

Sound Practices for Responsible Adoption of Artificial Intelligence (AI): Consultation report

Response to Consultation

JPN Advogados

1. Do you agree with the benefits and risks of AI adoption by financial institutions described in this report? Are there any substantive benefits or risks not covered?

JPN Advogados is a Brazilian law firm founded by João Pedro Nascimento, former Chairman of the Securities and Exchange Commission of Brazil (Comissão de Valores Mobiliários – “CVM”), and former Member of the Board of IOSCO, of the OECD and of the Steering Committee of the FSB.

We congratulate the FSB initiative and welcome the opportunity to comment.

I. Question 1: Benefits and risks of AI adoption

We agree with the substance of Section 1. The taxonomy captures the main benefits and preserves the four vulnerabilities identified in the FSB's 2024 report. A few risks, however, might warrant standalone treatment from a capital markets standpoint.

a) Correlation, homogenisation and pro-cyclicality

Section 1.3 acknowledges homogeneous behaviours and correlated outcomes only as a consequence of third-party dependency. That placement might understate the risk, since correlation also arises from convergence of training data, of signal construction and of model architecture even where firms use different providers, and it arises in retail order flow through mechanisms that involve no third-party concentration at all.

IOSCO records the observation, formulated by the French Autorité de contrôle prudentiel et de résolution (“ACPR”) jointly with the Autorité des marchés financiers (“AMF”), that algorithms coded around similar variables may drive high-frequency trading programmes towards convergent strategies, amplifying pro-cyclicality and volatility through simultaneous large-scale buying and selling. The OECD reaches the same conclusion. Microstructure evidence adds an important qualification: studying the staggered introduction of automated quotation on the NYSE, studies have found that algorithmic trading improved liquidity in large-capitalisation stocks, and they cautioned that algorithmic liquidity suppliers may withdraw at the worst moment, switching off their machines when markets fall sharply. This supports treating correlated AI-driven behaviour as a standalone vulnerability.

b) Market integrity, algorithmic market abuse and supervisory access to the algorithm

Market abuse appears to be absent from the report. This may be a material gap: AI systems deployed by financial institutions may commit abuse and may fail to detect it, and autonomous trading agents may converge on collusive equilibria without any instruction to do so and without any agreement between the firms operating them.

The literature has mapped the typology of automation-enabled abuse: spoofing, layering, pinging, quote stuffing and ramping. Tacit algorithmic collusion adds a further category: pricing systems can learn on their own that mutual restraint is more profitable, sustaining supra-competitive outcomes without any communication between the firms. This presents a supervisory consequence: conduct that emerges from learning is difficult to detect, and liability is difficult to attribute. IOSCO stresses that algorithmic-trading controls, including segregated testing environments, real-time monitoring and kill switches, exist precisely because speed and autonomy can turn manageable errors into extreme events.

Brazilian regulation offers a direct answer to the access problem. Since 2021, and in terms that predate the current AI debate, where securities consulting or discretionary portfolio management is provided through automated systems or algorithms, the source code must be available for CVM inspection at the firm's premises in non-compiled form; the same provisions state expressly that the use of an automated system does not mitigate the professional's responsibility for the advice or the management decision. Two features of that model deserve the FSB's attention. It attaches inspectability to the regulated activity, so it survives changes in technique. And it locates the obligation with the regulated firm, which must therefore secure the corresponding rights from its vendors, converting an intractable third-party opacity problem into a contractual one.

c) Conduct in the distribution chain

The consumer protection section of the report is framed around banking and retail credit. For securities distribution, three points warrant emphasis.

Recommendation and suitability. Where an AI system recommends products, a poorly calibrated or biased model produces unsuitable recommendations at scale, simultaneously and silently. Brazilian regulation approaches this functionally: the CVM applies the existing framework according to the substantive function the technology performs, so that a system that identifies opportunities and appropriate moments to trade is treated as securities analysis, while a system that merely executes decisions independently made by the investor is not.

Personalisation and equitable treatment. AI-driven segmentation of offers, pricing and communications can amount to non-equitable treatment among investors.

Conflicts embedded in the objective function. Where a distributor's remuneration varies by product, a recommendation system optimised without proper limits may steer the investor towards whichever product is most profitable for the distributor. This conflict is harder to detect than a disclosed commission because it is hidden inside the model itself. Brazilian regulation already draws the underlying distinction, separating the adviser's incentive

structure from the independent consultant's duty and prohibiting the consultant from participating in the structuring, origination or distribution of the products it recommends.

d) Accuracy of AI claims made to investors ("AI-washing")

The report addresses transparency about AI towards customers. However, it does not address the risk of firms overstating their use of AI, or claiming capabilities the technology does not have, in order to attract flows. In capital markets this is a securities law matter, and it is already generating enforcement. In March 2024 the US SEC settled charges against two investment advisers for false and misleading statements about their use of AI, applying existing antifraud and marketing standards.

The Brazilian framework reaches the same result through existing instruments: rules on the content and substantiation of analyst reports; the rule that use of an algorithm does not mitigate the consultant's responsibility for the advice given; issuer disclosure obligations on risk factors; and the general prohibitions on fraudulent and inequitable practices. What appears to be missing is the link between the firm's internal AI governance and the external accuracy of its AI claims. That link is operationally simple: the AI use case inventory that Sound Practice 3 already requires is the natural evidentiary basis for substantiating public claims about AI.

e) AI-enabled investment fraud and impersonation of regulated firms

A distinct but related risk is the use of AI to defraud investors directly, and its scale in Brazil is already measurable. Data attributed to the Brazilian Federal Police indicate that AI tools were involved in 42.5% of financial frauds in the country in 2025, and identity-verification industry data indicate that deepfake incidents in Brazil grew by roughly 830% between 2024 and 2025.

The report treats deepfakes as an attack vector against financial institutions, in the context of cyber and ICT risk. In capital markets context, fraudsters could, for example, use synthetic audio and video of executives, analysts and regulated brands to sell fraudulent investments to retail investors. The institution is the vehicle of the fraud, and the loss falls on investors who believed they were dealing with a regulated firm.

Sound Practice 11 tells institutions to defend their own systems. It says nothing about what an institution should do when its brand, executives or research output are being synthesised and used against the investing public: detection and monitoring of impersonation, rapid escalation routes to venues, platforms and the securities regulator, public warnings, and coordination with investor education. IOSCO has begun work in this direction through a 2026 TechSprint on educating retail investors about AI-related risks.

f) Credit rating agencies: opacity and mechanistic reliance

The report does not address AI adoption by credit rating agencies. In an activity whose regulation depends on published methodology, AI makes that methodology harder to see. Convergence of agencies on similar data and techniques would reduce the diversity of opinion that justifies the existence of multiple agencies. And, given the persistence of mechanistic reliance on ratings in contracts and in regulation, correlated rating actions

propagate cliff effects and pro-cyclicality. In a transparent process, investors can observe the drivers of a downgrade as it develops and reduce exposure gradually; in an opaque one, they exit simultaneously.

We put this forward as a monitoring priority, since we are not aware of published evidence of AI-driven methodological convergence across agencies. Brazil provides a timely institutional hook: the CVM opened a public consultation in July 2025 proposing amendments to the credit rating agency framework, including realignment with current international standards. Reviews of this kind are the natural place to test whether existing methodology-disclosure obligations remain adequate where AI models are involved.

g) The gap between the pace of agentic adoption and the maturity of controls

The report should register, as a cross-cutting risk, the widening gap between the speed of deployment of agentic AI and the maturity of the controls surrounding it.

In its Financial Stability Report of November 2025, the Brazilian Central Bank (“BCB”) published the results of a survey conducted between February and March 2025 covering 606 regulated institutions, representing approximately 38% of the institutions it authorises and 96% of the assets of the national financial system. The BCB’s reading is that the “black box” problem is a central supervisory concern, and that algorithmic transparency, explainability, model validation, audit and continuous supervision are the relevant good practices. Separately, Brazil’s Financial Stability Committee (“Comef”) has warned that AI models capable of exploiting vulnerabilities may raise systemic risks, stemming above all from common dependencies and possible impact on critical financial infrastructures, and has called for intensified cyber resilience and coordinated public-private initiatives for defensive use.

Industry evidence points the same way. A survey published in April 2026 covering 407 respondents in finance, insurance and accounting reports that roughly a third of financial services organisations lack observability or auditability over their AI agents, that around one in five have comprehensive AI policies in place, and that 44% cite unclear regulation as a barrier. A relevant finding is that while 40% supported kill-switch mechanisms, 46% were undecided, which indicates that the industry has not settled the basic question of when human intervention should occur.

2. Are the sound practices sufficiently comprehensive and clear to enable financial institutions’ responsible AI adoption?

II. Question 2: Practices addressing consumer and investor protection

The sound practices are necessary for investor protection and may not, on their own, be sufficient for it.

a) Suitability requires contestability at the level of the individual recommendation

Human oversight that operates only at model level may be insufficient. A firm should be able to reconstruct, for any given client, why a given product was recommended, and to demonstrate that the recommendation fitted that client’s objectives, risk tolerance and knowledge. That presupposes a minimum degree of explainability for recommendation

systems. The Brazilian supervisory position supports this: the BCB has singled out the difficulty of explaining how certain models produce their outputs as a central concern. A recommendation engine that cannot be explained at the level of the individual outcome may constitute a governance defect, and Sound Practice 8 should say so for this class of use case.

b) Personalisation must remain within the equitable treatment duty

Firms should test recommendation and pricing models for disparate impact across investor groups and document both the tests and their results. The report already contemplates bias testing in the context of credit and consumer protection; the same applies to equitable treatment among investors.

c) Remuneration-based conflicts should be identified and managed at model level

Disclosure that AI influences the client's outcome is supported by IOSCO's work. The further duty to identify and manage conflicts embedded in the objective function derives, in Brazil, from the regulatory separation between remunerated distribution and independent advice. The report should state that where a firm's revenue varies by product, the optimisation objective of any recommendation system is itself a conflict-of-interest control point requiring documented constraints and testing.

d) Proportionality requires recalibration for third-party AI

The report frames proportionality as lighter expectations for smaller, less complex institutions. In securities distribution and asset management this framing can invert the risk. A small independent asset manager or investment adviser that licenses a third-party model has less capacity to validate it, less bargaining power to obtain audit and information rights, and the same fiduciary and suitability duties as a large firm. Proportionality should therefore modulate what the firm must do itself as against what it may satisfy through third-party assurance, with the substantive standard preserved.

3. Do the sound practices strike an appropriate balance between managing risks relating to all forms of AI, and addressing some of the risks relating to emerging and new complex forms of AI, such as GenAI and agentic AI?

III. Question 3: Governance, accountability and human oversight, including for agentic AI

The governance architecture is broadly appropriate and requires reinforcement for agentic AI. The central problem is one of control: firms are deploying autonomous systems faster than they can observe, audit or intervene in them. In capital markets the gap is more consequential, because agents act across the order lifecycle and because the speed of autonomous action compresses the window for human intervention below the point at which a human can meaningfully exercise it.

a) Keep accountability with an identified human being

Responsibility for an autonomous system's conduct should rest with an identifiable human owner. Brazilian securities regulation delivers this through designated statutory officers: authorised portfolio managers must designate officers responsible for portfolio

management, for risk management and for compliance, with the portfolio management officer barred from holding other capital markets responsibilities and the risk and compliance officers subject to independence requirements; intermediaries must likewise designate responsible officers, with the compliance function separated from the trading function. The model is administratively enforceable, survives organisational change, and answers the report's own concern that accountability may blur where AI-driven processes intermediate customer engagement. We suggest the FSB state, in Sound Practice 2, that firms should designate a named individual accountable for each material AI use case, with the same standing and independence as existing control-function officers.

b) Agentic-specific requirements

Three problems distinctive to agentic systems merit explicit treatment. An agent able to set or modify its own sub-objectives may drift from its mandate. Multiple agents interacting in the same venue may produce emergent correlated behaviour that no single operator intended, which is the market-level counterpart of the collusion risk discussed in Question 1.

For higher-materiality functions the report should require meaningful human control: a person able to halt and reverse the agent's actions, clear limits on what the agent may do, escalation triggers, and records sufficient to reconstruct its decisions after the fact. The report should also address the interaction between firm-level kill switches and market-wide mechanisms such as circuit breakers and auction transitions, since kill switch that halts one participant while correlated agents at other participants continue to act transfers risk instead of containing it.

c) Validation, audit and continuous supervision

The Brazilian supervisory position is instructive on both standards and stakes. On standards, the BCB frames algorithmic transparency, explainability, model validation, audit and continuous supervision as the relevant good practices, treating governance as an ongoing supervisory activity and not a point-in-time approval. On stakes, the Comef has warned of the systemic implications of AI models capable of exploiting vulnerabilities, emphasising common dependencies and possible impact on critical financial infrastructures. We also note that Brazil's approach to date has been to supervise AI through existing sectoral frameworks while a general legal framework is debated in Congress. That sequencing has a practical advantage the report could make explicit: it avoids building a separate AI compliance regime on top of the model-risk, operational-resilience and third-party frameworks that already apply.

e) Self-regulation as an implementation channel

The report does not mention self-regulatory organisations or industry associations. In capital markets they are a primary delivery mechanism, and they solve part of the proportionality problem identified in our answer to Question 2.

Brazilian practice illustrates the point. ANBIMA, the association that self-regulates a substantial part of the Brazilian financial and capital markets, has issued guidance on good practices for the use of AI systems aligned with OECD principles, published in 2026, jointly

with the association representing Brazilian fintechs, a guide on assessing vendor risk in the procurement of generative AI services, and launched a market-wide survey mapping AI adoption and maturity across data infrastructure, governance, risk management and organisational culture. Separately, the exchange operator B3 maintains an operational qualification programme under which participants are assessed against an auditable checklist mapped to CVM rules, including requirements on audit trails, designated officers and risk controls. Instruments of this kind translate principles into operational detail, reach firms too small to build the analysis themselves, and generate supervisory information at sector level.

f) Alignment with IOSCO's Supervisory Toolkit

IOSCO published in May 2026 its Supervisory Toolkit for AI Use in Capital Markets, organised around four areas of focus: governance and risk management; third-party and outsourcing risk management; disclosure; and recordkeeping and reporting. The twelve sound practices appear to have no standalone counterpart for the last two areas. Firms subject to both frameworks will have to reconcile them alone, and the report already states its intention to be compatible with the work of the standard-setting bodies.

- 4. Are the sound practices sufficiently flexible to accommodate and address newer types of AI and responsible adoption over time?**
- 5. Do the case studies in this report sufficiently highlight how different types of financial institutions can benefit from responsible AI adoption? Are there additional case studies for inclusion in the report? If so, please provide such case studies, particularly for nonbanks.**
- 6. Do the case studies in this report provide actionable insights for financial institutions in their responsible AI adoption?**
- 7. Are the definitions in the glossary clear and aligned with industry sound practices, including recent developments in AI?**
- 8. Are there any comments you would like to make on this report? Please fill in.**

Rio de Janeiro, July 22nd, 2026

To:

Financial Stability Board

Ref: FSB's consultation report for responsible
use of AI by financial institutions - Response

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We congratulate the FSB initiative and welcome the opportunity to comment. Our response is deliberately confined to Questions 1, 2 and 3.

I. Question 1: Benefits and risks of AI adoption

1. We agree with the substance of Section 1. The taxonomy captures the main benefits and preserves the four vulnerabilities identified in the FSB's 2024 report.¹ A few risks, however, might warrant standalone treatment from a capital markets standpoint.

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¹ FSB, The Financial Stability Implications of Artificial Intelligence, November 2024, section 4.2. Available at: <https://www.fsb.org/uploads/P14112024.pdf> (Accessed: 21 July 2026).

3. IOSCO records the observation, formulated by the French Autorité de contrôle prudentiel et de résolution (“ACPR”) jointly with the Autorité des marchés financiers (“AMF”), that algorithms coded around similar variables may drive high-frequency trading programmes towards convergent strategies, amplifying pro-cyclicality and volatility through simultaneous large-scale buying and selling.² The OECD reaches the same conclusion.³ Microstructure evidence adds an important qualification: studying the staggered introduction of automated quotation on the NYSE, studies have found that algorithmic trading improved liquidity in large-capitalisation stocks, and they cautioned that algorithmic liquidity suppliers may withdraw at the worst moment, switching off their machines when markets fall sharply.⁴ This supports treating correlated AI-driven behaviour as a standalone vulnerability.⁵

b) Market integrity, algorithmic market abuse and supervisory access to the algorithm

4. Market abuse appears to be absent from the report. This may be a material gap: AI systems deployed by financial institutions may commit abuse and may fail to detect it, and autonomous trading agents may converge on collusive equilibria⁶ without any

² IOSCO, Artificial Intelligence in Capital Markets: Use Cases, Risks and Challenges, CR/01/2025, March 2025. Available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCPD788.pdf> (Accessed: 21 July 2026).

³ OECD, Supervision of Artificial Intelligence in Finance, January 2026; OECD, Regulatory Approaches to Artificial Intelligence in Finance, September 2024. Available at: https://www.oecd.org/en/publications/supervision-of-artificial-intelligence-in-finance_92743dc1-en.html and https://www.oecd.org/en/publications/regulatory-approaches-to-artificial-intelligence-in-finance_f1498c02-en.html (Accessed: 21 July 2026).

⁴ T. Hendershott, C. M. Jones and A. J. Menkveld, “Does Algorithmic Trading Improve Liquidity?”, *Journal of Finance*, vol. 66, no. 1 (2011), pp. 1–33. Available at: <https://ssrn.com/abstract=1100635> (Accessed: 21 July 2026).

⁵ The report is also silent on the retail channel. In Brazil two mechanisms already generate correlated retail order flow at scale, both supervised by the CVM and neither involving any third-party concentration. First, since 2019 the CVM has treated the offering of pre-defined strategies over which the investor has little or no power of parameterisation as securities analysis, an activity reserved to accredited analysts (Ofício-Circular nº 2/2019/CVM/SIN, read with Resolução CVM nº 20/2021; available at <https://conteudo.cvm.gov.br/legislacao/oficios-circulares/sin/oc-sin-0219.html>). Second, copy trading, addressed in Brazil for the first time in 2025, is characterised by the CVM as investment recommendation requiring prior accreditation as a securities analyst, subject to conditions designed to preserve the trading restrictions applicable to analysts (Ofício-Circular nº 3/2025/CVM/SIN; available at <https://conteudo.cvm.gov.br/legislacao/oficios-circulares/sin/oc-sin-0325.html>). Both mechanisms replicate a single decision across thousands of accounts within seconds; AI-generated signals layered onto these channels convert an investor-protection issue into a market-dynamics issue, without any of the third-party concentration on which Section 1.3 currently conditions the risk.

⁶ By “collusive equilibria” we mean supra-competitive outcomes that autonomous pricing or trading algorithms can reach and sustain without human instruction and without any agreement between the firms operating them - autonomous tacit collusion. See Competition and Markets Authority (2021) *Algorithms: How they can reduce competition and harm consumers*. London: Competition and Markets Authority. Available at:

instruction to do so and without any agreement between the firms operating them.

5. The literature has mapped the typology of automation-enabled abuse: spoofing, layering, pinging, quote stuffing and ramping. Tacit algorithmic collusion adds a further category: pricing systems can learn on their own that mutual restraint is more profitable, sustaining supra-competitive outcomes without any communication between the firms. This presents a supervisory consequence: conduct that emerges from learning is difficult to detect, and liability is difficult to attribute. IOSCO stresses that algorithmic-trading controls, including segregated testing environments, real-time monitoring and kill switches, exist precisely because speed and autonomy can turn manageable errors into extreme events.⁷

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c) Conduct in the distribution chain

7. The consumer protection section of the report is framed around banking and retail credit. For securities distribution, three points warrant emphasis.

<https://www.gov.uk/government/publications/algorithms-how-they-can-reduce-competition-and-harm-consumers> (Accessed: 21 July 2026).

⁷ IOSCO, Artificial Intelligence in Capital Markets: Use Cases, Risks and Challenges, CR/01/2025, March 2025. Available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD788.pdf> (Accessed: 21 July 2026).

⁸ Resolução CVM nº 19/2021, art. 17 and sole paragraph (securities consultants); Resolução CVM nº 21/2021, art. 19 and sole paragraph (portfolio managers). Available at: <https://conteudo.cvm.gov.br/legislacao/resolucoes/resol019.html> and <https://conteudo.cvm.gov.br/legislacao/resolucoes/resol021.html> (Accessed: 21 July 2026).

8. **Recommendation and suitability.** Where an AI system recommends products, a poorly calibrated or biased model produces unsuitable recommendations at scale, simultaneously and silently. Brazilian regulation approaches this functionally: the CVM applies the existing framework according to the substantive function the technology performs, so that a system that identifies opportunities and appropriate moments to trade is treated as securities analysis, while a system that merely executes decisions independently made by the investor is not.⁹

9. **Personalisation and equitable treatment.** AI-driven segmentation of offers, pricing and communications can amount to non-equitable treatment among investors.

10. **Conflicts embedded in the objective function.** Where a distributor's remuneration varies by product, a recommendation system optimised without proper limits may steer the investor towards whichever product is most profitable for the distributor. This conflict is harder to detect than a disclosed commission because it is hidden inside the model itself. Brazilian regulation already draws the underlying distinction, separating the adviser's incentive structure from the independent consultant's duty and prohibiting the consultant from participating in the structuring, origination or distribution of the products it recommends.¹⁰

d) Accuracy of AI claims made to investors ("AI-washing")

11. The report addresses transparency about AI towards customers. However, it does not address the risk of firms overstating their use of AI, or claiming capabilities the technology does not have, in order to attract flows. In capital markets this is a securities law matter, and it is already generating enforcement. In March 2024 the US SEC settled

⁹ Ofício-Circular nº 2/2019/CVM/SIN, 1 March 2019, read with Resolução CVM nº 20/2021 (securities analysts). Available at: <https://conteudo.cvm.gov.br/legislacao/oficios-circulares/sin/oc-sin-0219.html> (Accessed: 21 July 2026).

¹⁰ Resolução CVM nº 19/2021, art. 18, I; Resolução CVM nº 35/2021 (intermediaries and conduct in distribution); Resolução CVM nº 30/2021 (suitability). Available at: <https://conteudo.cvm.gov.br/legislacao/resolucoes/resol019.html>, <https://conteudo.cvm.gov.br/legislacao/resolucoes/resol035.html> and <https://conteudo.cvm.gov.br/legislacao/resolucoes/resol030.html> (Accessed: 21 July 2026).

charges against two investment advisers for false and misleading statements about their use of AI, applying existing antifraud and marketing standards.¹¹

12. The Brazilian framework reaches the same result through existing instruments: rules on the content and substantiation of analyst reports; the rule that use of an algorithm does not mitigate the consultant's responsibility for the advice given;¹² issuer disclosure obligations on risk factors; and the general prohibitions on fraudulent and inequitable practices. What appears to be missing is the link between the firm's internal AI governance and the external accuracy of its AI claims. That link is operationally simple: the AI use case inventory that Sound Practice 3 already requires is the natural evidentiary basis for substantiating public claims about AI.

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15. Sound Practice 11 tells institutions to defend their own systems. It says nothing

¹¹ SEC, In the Matter of Delphia (USA) Inc. and In the Matter of Global Predictions Inc., settled administrative proceedings announced 18 March 2024. Available at: <https://www.sec.gov/newsroom/press-releases/2024-36> (Accessed: 21 July 2026).

¹² Resolução CVM nº 19/2021, art. 17 and sole paragraph (securities consultants); Resolução CVM nº 21/2021, art. 19 and sole paragraph (portfolio managers). Available at: <https://conteudo.cvm.gov.br/legislacao/resolucoes/resol019.html> and <https://conteudo.cvm.gov.br/legislacao/resolucoes/resol021.html> (Accessed: 21 July 2026).

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¹⁶ Banco Central do Brasil, Relatório de Estabilidade Financeira, vol. 24, no. 2, November 2025, section 2.1; survey conducted February–March 2025 with 606 regulated institutions, representing approximately 38% of authorised institutions and 96% of national financial system assets as at December 2024. Available at: <https://www.bcb.gov.br/content/publicacoes/ref/202510/RELESTAB202510-refPub.pdf> (Accessed: 21 July 2026).

¹⁷ Comef, minutes of the 65th meeting, 26–27 May 2026. Available at: <https://www.bcb.gov.br/publicacoes/atascomef> (Accessed: 21 July 2026).

¹⁸ TrendAI / SAPIO Research, survey of 3,700 IT and business decision-makers across 23 countries, of which 407 in finance, insurance and accounting, published April 2026. Available at: <https://fintechmagazine.com/news/trendai-the-hidden-risks-of-agentic-ai-in-finance> (Accessed: 21 July 2026).

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22. Human oversight that operates only at model level may be insufficient. A firm should be able to reconstruct, for any given client, why a given product was recommended, and to demonstrate that the recommendation fitted that client's objectives, risk tolerance and knowledge. That presupposes a minimum degree of explainability for recommendation systems. The Brazilian supervisory position supports this: the BCB has singled out the difficulty of explaining how certain models produce their outputs as a central concern.¹⁹ A recommendation engine that cannot be explained at the level of the individual outcome may constitute a governance defect, and Sound Practice 8 should say so for this class of use case.

b) Personalisation must remain within the equitable treatment duty

23. Firms should test recommendation and pricing models for disparate impact across investor groups and document both the tests and their results. The report already contemplates bias testing in the context of credit and consumer protection; the same applies to equitable treatment among investors.

c) Remuneration-based conflicts should be identified and managed at model level

24. Disclosure that AI influences the client's outcome is supported by IOSCO's work.²⁰ The further duty to identify and manage conflicts embedded in the objective function derives, in Brazil, from the regulatory separation between remunerated distribution and independent advice.²¹ The report should state that where a firm's revenue varies by

¹⁹ Banco Central do Brasil, Relatório de Estabilidade Financeira, vol. 24, no. 2, November 2025, section 2.1; survey conducted February–March 2025 with 606 regulated institutions, representing approximately 38% of authorised institutions and 96% of national financial system assets as at December 2024. Available at: <https://www.bcb.gov.br/content/publicacoes/ref/202510/RELESTAB202510-refPub.pdf> (Accessed: 21 July 2026).

²⁰ IOSCO, Artificial Intelligence in Capital Markets: Use Cases, Risks and Challenges, CR/01/2025, March 2025. Available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD788.pdf> (Accessed: 21 July 2026).

²¹ Resolução CVM nº 19/2021, art. 18, I; Resolução CVM nº 35/2021 (intermediaries and conduct in distribution); Resolução CVM nº 30/2021 (suitability). Available at: <https://conteudo.cvm.gov.br/legislacao/resolucoes/resol019.html>,

product, the optimisation objective of any recommendation system is itself a conflict-of-interest control point requiring documented constraints and testing.

d) Proportionality requires recalibration for third-party AI

25. The report frames proportionality as lighter expectations for smaller, less complex institutions. In securities distribution and asset management this framing can invert the risk. A small independent asset manager or investment adviser that licenses a third-party model has less capacity to validate it, less bargaining power to obtain audit and information rights, and the same fiduciary and suitability duties as a large firm. Proportionality should therefore modulate what the firm must do itself as against what it may satisfy through third-party assurance, with the substantive standard preserved.

III. Question 3: Governance, accountability and human oversight, including for agentic AI

26. The governance architecture is broadly appropriate and requires reinforcement for agentic AI. The central problem is one of control: firms are deploying autonomous systems faster than they can observe, audit or intervene in them.²² In capital markets the gap is more consequential, because agents act across the order lifecycle and because the speed of autonomous action compresses the window for human intervention below the point at which a human can meaningfully exercise it.

a) Keep accountability with an identified human being

27. Responsibility for an autonomous system's conduct should rest with an identifiable human owner. Brazilian securities regulation delivers this through designated statutory officers: authorised portfolio managers must designate officers responsible for portfolio management, for risk management and for compliance, with the

<https://conteudo.cvm.gov.br/legislacao/resolucoes/resol035.html> and
<https://conteudo.cvm.gov.br/legislacao/resolucoes/resol030.html> (Accessed: 21 July 2026).

²² TrendAI / SAPIO Research, survey of 3,700 IT and business decision-makers across 23 countries, of which 407 in finance, insurance and accounting, published April 2026. Available at: <https://fintechmagazine.com/news/trendai-the-hidden-risks-of-agentic-ai-in-finance> (Accessed: 21 July 2026).

portfolio management officer barred from holding other capital markets responsibilities and the risk and compliance officers subject to independence requirements;²³ intermediaries must likewise designate responsible officers, with the compliance function separated from the trading function.²⁴ The model is administratively enforceable, survives organisational change, and answers the report's own concern that accountability may blur where AI-driven processes intermediate customer engagement. We suggest the FSB state, in Sound Practice 2, that firms should designate a named individual accountable for each material AI use case, with the same standing and independence as existing control-function officers.

b) Agentic-specific requirements

28. Three problems distinctive to agentic systems merit explicit treatment. An agent able to set or modify its own sub-objectives may drift from its mandate. Multiple agents interacting in the same venue may produce emergent correlated behaviour that no single operator intended, which is the market-level counterpart of the collusion risk discussed in Question 1.

29. For higher-materiality functions the report should require meaningful human control: a person able to halt and reverse the agent's actions, clear limits on what the agent may do, escalation triggers, and records sufficient to reconstruct its decisions after the fact. The report should also address the interaction between firm-level kill switches and market-wide mechanisms such as circuit breakers and auction transitions, since kill switch that halts one participant while correlated agents at other participants continue to act transfers risk instead of containing it.

c) Validation, audit and continuous supervision

30. The Brazilian supervisory position is instructive on both standards and stakes. On standards, the BCB frames algorithmic transparency, explainability, model validation,

²³ Resolução CVM nº 21/2021, art. 4º and §§2º and 3º. Available at: <https://conteudo.cvm.gov.br/legislacao/resolucoes/resol021.html> (Accessed: 21 July 2026).

²⁴ Resolução CVM nº 35/2021, art. 5º and §2º. Available at: <https://conteudo.cvm.gov.br/legislacao/resolucoes/resol035.html> (Accessed: 21 July 2026).

audit and continuous supervision as the relevant good practices, treating governance as an ongoing supervisory activity and not a point-in-time approval.²⁵ On stakes, the Comef has warned of the systemic implications of AI models capable of exploiting vulnerabilities, emphasising common dependencies and possible impact on critical financial infrastructures.²⁶ We also note that Brazil's approach to date has been to supervise AI through existing sectoral frameworks while a general legal framework is debated in Congress.²⁷ That sequencing has a practical advantage the report could make explicit: it avoids building a separate AI compliance regime on top of the model-risk, operational-resilience and third-party frameworks that already apply.

e) Self-regulation as an implementation channel

31. The report does not mention self-regulatory organisations or industry associations. In capital markets they are a primary delivery mechanism, and they solve part of the proportionality problem identified in our answer to Question 2.

32. Brazilian practice illustrates the point. ANBIMA, the association that self-regulates a substantial part of the Brazilian financial and capital markets, has issued guidance on good practices for the use of AI systems aligned with OECD principles, published in 2026, jointly with the association representing Brazilian fintechs, a guide on assessing vendor risk in the procurement of generative AI services, and launched a market-wide survey mapping AI adoption and maturity across data infrastructure, governance, risk management and organisational culture.²⁸ Separately, the exchange operator B3 maintains an operational qualification programme under which participants are assessed

²⁵ Banco Central do Brasil, Relatório de Estabilidade Financeira, vol. 24, no. 2, November 2025, section 2.1; survey conducted February–March 2025 with 606 regulated institutions, representing approximately 38% of authorised institutions and 96% of national financial system assets as at December 2024. Available at: <https://www.bcb.gov.br/content/publicacoes/ref/202510/RELESTAB202510-refPub.pdf> (Accessed: 21 July 2026).

²⁶ Comef, minutes of the 65th meeting, 26–27 May 2026. Available at: <https://www.bcb.gov.br/publicacoes/atascomef> (Accessed: 21 July 2026).

²⁷ Projeto de Lei nº 2.338/2023, approved by the Federal Senate on 10 December 2024 and under consideration by a special committee of the Chamber of Deputies; the bill adopts a risk-based model in which sectoral regulators retain competence within their sectors. Available at: <https://www25.senado.leg.br/web/atividade/materias/-/materia/157233> (Accessed: 21 July 2026).

²⁸ ANBIMA, Guia orientativo de boas práticas para o uso de sistemas de inteligência artificial nos mercados financeiro e de capitais; ANBIMA and Zetta, guide on risk assessment in the procurement of generative AI services (2026); ANBIMA, Retrato da Inteligência Artificial no Mercado de Capitais (2026). Available at: https://www.anbima.com.br/data/files/63/74/15/39/F12C091039E04909EA2BA2A8/Guia_orientativo_boas_praticas_para_o_uso_de_sistemas_de_inteligencia_artificial.pdf (Accessed: 21 July 2026).

against an auditable checklist mapped to CVM rules, including requirements on audit trails, designated officers and risk controls.²⁹ Instruments of this kind translate principles into operational detail, reach firms too small to build the analysis themselves, and generate supervisory information at sector level.

f) Alignment with IOSCO's Supervisory Toolkit

33. IOSCO published in May 2026 its Supervisory Toolkit for AI Use in Capital Markets, organised around four areas of focus: governance and risk management; third-party and outsourcing risk management; disclosure; and recordkeeping and reporting.³⁰ The twelve sound practices appear to have no standalone counterpart for the last two areas. Firms subject to both frameworks will have to reconcile them alone, and the report already states its intention to be compatible with the work of the standard-setting bodies.

34. We would be pleased to expand on any of the above, and to share further detail on Brazilian regulatory and supervisory experience where that would assist the FSB's work.

JPN Advogados

²⁹ B3, Programa de Qualificação Operacional (PQO), operational qualification checklist mapped to CVM rules. Available at: https://www.b3.com.br/data/files/3E/90/02/4F/B287A710639D77A7AC094EA8/Roteiro%20Basico-2021_final.pdf (Accessed: 21 July 2026).

³⁰ IOSCO, Supervisory Toolkit for AI Use in Capital Markets, FR/02/2026, 25 May 2026. Available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD823.pdf> (Accessed: 21 July 2026).