality

AI applications depend heavily on data integrity, but FINMA noted that some institutions lack controls to ensure the quality of their datasets. Poor-quality data, including biased or outdated information, can lead to systemic errors in AI outcomes. FINMA's guidance calls for institutions to establish internal rules and directives to guarantee the completeness, accuracy, and relevance of data. Additional emphasis is placed on securing access to data and evaluating the suitability of datasets provided by third-party vendors.

Tests and Ongoing Monitoring

Weaknesses in performance indicators, testing methodologies, and monitoring systems were observed across several institutions. FINMA advises scheduling rigorous tests to validate AI functionality, including stress tests and sensitivity analyses to assess robustness and stability. Institutions are also urged to define performance thresholds and monitor changes in input data to detect and address potential "data drift" over time. Regular manual reviews of system outputs are recommended to identify discrepancies and improve the reliability of AI applications.

Documentation

FINMA's guidance mandates the preparation of documentation covering data selection, model performance, assumptions, limitations, and fallback mechanisms. Proper documentation enables institutions to ensure transparency, support internal reviews, and demonstrate compliance with regulatory requirements.

Explainability

FINMA discusses the importance of explainability in AI applications, particularly for decisions affecting investors, customers, or regulatory compliance. Institutions must ensure that AI-driven decisions can be understood, reproduced, and critically assessed. Explainability involves identifying the factors influencing AI outputs and evaluating their behaviour under varying conditions.

The guidance is effective immediately, as on the date of publication, for Supervised institutions, who are expected to integrate the outlined measures into their risk management frameworks promptly. Ongoing reviews by FINMA will assess compliance, with the possibility of further refinements to the guidance based on supervisory findings and evolving international standards.

(Source: https://www.finma.ch/en/~/media/finma/dokumente/dokumentencenter/myfinma/4dokumentation/finma-aufsichtsmitteilungen/20241218-finma-aufsichtsmitteilung-08-2024.pdf?sc_lang=en&hash=AA85A-C0A19240FFFA14E4692BF385651, https://www.finma.ch/en/news/2024/12/20241218-mm-finma-am-08-24/)

US SEC Approves PCAOB's 399.7 Million USD Budget for 2025, Establishes Accounting Support Fee

On 18 December 2024, the United States Securities and Exchange Commission (**US SEC**) approved the 2025 budget of the Public Company Accounting Oversight Board (**PCAOB**), amounting to $399.7 million, alongside the corresponding annual accounting support fee. The accounting support fee, totalling US$374.9 million, will be distributed among public company issuers ($346.1 million) and registered broker-dealers (US$28.8 million). The PCAOB was established by the United States *Sarbanes-Oxley Act of 2002* to enhance trust in financial reporting by overseeing the audits of public companies and broker-dealers. Its responsibilities include setting auditing standards, conducting inspections, and investigating and disciplining auditors. The US SEC maintains oversight of the PCAOB, approving its budget annually to ensure its activities align with investor protection and public interest goals.

For 2025, the PCAOB submitted its budget proposal to the US SEC after a rigorous review process. The US SEC's Office of the Chief Accountant and Office of Financial Management conducted extensive evaluations of the PCAOB's programs, projects, and budget estimates before issuing a passback letter in October 2024. Following these consultations, the PCAOB adopted its final budget in November 2024. The PCAOB's accounting support fee for 2025 totals $374.9 million, representing its aggregate recoverable budget expenses. This fee will be assessed on issuers and registered broker-dealers based on their proportionate share of public financial activity. The US SEC emphasised the importance of operational efficiency and requested that the PCAOB continue identifying cost-saving measures and process improvements. This includes holding quarterly meetings with US SEC staff to discuss policy changes, budget variances, and anticipated cost reductions. The PCAOB's budget for 2025 is subject to sequestration under the United States Budget Control Act of 2011. With a sequestration amount of $22.8 million (5.7%), the PCAOB has been directed to submit a revised spending plan reflecting a $0.9 million reduction in expenditures.

The PCAOB's 2025 budget takes effect on 1 January 2025, with quarterly updates and ongoing evaluations required throughout the year. By 31 March 2025, the PCAOB must submit its annual report, providing detailed insights into its progress and challenges. The US SEC has requested revised spending plans and a closer evaluation of the budgetary impact of sequestration adjustments.

(Source: https://www.sec.gov/newsroom/press-releases/2024-204, https://www.sec.gov/files/rules/other/2024/33-11345.pdf)

US SEC Approves Rule Changes for Listing Hashdex and Franklin Crypto Index ETFs

On 19 December 2024, the United States Securities and Exchange Commission (**US SEC**) has granted approval for rule changes proposed by the Nasdaq Stock Market LLC and Cboe BZX Exchange, Inc. to list and trade shares of two new cryptocurrency-based exchange-traded funds (**ETFs**): the Hashdex Nasdaq Crypto Index ETF and the Franklin Crypto Index ETF. The Hashdex Nasdaq Crypto Index ETF and the Franklin Crypto Index ETF represent commodity-based trust shares designed to hold spot bitcoin and ether, with proportions determined by their respective market capitalisations. The Nasdaq proposal for the Hashdex ETF and the Cboe proposal for the Franklin ETF both underwent amendments and public consultations to refine their operational structures and ensure alignment with applicable trading rules.

The SEC's decision follows previous approvals of cryptocurrency-based ETFs that focused on either spot bitcoin or ether, building on the regulatory framework established in 2024. Both ETFs aim to provide investors with diversified exposure to cryptocurrencies while operating under rigorous oversight mechanisms.

The US SEC approved amendments to the listing standards of Nasdaq Stock Market LLC and Cboe BZX Exchange, Inc. to accommodate the trading of the Hashdex Nasdaq Crypto Index ETF and Franklin Crypto Index ETF. These rule changes establish a robust regulatory framework for these commodity-based trust shares, ensuring investor protection, market integrity, and transparency.

Nasdaq modified its Rule 5711(d), while Cboe amended its Rule 14.11(e)(4), to enable the listing and trading of the respective crypto ETFs which includes detailed requirements for the listing of commodity-based trust shares, such as operational guidelines, compliance standards, and governance measures. Both ETFs will hold a mix of spot bitcoin and ether, with asset weightings determined by their respective market capitalisations.

In accordance with the surveillance-sharing agreements with the Chicago Mercantile Exchange (CME), which allow for close monitoring of market activity, addressing potential risks of market manipulation. The rule changes mandate real-time updates of net asset values and detailed portfolio disclosures for both ETFs. During trading hours, intraday indicative values will be disseminated every 15 seconds, ensuring investors have access to accurate and timely pricing information. The rule amendments include provisions ensuring that assets held by the ETFs are stored securely in institutional-grade custody solutions. Both bitcoin and ether will be safeguarded against risks such as hacking or theft, with detailed reporting requirements on custody arrangements. The US SEC also requires disclosures on how the ETFs manage private key security and insurance coverage.

The ETFs are subject to ongoing compliance with equity trading rules and exchange listing standards. The rules include conditions for delisting in case of non-compliance, ensuring that the ETFs operate within the parameters established by the US SEC. To further mitigate risks, the rule changes impose restrictions on how the ETFs may engage with counterparties in spot markets. The US SEC reviewed the operational procedures for acquiring and disposing of bitcoin and ether.

The approval includes provisions for monitoring market activity and enforcing rules against insider trading and market manipulation. The exchanges will leverage their surveillance mechanisms in collaboration with the CME to detect irregularities in both futures and spot markets that could impact the ETFs. The US SEC approved pricing methodologies based on CME futures market data and additional pricing inputs from globally recognised spot market indices.

The rule changes apply specifically to the listing and trading of the Hashdex Nasdaq Crypto Index ETF and the Franklin Crypto Index ETF. However, the US SEC's decision sets a precedent for future filings of similar commodity-based trust ETFs, signalling a broader acceptance of cryptocurrency ETFs within the US financial markets.

The Franklin ETF proposal was granted accelerated approval due to amendments aligning its operational structure with prior US SEC-approved filings. Both ETFs are expected to begin trading in early 2025, following final preparations by their respective exchanges.

(Source: https://www.sec.gov/files/rules/sro/nasdaq/2024/34-101998.pdf)

UK FCA Publishes Consultation Paper on Investment Disclosure Rules for Retail Investors

On 19 December 2024, the United Kingdom's Financial Conduct Authority (**UK FCA**) announced an order instituting consultation for a new product information framework under CP24/30: A New Product Information Framework for Consumer Composite Investments (**CCIs**). The initiative proposes amendments to how investment products are presented to retail investors, focusing on enhancing clarity, flexibility, and consumer empowerment in investment decisions. This decision follows a commitment by the UK Treasury to replace European Union-derived regulations with a more tailored domestic framework. The current EU-based regulatory landscape, which includes Packaged Retail and Insurance-based Investment Products (**PRIIPs**) and Undertakings for Collective Investment in Transferable Securities (**UCITS**), criticised for its rigidity and inefficiency in delivering meaningful, comprehensible investment information to consumers, and, therefore by redefining the regulatory framework, the UK FCA aims to address these issues and align the new rules with the Consumer Duty introduced earlier in 2024.

The UK FCA's consultation CP24/30 builds on its 2022 discussion paper i.e. DP22/6: Future Disclosure Framework, which explored the future of retail disclosure and sought feedback on replacing PRIIPs and UCITS disclosure requirements with a domestic regime. This was complemented by the UK Treasury's 2024 publication on Retail Disclosure Consultation Response of the CCI regulations to replace these legacy requirements. Earlier, in July 2024, the UK FCA published the Call for Input: Review of FCA Requirements following the Consumer Duty, inviting responses on simplifying existing obligations. These consultations collectively shaped the current proposals under CP24/30, which explored the future of retail disclosure and sought feedback on replacing PRIIPs and UCITS disclosure requirements with a domestic regime. In 2024, the UK Treasury enacted the Consumer Composite Investments (Designated Activities) Regulations 2024 to replace these legacy requirements. The FCA's new consultation sets the stage for a domestic framework to enhance consumer outcomes and foster innovation in financial services.

The current disclosure system, derived from European regulations, is viewed as overly prescriptive and inflexible. Many consumers find the documents confusing or overwhelming, hindering effective decision-making. By transitioning to a simpler, more flexible regime, the UK FCA aims to ensure consumers are presented with accurate, understandable, and broadly comparable information. It also seeks to encourage active consumer engagement with product information to make informed investment decisions and enable better comparability between investments, empowering consumers to select products that best meet their needs.

The UK FCA in Consultation paper CP24/30, outlined several transformative reforms to improve the product information landscape for retail investors. As per CP24/30, firms will no longer be constrained by rigid templates like PRIIPs and UCITS Key Investor Information Documents (**KIIDs**). Instead, they will have the freedom to

design their disclosures using plain language, graphics, and digital enhancements. CP24/30 aims to prioritising good consumer outcomes. Disclosures will be simpler and tailored to individual needs, offering summaries of costs, risks, and performance that are easy to understand and act upon. Firms are encouraged to adopt modern communication methods, including layered disclosures and interactive dashboards, to improve consumer understanding and engagement. Standardised metrics for key areas like costs and charges will remain, allowing consumers to make meaningful comparisons between investment products. Finally, both authorised and unauthorised firms will be required to follow clear rules for preparing, presenting, and distributing product summaries. This includes mandatory reviews and updates to ensure the accuracy and relevance of information.

The UK FCA's consultation CP24/30 will remain open for feedback until 20 March 2025. Stakeholders can submit responses through an online form or via email at cp24-30@fca.org.uk. Following this, the UK FCA plans to issue another consultation in early 2025 to address transitional provisions and consequential amendments. Final rules are expected to be published in a policy statement later in 2025. Once finalised, firms will have an 18-month transitional period to adopt the new regime. During this time, existing PRIIPs and UCITS disclosures will remain valid. Closed-ended investment companies, however, will have a shorter 12-month compliance window.

(Source: https://www.fca.org.uk/publications/consultation-papers/cp24-30-new-product-information-framework-consumer-composite-investments, https://www.fca.org.uk/publication/consultation/cp24-30.pdf)

US CFTC Finalises Rule on Margin Adequacy and Separate Account Treatment for Futures Commission Merchants

On 20 December 2024, the United States Commodity Futures Trading Commission (**US CFTC**) published the Final Rule along with a fact sheet outlining requirements for futures commission merchants (**FCMs**) concerning margin adequacy and the treatment of separate accounts of customers. This aims to codify and expand the no-action position first detailed in US CFTC Letter 19-17, bringing greater clarity and structure to how FCMs manage customer accounts and associated risks.

The fact sheet accompanying the rule covers the regulatory journey that began in 2019, when the Division of Clearing and Risk and the Division of Swap Dealer and Intermediary Oversight (now Market Participants Division) issued Letter 19-17. That letter allowed clearing FCMs to treat separate accounts of a single customer as distinct entities under specific risk-mitigating conditions. This practice was further extended and clarified in subsequent letters, including 20-28, 21-29, 22-11, 23-13, and 24-07. In April 2023, the US CFTC initially proposed codifying these provisions under Part 39 regulations applicable to derivatives clearing organizations (**DCOs**) and their clearing FCMs. However, following public feedback, the proposal was revised and reissued in March 2024, focusing instead on Part 1 rules directly targeting FCMs.

The final rule introduces US CFTC Regulation 1.44, applicable to all FCMs, whether clearing or non-clearing. The regulation establishes a margin adequacy requirement similar to that under US CFTC Regulation 39.13(g)(8)(iii) for DCOs, to ensure that customer funds are not withdrawn if such actions would result in a shortfall in initial margin requirements.

US CFTC Regulation 1.44 allows FCMs to treat separate accounts of a single customer as distinct entities under specific circumstances. FCMs adopting this approach to mitigate risks, must adhere to a set of conditions rooted in the original no-action letters and feedback on proposed rules. These include maintaining rigorous internal controls, meeting same-day margin call standards, and ensuring compliance with additional capital and risk management calculations.

Amendments to existing US CFTC regulations such as 1.3, 1.17, 1.20, 1.32, 1.58, 1.73, 22.2, 30.2, 30.7, and 39.13 accompany the new rule to address identified inconsistencies and facilitate smooth implementation of US CFTC Regulation 1.44. These amendments also clarify operational aspects, including segregation obligations, capital treatment, and foreign banking holiday considerations for margin calls.

The compliance timeline varies depending on the status of the FCM. FCMs that are members of a DCO as of the publication date in the Federal Register will have 180 days to comply with the new requirements. All other FCMs will have 365 days from the publication date to implement the necessary changes. The US CFTC's final rule aims to address margin adequacy and separate account treatment comprehensively and provides clearer guidance to FCMs operating in increasingly complex financial markets.

(Source: https://www.cftc.gov/PressRoom/PressReleases/9027-24, https://www.cftc.gov/media/11691/Separate_Accounts_Final_Rule_FactsheetQA122024/download)

US SEC Sanctions Tai Mo Shan for Misleading Investors and Unregistered Crypto Sales in Terra USD Stablecoins

On 20 December 2024, the United States Securities and Exchange Commission (**US SEC**) issued an order instituting cease-and-desist proceedings pursuant to Section 8A of the United States Securities Act of 1933, making findings, and imposing a cease-and-desist order against Tai Mo Shan Limited, a subsidiary of Jump Crypto Holdings LLC. The company has been ordered to pay US $123 million in penalties and disgorgements for its role in misleading investors about the stability of Terraform Labs' Terra USD (**UST**) stablecoin and engaging in unregistered sales of LUNA, a crypto asset classified as a security. This case highlights critical lapses in transparency and compliance in the cryptocurrency sector and reinforces the US SEC's commitment to safeguarding investor interests and upholding market integrity.

Tai Mo Shan Limited's involvement with Terraform Labs began in November 2019, when the company entered agreements with Terraform, a Singapore-based firm responsible for issuing LUNA and UST. Terraform marketed UST as an "algorithmic stablecoin" designed to maintain a one-to-one peg to the US dollar through automated arbitrage mechanisms involving LUNA. Between January 2021 and May 2022, Tai Mo Shan participated in Terraform's ecosystem by acquiring LUNA and engaging in its distribution on US-based crypto platforms without registering these transactions as required under United States securities laws.

The case took a decisive turn in May 2021 when UST devalued sharply, losing its US $1 peg. Tai Mo Shan's subsequent trading activities, coordinated with Terraform, were designed to restore UST's value but ultimately misled investors. The US SEC found that Terraform's public assurances about the stability of UST were contradicted by Tai Mo Shan's role in artificially propping up its price through large-scale purchases incentivised by Terraform.

The US SEC's findings revealed that Tai Mo Shan acted as a statutory underwriter for LUNA, which the Commission classified as a security. The company acquired LUNA directly from Terraform with the intent to distribute it to the public, a practice requiring registration under Sections 5(a) and 5(c) of the United States Securities Act of 1933. However, no registration statement was filed, nor were any exemptions from registration applicable. The US SEC concluded that Tai Mo Shan's activities constituted an unregistered securities offering, violating federal law.

In May 2021, UST's value began to decline sharply, undermining investor confidence. Tai Mo Shan, incentivised by Terraform, entered into agreements to purchase over US $20 million worth of UST in an attempt to restore its US $1 peg. These actions created a false impression in the market that Terraform's algorithmic mechanisms were functioning effectively to stabilise UST. The US SEC noted that Tai Mo Shan acted negligently in supporting UST's price without disclosing the true source of the stabilisation efforts, thereby misleading investors about the stablecoin's stability and Terraform's technological claims.

The US SEC determined that Tai Mo Shan's conduct violated several provisions of the United States Securities Act of 1933, such as Sections 5(a) and 5(c) by engaging in unregistered offers and sales of securities (**LUNA**) and Section 17(a)(3), by engaging in a course of business that operated as a fraud or deceit upon investors through its trading activities during the UST de-peg.

To address these violations, the US SEC imposed a set of sanctions, including, Disgorgement of Profits, and Tai Mo Shan was ordered to return US $73,452,756 in profits earned from its activities along with Prejudgment Interest i.e. an additional US $12,916,153 in interest was assessed and Civil Penalty to the tune of US $36,726,378 for its negligent conduct. The total penalty of US $123,095,287 is to be paid within 14 days of the US SEC's order. The US SEC has established a Fair Fund under Section 308(a) of the United States Sarbanes-Oxley Act of 2002 to distribute these funds to harmed investors. Terraform Labs, the issuer of LUNA and UST, had previously been found liable for fraud and unregistered securities offerings in a separate case, with a federal court ordering it to pay US $4.5 billion in damages in April 2024. Terraform's public representations about UST's stability, which relied on algorithmic mechanisms, were a critical factor in the US SEC's findings against Tai Mo Shan. Any remaining funds deemed infeasible to distribute will be transferred to the United States Treasury. US SEC has ordered Tai Mo Shan to cease and desist from further violations of the registration and fraud provisions of the United States Securities Act of 1933.

US SEC Chair Gary Gensler emphasised the need for transparency and adherence to United States securities laws, stating that: "This case reminds us that, too many times in the crypto markets, we've seen significant investor losses due to fraud, here, the impact reverberated throughout the crypto markets, eventually costing the savings of countless investors. Regardless of the labels, crypto market participants should comply with the securities laws where applicable and not deceive the public. Otherwise, investors get hurt."

(Source: https://www.sec.gov/files/litigation/admin/2024/33-11349.pdf, https://www.sec.gov/newsroom/press-releases/2024-212)

US SEC Bars Richard Brown for Securities Fraud and Undisclosed Kickbacks

On 23 December 2024, the United States Securities and Exchange Commission (**US SEC**) issued an order under Section 15(b) of the United States Securities Exchange Act of 1934, permanently barring Richard Brown from associating with any broker-dealer, investment adviser, or other regulated entities. Brown's involvement in a fraudulent kickback scheme tied to Forcefield Energy, Inc. stock sales and follows a final judgment entered against him by the United States District Court for the Eastern District of New York.

The US SEC's administrative order formalised its sanctions against Richard Brown, a former registered representative of a broker-dealer. The order permanently bars him from the securities industry and prohibits his participation in any penny stock offerings. The judgment permanently enjoined him from violating antifraud provisions under the United States Securities Act of 1933 and the United States Securities Exchange Act of 1934.

Richard Brown, a 45-year-old resident of Huntington, New York, was a registered representative at a broker-dealer from 2012 to 2015. During this time, he engaged in a scheme involving undisclosed cash kickbacks to recommend and induce customers to purchase shares of Forcefield Energy, Inc. without informing them of his financial incentives.

On 2 August 2016, Brown pleaded guilty to one count of securities fraud in a criminal case before the United States District Court for the Eastern District of New York. This conviction stemmed from his role in defrauding investors by concealing the kickbacks he received for recommending Forcefield Energy shares. On 27 January 2021, Brown was sentenced to three years' probation and ordered to pay $1,735,000 in restitution.

The SEC's complaint in the civil case further alleged that Brown violated Section 17(a) of the Securities Act and Section 10(b) of the United States Exchange Act, as well as Rule 10b-5 under the United States Exchange Act, which deals with fraudulent conduct in the sale of securities, including nondisclosure of material conflicts of interest.

The US SEC's final order took immediate effect upon issuance on 23 December 2024. Brown is permanently barred from associating with any entities regulated by the SEC, including brokers, dealers, and investment advisers. Additionally, he is prohibited from participating in any penny stock offerings.

(Source: https://www.sec.gov/files/litigation/admin/2024/34-102031.pdf)

Sanjay Malhotra Appointed as 26th Governor of Reserve Bank of India

On 11 December 2024, Shri Sanjay Malhotra was appointed as the Governor of Reserve Bank of India. He assumed charge as the 26th Governor of the RBI for a three-year term. A seasoned administrator and an Indian Administrative Service (**IAS**) officer from the 1990 Rajasthan cadre, Shri Malhotra brings experience spanning finance, taxation, information technology, and power sectors. Prior to his appointment as RBI Governor, Shri Malhotra served as Secretary in the Department of Revenue under the Ministry of Finance. Before that, he held the position of Secretary in the Department of Financial Services. His extensive tenure in government service also includes being the Chairman and Managing Director of Rural Electrification Corporation Limited, a crucial role in India's power sector reforms.

Shri Malhotra has previously been associated with the Reserve Bank of India, serving as a Government Nominee Director on its Central Board from February to November 2022. An alumnus of the Indian Institute of Technology, Kanpur, Shri Malhotra graduated in Computer Science and Engineering. He also holds a Master's degree in Public Policy from Princeton University, USA, with exceptional academic foundation that complements his professional achievements.

(Source: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=59281)

Māris Kālis Appointed Acting Governor of Latvijas Banka Amid Leadership Transition

On 19 December 2024, the Saeima of Latvia appointed Māris Kālis as the Acting Governor of Latvijas Banka to ensure the seamless continuity of the central bank's operations. This decision follows the Saeima's failure to elect a new Governor, leaving Kālis, currently serving as Deputy Governor, to assume the Governor's responsibilities starting 21 December 2024. The interim arrangement will remain in effect until a new Governor is officially elected and begins their term.

Mārtiņš Kazāks, the outgoing Governor, concluded his tenure on 20 December 2024. Under Latvian law, the Governor of Latvijas Banka serves a five-year term, with the possibility of holding the position for a maximum of two consecutive terms. The Latvian Saeima has indicated that the appointment of a permanent Governor will be addressed in early 2025.

During this interim phase, Latvia will be temporarily without voting rights in the Governing Council of the European Central Bank. The role of Latvijas Banka's Governor is vital in representing the country's interests within the European Union's financial framework, and the absence of a permanent leader underscores the urgency of resolving this leadership vacuum.

Māris Kālis, an experienced leader within the central bank, will step into the acting role with immediate effect. The new Governor's appointment remains contingent on the Latvian Saeima's proceedings, leaving a brief gap of a single day between the end of Kazāks' term and Kālis' assumption of duties.

(Source: https://www.bank.lv/en/news-and-events/news-and-articles/news/17118-the-saeima-has-appointed-maris-kalis-as-the-acting-governor-of-latvijas-banka-until-a-new-governor-is-elected)

Swiss Federal Council Appoints Aline Darbellay to FINMA's Board of Directors

On 20 December 2024, the Swiss Federal Council announced the appointment of Aline Darbellay as a member of the Board of Directors of the Swiss Financial Market Supervisory Authority (**FINMA**). Aline Darbellay is an expert in financial market law and will succeed Susan Emmenegger, who is stepping down at the end of the year. Aline Darbellay's term will commence on 1 January 2025 and run through to the end of 2027.

Susan Emmenegger, the outgoing member, has been appointed Dean of the Faculty of Law at the University of Bern, after her resignation from FINMA effective 31 December 2024. Marlene Amstad, Chair of FINMA's Board, expressed her gratitude stating: "I am delighted that in Aline Darbellay we are gaining a recognised expert in financial market law with an understanding of economic interrelationships and strategic issues for our Board of Directors. I would like to thank Susan Emmenegger for her great commitment to FINMA's Board of Directors, which she has enriched with her proven expertise and experience."

Aline Darbellay is a Professor of Law at the University of Zurich and a authority in banking and financial market law. A native of French-speaking Switzerland, she earned her law degree in Lausanne and pursued her doctorate at the University of Zurich. Her professional journey includes a stint in the United States, where she earned an LL.M. and was admitted to the New York State Bar. Darbellay has held roles at Baker & McKenzie, the District Court of Horgen, and the University of Zurich. In 2016, she was appointed Assistant Professor at the University of Geneva, specialising in banking and financial market law. Since 2023, she has held a chair in commercial and business law at the University of Zurich, cementing her reputation as a leading voice in her field.

From 1 January 2025, the FINMA Board of Directors will include nine members under the leadership of Chair Marlene Amstad and Vice-Chair Martin Suter. The Board, mandated by the Financial Market Supervision Act, is responsible for FINMA's strategic management, including setting objectives, issuing regulatory guidance, and overseeing critical organisational matters. The Board also appoints FINMA's Chief Executive Officer, subject to Federal Council approval.

Darbellay's appointment takes effect 12 days after the Federal Council's announcement.

(Source: https://www.finma.ch/en/news/2024/12/20241220-mm-vr/)

RBI Launches Framework for Responsible AI in Finance, Constitutes FREE-AI Committee

On 26 December 2024, the Reserve Bank of India (**RBI**) announced the formation of the Committee for the Framework for Responsible and Ethical Enablement of Artificial Intelligence (**FREE-AI**) in the financial sector. This initiative, introduced in the Developmental and Regulatory Policies Statement on 6 December 2024, aims to create a robust governance framework for the responsible and ethical adoption of artificial intelligence (**AI**) in India's financial ecosystem. By combining innovative technologies with stringent oversight, the RBI intends to address the challenges posed by AI while ensuring customer protection and operational resilience.

The FREE-AI Committee will be chaired by Dr. Pushpak Bhattacharyya, Professor at IIT Bombay, and comprises distinguished experts from various fields including academia, government, technology, and finance. Notable members include Ms. Debjani Ghosh, a former president of NASSCOM and a Distinguished Fellow at NITI Aayog; Dr. Balaraman Ravindran, Head of the Wadhwani School of Data Science and AI at IIT Madras; and Shri Abhishek Singh, Additional Secretary in the Ministry of Electronics and Information Technology. The FinTech Department of the RBI will provide secretarial support to the committee, which will also engage domain experts, industry representatives, and other stakeholders as needed for consultations and deliberations.

The committee's primary focus is to evaluate the current state of AI adoption in financial services, both globally and within India. This includes a review of regulatory and supervisory approaches that address the unique challenges AI presents in the financial sector. The committee will assess potential risks associated with AI, such as data security issues, model bias, and operational vulnerabilities, while recommending strategies for their mitigation and monitoring. These efforts are aimed at building a framework that enables financial institutions, including banks, NBFCs, FinTechs, and payment service operators, to adopt AI responsibly and ethically.

One of the responsibilities of the committee is to design a governance model that ensures transparency, accountability, and compliance in AI adoption. The RBI has mandated the committee to propose a framework that aligns with ethical principles and regulatory standards, safeguarding the interests of all stakeholders in the financial sector. The framework will also address broader issues such as customer trust, operational resilience, and the long-term sustainability of AI-driven financial services.

The inclusion of experts from diverse fields ensures a comprehensive approach to addressing the complex challenges posed by AI. The committee's work will play a crucial role in shaping policies that balance the potential benefits of AI with the imperative of mitigating associated risks. The committee has been tasked with delivering its final report within six months from its first meeting, expected in mid 2025. The outcomes of this initiative are anticipated to set the foundation for India's leadership in responsible AI innovation, ensuring a harmonious blend of technological progress and ethical integrity.

(Source: https://fintech.rbi.org.in/FS_PressRelease?prid=59377&fn=2765, https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR1779498546366D904B94B98C69FCA9EF2411.PDF)

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