# A.I. and Digital Asset Trends

## London Member Workshop


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# Artificial Intelligence (A.I.)

# A.I.

- What are we asking?
- What are we seeing?
- Where do we stand?

# A.I.

- Rules:
  - NFA Compliance Rule 2-9 (supervision)
    - NFA Interpretive Notice 9079 (use of third-party service providers)
  - NFA Compliance Rule 2-29 (promotional material)
    - A.I. generated content
    - A.I. claims

# Q&A

A.I.

# Digital Assets

# Current Requirements

- NFA Compliance Rule 2-51
  - Effective since May 2023
  - Modeled after existing anti-fraud rules
  - Applies to all Membership categories engaging in digital asset commodities

# Member Questionnaire Updates

Splits questions between digital asset derivatives versus spot digital asset products.

- Digital asset derivatives
  - Includes futures and options on digital assets, as well as perpetual futures/swaps
- Spot digital assets
  - Includes the actual coin/token (I.E., BTC, ETH, XRP, SOL, etc.)
  - Other activities such as lending, borrowing and staking

# Member Questionnaire Updates

- All digital assets activities:
  - Proprietary activities
  - Clients and customers activities
  - Activities of pools operated by the CPO
- Location(s) where the digital assets are held:
  - Exchanges
  - Custodians
  - Platforms

# Cybersecurity

- ISSP should reflect increased risk of digital assets
- Due diligence on exchanges and custodians
  - Process for transferring assets
    - Use of two-factor authentication
    - Whitelisting of addresses and accounts
- Information provided to the administrator
- Public and private keys
  - Storage
  - Back-up plan for recovery

# Digital Asset Exams

- Expect us to review/inquire about:
  - Custody and control of wallets
  - Walkthroughs outlining each step of the trading process
  - Detailed reviews of wallet activity
  - Trade reconstructions, including how the activity flows into balances reported on financial statements
  - Promotional material and disclosure reviews
  - Performance calculations
  - Due diligence on customers and counterparties

# Digital Asset Exams

Helpful tips:

- Have flowcharts prepared, with applicable wallets identified, that document the trade process for trading strategies.
- Prepare listings of counterparties that the firm/pool conducts business with, along with their associated digital asset wallets.
- Know how digital asset activity flows into the income statement and balance sheet.
  - Do not just rely on the admin.

# Common Issues and Concerns

- Misleading promotional material
  - Mixed product offerings under different regulatory regimes
  - Use of affiliates to offer different products
- General knowledge of NFA rules and CFTC regulations

# Q&A

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