

Minutes of the regular meeting of the
Innovation Advisory Council
10:00am – 12:00pm ET, Wednesday, October 2, 2024
Federal Reserve Bank of New York 33 Liberty Street, New York, NY
and via Teams

Present:

Nadine Chakar, *Global Head of Digital Assets at DTCC Digital Assets*
Umar Farooq, *Global Co-Head of Payments, J.P. Morgan*
Jose Fernandez da Ponte, *Senior Vice President, Blockchain, Crypto and Digital Currencies, PayPal*
Alex Holmes, *Chairman & Chief Executive Officer, MoneyGram*
Christine Moy, *Partner, Digital Assets, Data & AI Strategy, Apollo*
Brad Peterson, *Chief Information/Technology Officer, Nasdaq*

Guests:

Noah Breslow, *Partner, Bain Capital Ventures*
Samara Cohen, *Chief Investment Officer for ETF and Index Investments, BlackRock*
Teresa Heitsenrether, *Chief Data & Analytics Officer, JPMorgan*
Jeff McMillan, *Head of Firmwide Artificial Intelligence, Morgan Stanley*
Vidyut Naware, *Senior Director, Generative AI Center of Excellence, PayPal*
Ben Tecmire, *Director, Global Public Policy, BlackRock*

Federal Reserve attendees:

John Williams, President and CEO, FRBNY
Michelle Neal, Markets, IAC Chair and Sponsor

Ken Armstrong, Supervision
Pablo Azar, Research and Statistics
Elizabeth Caviness, Markets
Rima Chavda, Federal Reserve Board
Leslie Conner Warren, Supervision
Toni Dechario, Supervision
Christopher Desch, New York Innovation Center
Jeff Ernst, Federal Reserve Board
Mark Fischer, Supervision
Jean Flemming, Federal Reserve Board
Brian Gattoni, Federal Reserve Board
Michael Lee, Research and Statistics
Alison Liu, Supervision
Jenny McMahan, Supervision
Timothy C. Nash, Jr., Legal
Michela Nistor, Risk
Joey Patel, Supervision
Jean-Baptiste Parmentier, Seconded
Nahari Phatak, Markets
Julie Remache, Markets
Asani Sarkar, Research and Statistics
Magali Solimano, Markets

Ria Sonawane, Federal Reserve Board
Katherine Tilghman Hill, Supervision
Cy Watsky, Federal Reserve Board
Per von Zelowitz, New York Innovation Center

The videoconference was called to order at 10:00am ET.

1. Introductory Remarks

Per von Zelowitz, Chief Product Owner of the New York Innovation Center at the Federal Reserve Bank of New York, delivered welcome remarks to members and attendees of the second Innovation Advisory Council (IAC) meeting of 2024 and introduced the agenda theme: AI use cases in trading and capital markets.

2. Guest moderator Toni Dechario, Supervision Group, Federal Reserve Bank of New York introduced the panelists, Teresa Heitsenrether, Chief Data & Analytics Officer, JPMorgan, and Jeff McMillan, Head of Firmwide Artificial Intelligence, Morgan Stanley, and facilitated discussion of AI use cases in trading and capital markets.

The panelists discussed their thoughts about potential AI use cases looking ahead. They noted the industry's focus on how AI may improve how we work, including its ability to increase the ease of doing one's job and improving the quality of output. Others noted that AI's abilities to process large amounts of documentation and to decrease the coding time to improve the software development cycle as two compelling use cases of AI. Some panelists noted that the process to use AI in many firms is rigorous, and appropriate governance processes need to be in place to ensure AI operates as intended. Additionally, some highlighted how using AI in call centers and using GenAI on staff desktops across an organization can help make marginal improvements across large numbers of people and lead to productivity gains.

The council then discussed the costs and benefits of implementing AI across organizations. Members noted that the use of AI solutions varied widely, and average returns on investment in AI should factor into implementation decisions. Members also highlighted the importance of governance, in light of the operational risk issues that still exist with new AI technology. The Council then discussed how future jobs might be quite different than those that exist currently and the resulting need for organizations to be very thoughtful when making the transition to using more AI technology. Members noted that AI may lead to meaningful improvements in speed and automation, but that there will still be a need for human involvement to draw insights from the information generated by AI.

3. Pablo Azar, Research and Statistics Group, Federal Reserve Bank of New York introduced Samara Cohen, Chief Investment Officer for ETF and Index Investments at BlackRock, to lead a discussion about investment manager perspectives on using AI.

A discussion followed regarding how AI can assist fund managers particularly when managing portfolios against multiple benchmarks, how the increased availability of data over the past 10 years transformed AI usage, and how machine learning uses of AI could transform markets, positing that a better term for the technology might be "augmented intelligence." It was noted that as changes in benchmarks such as the S&P 500 necessitate more frequent trading, machine learning applications of AI may assist with assessing market liquidity and how well a market may accommodate a rebalancing. Lastly, it was

highlighted that other use cases could include using large language models to assess index methodology around corporate actions by extracting themes and highlighting parts of corporate documentation to help inform decisions.

A discussion ensued about expected trends over the next few years in investment management. Some Council members noted that GenAI can produce erroneous outcomes, and thus may not be transformative for market structure, but that AI could still be used to inform decisions. Some members also discussed the current landscape of AI service providers, noting that there are multiple providers and users should aim to enable flexibility to pivot between providers when model improvements at a provider yield notable gains. Other members noted that there are general purpose models that have domain specific use cases, such as for legal purposes, and that decisions about choice of providers may entail analyzing which model has the best output at a firm's desired cost.

The meeting adjourned at approximately 12:00pm ET