

**Testimony of Tal Cohen**  
**President, Nasdaq**  
**Before the House Financial Services Committee**  
**“From Principles to Policy: Enabling 21st Century AI Innovation in Financial Services”**  
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Thank you, Chairman Hill and Ranking Member Waters and other esteemed members of the House Financial Services Committee for the opportunity to testify about the exciting innovations we are bringing to financial services and markets from new Artificial Intelligence technologies. On behalf of Nasdaq, I appreciate the opportunity to testify on our strong belief that we need to deploy AI to make our markets better and our commitment to employ responsible governance in our services to investors and others by ensuring safe, fair and efficient markets and products.

Nasdaq serves as the trusted fabric of the world’s financial system. We empower economic opportunities by designing and deploying technology, data, and advanced analytics that enable market participants to capture opportunities, navigate risk, and strengthen resilience.

We serve as an important architect to the world’s most advanced markets by delivering scalable, agile infrastructure that empowers over 135 markets globally with deeper liquidity and seamless capital flows. With over 5,000 companies representing over 20% of the world’s market cap listed on Nasdaq exchanges, we help companies access capital – and through our investor engagement solutions we help issuers build stronger relationships across the capital markets and to succeed as public companies. By integrating cutting-edge technology, comprehensive data, and innovative investment products, we fuel the innovation economy—enabling entrepreneurs to scale and investors to allocate resources with confidence.

Our solutions assist financial institutions in responding to risk-related challenges, supporting their efforts to meet regulatory requirements, preventing financial crime, and managing market manipulation effectively. Our solutions are focused on supporting our clients, individual investors and everyday Americans in three important ways:

- Enhancing Liquidity – Providing technology and solutions to power the world’s most robust markets.
- Ensuring Transparency – Providing a robust data and analytics environment to connect corporates and investors with the data they need to make decisions.
- Protecting Integrity – Providing the wider financial system with technology and solutions to manage risk, protect markets, comply with regulations and fight financial crime.

We are at an extraordinary time in our industry, which is truly evolving at the speed of technology: the rise of private markets and private capital, the introduction and adoption of blockchain

technologies, the push towards always-on markets, and the integration of AI across every aspect of our industry. As a leading global technology provider *and* an operator of exchanges and other regulated businesses in the US, Canada and Europe, we understand the power of innovation to solve society's toughest challenges, as well the importance of appropriate regulation to ensure we create and protect a system that works for all. We are committed to driving resilient growth across our company and the clients we serve. We strongly support the Administration's "America's AI Action Plan" and this Committee's commitment to only moving forward with regulations that drive growth and innovation.

### **Our Approach and Journey to AI**

We appreciate the opportunity to share our perspective on the potential impact and implications of Artificial Intelligence (AI) on the financial system and the regulatory approach to govern it.

Nasdaq has been a technology innovator since our birth in 1971 that led to the creation of electronic trading. Today, we take the same long-term approach to technology adoption to ensure we embrace growth and innovation in a responsible manner. We have a robust, coordinated process to govern the implementation of AI in our services and business operations to ensure that we scale our capabilities with proper security, oversight, and governance. We believe this is foundational to responsibly and securely unlock the power of AI to benefit society.

While recent developments regarding generative AI have brought AI into the forefront of public consciousness, AI has been integral to our services for years. We are already using AI technology to enhance transparency, liquidity, and integrity in the system.

### **How Nasdaq Uses AI**

Nasdaq has integrated AI into its services for many years, approaching it from two primary perspectives: within our products and across our business operations. On the product side, we leverage AI throughout our suite to enhance intelligence, boost productivity, and improve efficiency. On the business side, we use AI to drive organizational productivity and free up employee time and resources, allowing our teams to focus on the highest-value work and the most pressing client challenges. Today, I wanted to share just a few examples of how we are harnessing AI's potential at Nasdaq.

- In protecting the integrity of our financial system, our anti-financial crime business is leveraging algorithmic and generative AI to fight criminal organizations involved in smuggling, drugs, terrorism and money laundering, more effectively than ever before. Financial crime is a multitrillion-dollar problem. Financial crimes are not victimless crimes. According to Nasdaq findings, an estimated \$3.1 trillion in illicit funds flowed through the global financial system in 2023 with losses from fraud totaling \$485.6 billion. To address this massive problem, our cloud-based platform is used by thousands of financial institutions of all sizes to dramatically improve the effectiveness and efficiency of their financial crime risk management programs.

Unlike conventional systems, this approach integrates multiple data sources and factors to determine the probability of fraud or money laundering, just as an investigator would. Our

vast, decentralized source of unbiased training data provides the big data set necessary to effectively deploy machine learning and identify the financial crimes that underpin society's most insidious crimes. After all, there is a money trail behind every act of terrorism or human trafficking. That is why we work to improve this technology every day to out-innovate the criminals, who are also using AI to develop new more sophisticated financial crime strategies.

This year, our anti-financial crime business announced the launch of its agentic AI workforce, a suite of digital workers that will deliver a step-change in compliance effectiveness and efficiency. Early results from the first two agents in beta — the digital Sanctions Analyst and the digital Enhanced Due Diligence Analyst — demonstrate agentic AI's potential to address the most resource-intensive compliance workflows. For example, when onboarding into a bank's alert triage workflow, our Digital Sanctions Analyst automates the acknowledgement, screening, and documentation processes, reducing alert review workload by more than 80% which allows analyst to focus on matters of higher risk.

- To further protect the integrity of our markets, in our Market Surveillance business, we use machine learning to detect market abuse, such as insider trading, market manipulation, and fraud. AI makes it possible for us to analyze billions of transactions and events every day to make it easier for our internal teams and our external clients, such as exchanges and regulators, to thwart fraud and manipulation. Advanced generative AI capabilities also help streamline the triage and examination process involved in investigating suspicious activity, empowering teams to more effectively monitor and detect potential market abuse.
- In using AI to drive improved liquidity in our markets, we introduced *Dynamic M-ELO* in 2024, the first exchange AI-powered order type. The technology is designed to deliver optimal outcomes by adapting to real-time market conditions and improving overall execution quality and fill rates.
- To bring more transparency to the financial system, in our data business, we use AI and machine learning to extract insights and value from large and complex data sets, such as market data, alternative data, and proprietary data to better serve corporates and investors. For example, we offer a product called Market Intelligence Desk, which uses AI to provide real-time market commentary and analysis for our listed companies, based on various data sources, such as news, social media, and trading activity.
- To further support this kind of transparency, in our governance business we are piloting new functionality within our Boardvantage service, which helps our clients manage their board meetings, documents, and communications, and uses AI to make it easier for board members to extract the most important information they need to oversee the risks and opportunities of the companies they govern.

These products are a result of our strong technology and product organizations, but also a reflection of a robust governance framework that analyzes the opportunities and risks of all new

product introductions, with particular attention to products that embrace new technology, such as AI.

### **Our AI Governance Program**

As part of my remarks today, I want to give an overview of our AI governance program, which is a key part of our product development. The program addresses the new and unique risks that AI technology presents, while enabling us to explore new emerging opportunities. It is centrally managed and administered, eliminating the “AI sprawl” that plagues many companies.

Leading this effort is an executive steering committee that includes our CEO and senior members of our leadership team. Execution and risk are overseen by a cross-functional AI governance committee that is led in partnership between Legal, Risk and Regulatory Team, and the Technology team. The program is supported by company-wide policies, procedures and controls and our usage framework is aligned with the U.S. National Institute of Standards and Technology AI Risk Management Framework.

We knew years ago that AI technology needed to be pursued ethically, based on our core values which are the foundation of how we operate our business. As part of that effort, we adopted a set of *Responsible AI Principles* that reflect core tenets of ethical AI usage tailored to our business. These principles include a commitment to transparency, fairness, accessibility, efficiency, reliability, responsible data management, privacy, security, accountability, and oversight.

And, in addition to serving as the foundation of our AI strategy, these principles also guide our approach to collaboration with policy makers, regulators, law enforcement and other financial institutions in the private sector.

### **Considerations and Recommendations for the Regulation of AI**

We recognize that AI poses both significant opportunities and risks that require careful oversight. We appreciate the efforts of the Committee and regulators to foster a supportive and balanced regulatory environment for AI innovation in the financial sector, while addressing the potential risks and harms that AI may pose.

We also believe that AI is a promising technology that can bring significant benefit to our industry and the wider economy, and that the environment for AI innovation in the United States is a foundational differentiator to our ability to compete globally.

Regulating AI is an interstate commerce issue and we believe that federal legislation is needed, and as Congress and agencies look to develop AI-related laws and regulations, we believe that such actions should consider the following:

- Existing regulations and regulatory structures should be leveraged wherever possible. Current laws and regulations already set the framework for how the financial sector operates, and regulators understand how companies they cover operate. Like prior technological innovations, the adoption of AI technology does not necessarily demand sweeping regulatory changes - many of the top concerns about AI can be addressed by existing laws and enforceable by agencies.

- New regulation should be risk-based and proportionate, meaning that it should focus on the potential outcomes in terms of benefits, risks, and harms of AI applications, rather than on specific technologies or methods. For example, the regulation applied to the use of an AI tool to detect drug trafficking or protect senior citizens from check fraud should not be the same as the regulation applied to use of the same AI tool to approve apartment rental applications. It is important to address potential bias in models, while also considering specific use cases where mitigation is necessary, rather than applying broad measures that could affect the effectiveness of systems designed to detect, deter, and prevent crime.
- The regulatory environment should endeavor to be flexible and adaptive, meaning that it should allow for experimentation and innovation and should be able to evolve, as the AI applications and market conditions change. We support the development and adoption of industry standards that provide practical guidance and benchmarks for industry and regulators.
- AI-specific regulation should be consistent and harmonized, meaning that it should avoid creating gaps, overlaps, or inconsistencies among different regulators, jurisdictions, or sectors, and that it should promote coordination and cooperation, among the regulators, the industry, and the international community. Within the federal government, while we oppose the creation of central regulator, we support leveraging NIST or another body to provide coordination across government to ensure consistent regulatory standards and development of the federal workforce knowledge of AI. We also believe that Congress should consider appropriate action to avoid the creation of a patchwork of differing state laws governing AI as this could stifle innovation, increase expense, reduce the availability of AI tools to various states and harm the competitiveness of the United States globally.
- The regulatory environment should be transparent and accountable, meaning that it should provide clear and timely guidance and feedback to the industry, as well as to the public, on the expectations and requirements for AI applications. We support creating and promoting safe platforms, such as sandboxes, pilots, and labs, where industry and regulators can test and learn from the AI applications, in a controlled and supervised environment, and where industry and regulators can share and exchange their experiences. To promote this, we encourage Congress and regulators to enhance their capability to oversee AI, by investing in their own AI tools, systems, and collaborating with industry and academia.

Nasdaq is certainly in agreement with aspects of the President's recently released "America's AI Action Plan." I want to mention a few areas.

- Establish regulatory sandboxes or AI Centers of Excellence around the country where researchers, startups, and established enterprises can rapidly deploy and test AI tools while committing to open sharing of data and results. This is consistent with Nasdaq's view that I

previously stated about creating and promoting safe platforms where industry and regulators can test and learn from AI applications and share their experiences.

- Empower American Workers in the Age of AI – One of the most significant ways that economies grow is through increased productivity. Technology improvements are and will continue to be a driver of increased productivity. But that means a workforce that is able to utilize newly developed AI tools to participate in the new economy and not be left behind by that economy. In addition, companies and governments will not benefit from the increased productivity that AI tools can provide if their workers do not have the capacity to use them.
- Combat Synthetic Media in the Legal System – As was put forth in a white paper authored by the Business Roundtable, a leading organization of America’s CEOs, “Synthetic content has a wide variety of beneficial purposes but also has the potential to harm individuals, organizations and ecosystems if it is used to manipulate and misrepresent. As these technologies become widely accessible, policymakers should verify the authenticity and source of the content, or develop risk-based, context-driven and flexible guardrails that appropriately safeguard against these risks while protecting beneficial uses. These guardrails should reflect the importance of innovation in AI while emphasizing the significance of ensuring information credibility and authenticity.” Nasdaq applauds the bipartisan passage of the “Take It Down Act” earlier this year. We believe that Congress should continue moving forward in that manner to move other significant and related legislation such as the bipartisan and bicameral “No Fakes Act”.”
- Nasdaq has worked with our partners such as the Business Roundtable and TechNet in responding to the RFI from the Office of Science and Technology Policy on Regulatory Reform on Artificial Intelligence to identify existing Federal statutes, regulations, agency rules, guidance, forms, and administrative processes that unnecessarily hinder the development, deployment, and adoption of artificial intelligence (AI) technologies within the United States. Although we certainly support the safe use of AI throughout society, the U.S. regulation must unleash, not hamper AI development and deployment.
- Lastly, we strongly believe that for the effective development and deployment of AI there must be a well-considered pre-emption of state laws regulating the use of artificial intelligence. We are in strong agreement with the Business Roundtable who supports broad federal preemption of state laws related to AI, including through a federal regulatory approach that facilitates the development and deployment of innovative AI technologies in the United States and avoids a patchwork of state regulation. Such an approach does not require comprehensive legislation to regulate AI technology but rather targeted guardrails, where appropriate, can be adopted through a collection of legislative, regulatory and executive actions.

## Conclusion

Thank you for your attention and interest in this important and timely topic. We are at an extraordinary time in our industry, and Nasdaq is committed to using AI in a responsible, ethical, and transparent manner, and to contributing to the development of AI in the financial sector and the economy. We look forward to collaborating with the Committee and relevant regulators in cultivating a regulatory framework for AI that encourages innovation, while addressing the potential risks and harms that AI may pose.

I am happy to answer any questions you may have.