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Submission via email (aipolicy@bnm.gov.my)

Bank Negara Malaysia
Financial Development and Innovation Department
Jalan Bukit Timbalan, Bandar Johor Bahru
Johor, Malaysia

ASIFMA Response to Bank Negara Malaysia Discussion Paper on Artificial Intelligence in the Malaysian Financial Sector

Dear Sir/Madam,

The Asia Securities Industry and Financial Markets Association ("**ASIFMA**") [1] appreciates the opportunity to respond to the consultation questions set out in the Bank Negara Malaysia ("**BNM**") *Discussion Paper on Artificial Intelligence in the Malaysian Financial Sector* published on 5 August 2025 (the "**Discussion Paper**"). Feedback set out in the below Annex has been obtained from members ("**Members**") of ASIFMA's Artificial Intelligence Working Group, who have been closely following global, regional and local developments relating to artificial intelligence ("**AI**") in recent years.

We take this opportunity to express our strong support for the Discussion Paper's underscoring of the central role that industry associations can and should play in furthering the industry's general advancement in AI adoption. Given ASIFMA operates across the Asia-Pacific region, counts many different types of stakeholders as its members and has facilitated proactive industry discussions and engagement on both regulatory and market-led AI developments for years, we are ideally placed to continue to lead in this respect, and have the experience to help BNM to design the foundations and governing principles of its AI regime in an optimal manner, striking the appropriate balance between innovation and risk management.

Therefore, on behalf of our members, we would like to offer our partnership and support to BNM as it progresses on its AI implementation journey. We stand ready to assist and coordinate regulatory engagement with the industry, facilitate events, provide feedback on draft regulatory documentation and help in any other way desired or necessary. As a starting point for this partnership, we would like to draw your attention to two thought leadership white papers that ASIFMA has published on AI, that propose sets of regulatory principles for AI, which we believe forms the basis for an efficient regulatory environment, while at the same time supporting customer and investor protection, market integrity and financial and systemic stability:

[1] ASIFMA is an independent, regional trade association with over 150 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, and competitive Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region. More information about ASIFMA can be found at: www.asifma.org.

- *Enabling an Efficient Regulatory Environment for AI* (the "**ASIFMA AI White Paper**"), June 2021; and
- *Enabling an Efficient Regulatory Environment for AI – Practical Considerations for Generative AI* (the "**ASIFMA Generative AI White Paper**"), January 2024

The financial services sector is highly regulated, and we have found in our research that existing regulations largely address and mitigate the key risks which might be caused or increased by the use of AI. These include rules in respect of outsourcing, technology risk management, conduct, cybersecurity, duty to clients, internal governance and model risk management, in addition to sector-agnostic requirements around data privacy and data protection and established internal risk management and governance frameworks. Our research, studying how existing regulations and guidelines govern risks relevant to the use of AI, concludes that existing rules and guidelines largely address AI-related risks.

More generally, we recommend that regulators take a principles- and risk-based approach to AI, giving financial institutions flexibility in how best to operationalise the principles in relation to their AI adoption, depending on the financial institution's setup, framework, and the materiality of the AI use case. Where regulatory oversight is absolutely necessary and to promote efficiency and innovation, we highly recommend applying this to AI for client-facing use cases only. We encourage regulators to support the global development of AI within capital markets and avoid fragmentation and over-regulation, which could slow down its adoption and development.

We would be pleased to discuss our response in further detail. Should you wish to do so, please do not hesitate to contact me at rkapoor@asifma.org.

Sincerely,

Rishi Kapoor
Executive Director
Head of Technology and Operations
Asia Securities Industry & Financial Markets Association

Annex

No.	Question	Feedback
1	BNM welcomes industry feedback on whether a formal sector-specific regulatory definition of AI would be beneficial, including: a. How would such definition support greater clarity, consistency, or compliance in the financial sector? b. What should be the appropriate definition of AI for the Malaysian financial sector?	We strongly encourage BNM to consider aligning the definition of AI System with the OECD's definition, which is generally accepted as the global standard: *"An AI system is a machine-based system that, for explicit or implicit objectives, infers, from the input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments."* A clear, consistent definition of an AI system allows the industry to have a common understanding of what constitutes AI when dealing with financial products and services, while facilitating interoperability across jurisdictions. This will reduce ambiguity and help ensure that discussions reference a common framework. The definition should also be clear enough to avoid encompassing non-AI technologies, ensuring that only systems with AI characteristics are included. However, as AI technology continues to evolve, it will be equally important to periodically revisit and reassess the definition to ensure it remains relevant and fit for purpose. If Malaysia decides to adopt a unique definition of AI specifically for its own financial sector, it would create a fragmented regulatory landscape, making it challenging for participants in Malaysia and global institutions to ensure compliance across sectors and regions. This fragmentation can lead to significantly increased complexity and higher compliance costs, as institutions would need to navigate and adhere to different sets of rules and definitions in each sector and jurisdiction. A unique definition of AI could also create barriers to cross-border collaboration, as partners from different jurisdictions may have different understandings and interpretations of

		what constitutes AI. This lack of a common framework can impede introductions of AI systems that benefit Malaysian clients and the Malaysian economy more widely. We would also recommend that BNM's AI regulatory principles and / or approaches focus on AI systems related to customer-facing applications in financial products and services, excluding internal use cases. This approach ensures practicality, aligns with international standards and reduces unnecessary burdens on financial institutions. For example, Singapore's Principles to Promote Fairness, Ethics, Accountability, and Transparency ("**FEAT**")[2] limit their scope to AI use "in the provision of financial products and services." Similarly, the Hong Kong Monetary Authority's ("**HKMA**") Circular on Consumer Protection regarding Generative AI[3] applies only "when GenAI is adopted for customer-facing applications." South Korea's Financial Services Commission ("**FSC**") Guideline on the Use of Artificial Intelligence in Financial Services[4] is restricted in its scope to AI systems used for financial services and products, excluding internal systems that do not impact customers.
2	How frequently should BNM engage with FSPs on AI-related matters, and through which channels, e.g., surveys or consultations?	In addition to surveys and consultations, we recommend that BNM engages with financial services providers ("**FSPs**") on AI-related matters on a regular basis through consultations, roundtables, workshops and closed-door meetings. We suggest that an appropriate cadence, at least initially, would be to explore this with ASIFMA on a semi-annual basis. This will ensure continuous dialogue and adaptation to emerging trends and challenges. As mentioned in our general comments, we stand ready to assist with facilitating and coordinating all forms of BNM's engagement with the industry.

[2] https://www.mas.gov.sg/-/media/mas/news-and-publications/monographs-and-information-papers/feat-principles-updated-7-feb-19.pdf

[3] https://brdr.hkma.gov.hk/eng/doc-ldg/docId/getPdf/20241107-1-EN/20241107-1-EN.pdf

[4] https://www.fsc.go.kr/eng/pr010101/76209

3	What parameters or indicators should BNM consider in future engagements with FSPs to better assess AI adoption, maturity and impact across the sector?	To effectively assess the financial sector's readiness for and progress in AI adoption and identify areas requiring regulatory support, BNM should consider a structured set of indicators. These may include: • the scale and types of AI projects deployed across institutions; • the level of integration of AI solutions into core business functions; • the extent to which AI-driven operational efficiencies are achieved; • satisfaction related to stakeholder outcomes; • the existence and maturity of governance frameworks and risk management practices for AI, data, and cloud infrastructure; • levels of demonstrable compliance with ethical guidelines and regulatory expectations; and • the degree of senior management awareness and accountability regarding AI usage. Collectively, these indicators will enable BNM to benchmark institutional preparedness, guide supervisory engagement and support the development of industry-wide standards and best practices. To date, AI has primarily been deployed in internal functions such as KYC, onboarding, fraud detection, HR management, improving the employee experience and toolkit, risk management and improving customer support. As institutions gain experience in managing AI-related risks, we anticipate broader deployment in external-facing activities, including direct delivery of financial services. However, this progression will depend on how Malaysia's financial regulators address the use of AI in areas involving financial risk. A key challenge for multinational FSPs is navigating a fragmented global regulatory landscape. Where local AI laws and regulations

		diverge from international standards, implementation of AI projects becomes significantly more complex. This risk is particularly pronounced in the Asia-Pacific region, which is characterised by a multiplicity of separate jurisdictions. BNM's alignment with global frameworks and its support for interoperable regulatory approaches will be critical to enabling seamless cross-border operations and responsible, efficient innovation.
4	How do you see AI evolving in the Malaysian financial sector over the next 3-5 years? BNM invites your views on emerging trends, opportunities, and potential challenges that may shape the sector's AI trajectory.	We anticipate a continued acceleration in the adoption of advanced AI technologies across the financial sector. This underscores the benefits of the industry's continued investment in AI governance, risk and compliance capabilities to inform policy development and supervisory approaches. Over the next three to five years, AI is expected to play an increasingly prominent role in areas such as the delivery of client services, AML, KYC, CFT, sanctions evasion, fraud detection, regulatory reporting and risk management. Key challenges will include managing algorithmic bias, safeguarding data privacy, balancing the protection of intellectual property rights with the transformative nature of AI and integrating AI solutions with legacy infrastructure. At the same time, these technologies offer significant opportunities to enhance operational efficiencies, improve the customer experience and strengthen risk controls. A forward-looking, principles-based regulatory approach - grounded in proportionality, technology neutrality and cross-border alignment - will be essential to support responsible innovation while mitigating emerging risks.
5	Are there any novel emerging benefits and risks associated with the use of AI in financial services that are not addressed in this discussion paper?	Some emerging benefits include the deployment of AI agents that operate autonomously, enabling routine (pre-defined) tasks to be transitioned into dynamically sequenced and orchestrated automation processes. This, in turn, can create new high-value jobs, allow more

		competitive business processes and workflows, and enable new and more precise services. Some key emerging risks include potential job displacement and the associated need for retraining and/or redeployment, the need to continue to appropriately manage risk in light of the increasing complexity of model outputs, and ensuring the availability of expertise in the design of the future of work and AI governance.
6	Among the benefits and risks outlined in this section, which do you believe warrant greater attention from FSPs and regulators in the next 1-2 years and beyond?	We believe that heightened non-financial risks (Section 3.7) and risks that may cause direct harm to individuals – such as identity deepfakes/phishing, cybersecurity threats, vendor dependency and lock-in, faster velocity in systemic transmission of risks, explainability challenges, inconsistent AI system tests/benchmarks, needs to recalibrate human-in-the-loop controls as systems become more advanced, data/financial loss, identity theft and copyright infringement (Sections 3.12 and 3.13) – require greater attention from regulators and FSPs.
7	What are key actions has your organization taken to mitigate the risks associated with AI deployment?	Our members have implemented global standards and governance frameworks to manage AI-related risks, anchored in principles such as accountability, transparency, fairness, ethics, monitoring and robustness. These frameworks are designed to ensure responsible AI deployment across financial institutions. Members assess the materiality of AI use cases to determine the appropriate controls, conduct regular audits and maintain transparency in AI operations, while continuing to leverage existing risk management frameworks, which remain fit for purpose and can be tailored to address unique and/or enhanced risks presented by AI. Firm-wide AI training programs and specific individual certifications are also in place to build institutional responsibility, awareness and capability. In addition, our members actively collaborate with industry stakeholders, including through ASIFMA-facilitated forums such as the AI Working Group, to develop and refine best practices, contributing to a

		harmonised and forward-looking approach to AI governance across jurisdictions.
8	How does your organization plan to identify and managed AI-related risks to consumers, while ensuring that AI driven services are delivered efficiently, transparently, and fairly?	Organisations can manage AI-related risks to consumers by implementing strong data governance and privacy controls, aligning with responsible AI principles and validating AI models to ensure transparency, fairness and robustness. Our members focus on transparency, providing clear information on AI usage and decision-making processes, while also implementing mechanisms for consumer feedback and dispute resolution.
9	Looking ahead, how do you expect the benefits and risks of AI adoption in financial services to evolve over time?	As users become increasingly comfortable with AI technologies and governance frameworks continue to mature, we expect AI applications to expand into domains involving a high level of detail, such as financial reporting and real-time policy dissemination. The evolution of AI will bring substantial benefits, including enhanced operational efficiencies, improved customer satisfaction and more responsive service delivery. However, these advancements will also introduce complex challenges, particularly around data security, ethical alignment and regulatory compliance. Addressing these risks will require ongoing investment in adaptive governance structures, robust risk management protocols and cross-sector collaboration to ensure that AI deployment remains responsive, responsible, transparent and aligned with regulatory expectations.
10	Do you consider the current technology-neutral regulatory framework to be broadly sufficient in addressing risk associated with AI at this stage of development and adoption? In your view, what key risks associated with AI should be addressed through specific regulation.	Yes, we believe that the current technology-neutral regulatory framework is broadly sufficient to support responsible AI adoption at this stage. However, as the use of advanced AI technologies - particularly Generative AI - continues to grow, firms will need to give even greater consideration to challenges such as model transparency, data protection and third-party assurance, as they are best placed to

		mitigate the risks associated with high-risk AI applications. We recommend that BNM undertakes a comprehensive review of existing regulations, supervisory expectations and industry governance frameworks, in close consultation with industry stakeholders and bearing in mind that members continue to be best placed to determine how to manage these risks, before considering any new guidance frameworks or regulatory requirements. Such an approach will help ensure that any future potential regulations, to the extent absolutely necessary, are proportionate, practical and aligned with both policy objectives and market realities. Please refer to Principle 1 of the ASIFMA Generative AI White Paper for further context regarding this recommendation.
11	Are there specific areas where regulatory clarity, flexibility, or guidance would support responsible AI adoption? Please specify area, the applicable regulation, or policy document (if any), together with supporting information and rationale.	Our members believe that Malaysia can benefit from non-binding guidance and best practices that cover the following focus areas: • Emerging areas such as Generative AI and Agentic AI models; • Transparency, both in the data (inputs / prompts) used to train large language models and in the generated content (outputs); • Managing biases in AI systems; and • Managing third party relationships in the value chain, noting that FSPs increasingly rely on external vendors for AI systems.
12	Are industry-led guidelines useful in complementing regulatory expectations for the responsible and ethical use of AI? Are there any additional principles, safeguards or considerations that should be reflected in future guidance? What role should BNM play in supporting the development, adoption or harmonisation of industry-led standards and guidelines in the future?	Our members believe that BNM can work closely with the industry in the development of non-binding guidelines, to ensure they are both practical and remain outcomes-based, which will encourage the industry to continue to innovate and adopt AI responsibly. To this end, BNM's support of the development, refinement and harmonisation of these guidelines, through structured engagement with industry stakeholders, will be critical in fostering a consistent and effective approach to AI governance across the sector.

		We also refer BNM to ASIFMA's two white papers on AI and Generative AI as two valuable guidance documents which have been collectively agreed across the industry, as discussed in our introductory comments above.
13	Has your institution encountered AI-related regulatory requirements or supervisory expectations in other jurisdictions? What lessons or practices could be relevant for the Malaysian context?	Yes. It is critical to ensure that individuals - especially those with limited digital literacy or access to technology, such as senior citizens or those without smartphones - are not excluded from essential financial services. In such cases, institutions should offer opt-out mechanisms or alternative non-AI processes to maintain inclusivity. More generally, we believe that BNM would benefit from studying approaches adopted in jurisdictions such as Singapore and Hong Kong, which focus on customer-facing AI applications and prioritise practicality, such as human-in-the-loop considerations and how they are incorporated into use cases to mitigate risks. These models help reduce unnecessary compliance burdens while ensuring consumer protection and operational integrity. Clarity in the drafting of AI laws, regulations, and supervisory expectations is essential. Practical examples to guide interpretation of key obligations and FAQs are particularly helpful to support regulatory interpretation. A clear distinction between the responsibilities of different actors in the AI ecosystem - such as providers, deployers, and users, as seen in the EU AI Act - is important to avoid ambiguity. A risk-based regulatory model is called for, whereby low-risk AI use cases (e.g., internal administrative tasks not involving automated decision-making) are subject to lighter compliance requirements. See Principle 4 of the ASIFMA Generative AI White Paper. In India, the Securities and Exchange Board of India's Consultation Paper on guidelines for responsible usage of AI/ML In Indian Securities

		Markets[5] proposed several requirements that ASIFMA has challenged. These include: • Assigning sole accountability to market participants for third-party AI, which departs from existing third-party risk frameworks and fails to distinguish between high- and low-risk deployments. It is important that accountability be appropriately distributed between the parties involved in AI deployment; • Requiring full explainability of AI/ML model logic, which is impractical for proprietary third-party systems (due to proprietary knowledge-sharing constraints) and could limit the range and sophistication of the models deployed in the market. A post-hoc explainability approach using professional methods is more feasible; and • Mandating the removal of bias from datasets, which is not possible for users of third-party LLMs. Instead, monitoring and mitigation should be the focus. These examples underscore the importance of proportionate, practical, and internationally-aligned regulation that supports responsible innovation while addressing emerging risks.
14	What are key opportunities for AI innovation on the financial sector that remain unexplored? What are some win-win use cases that your institution has identified and is keen to explore?	We note that the emergence and rapid development of multi-agent orchestration solutions through Agentic AI holds significant potential for financial markets, across the end-to-end spectrum of processes. Similarly, the maturing product offerings of AI present opportunities for real-time cyber threat pre-detection and prevention solutions.
15	How can the Sandbox programme be enhanced to better support the development, testing and deployment of AI innovations in financial services? Are	We note the continuing developments and pace of innovation in the field of Agentic AI, which presents new opportunities for multi-agent orchestration and higher-value human-in-the-

[5] https://www.sebi.gov.in/reports-and-statistics/reports/jun-2025/consultation-paper-on-guidelines-for-responsible-usage-of-ai-ml-in-indian-securities-markets_94687.html

	there specific features or support mechanisms that would make the Sandbox more accessible or impactful for AI related use cases?	loop involvement at critical decision-making points. We would encourage BNM to consider how its Sandbox programme can be further enhanced facilitate the testing and deployment of new Agentic AI solutions. As Malaysia also increases its focus on digital asset adoption, there will be even more compelling use cases and opportunities to take advantage of real-time anomaly detection and other AI capabilities more useful in the distributed ledger and instant payments spaces, as opposed to the traditional finance space (where deterministic, rules based solutions are better). Again, we would recommend consideration of how the Sandbox programme can best be adapted to AI in digital assets. More generally, we would recommend that BNM consider implementing strong safeguards around platform architecture and cloud governance to ensure that the sandbox serves as both a testing ground and a learning environment for compliance.
16	What challenges or opportunities in AI adoption would benefit most from industry-wide exploration or collaboration? What forms of collaboration (e.g., working groups, joint pilots, etc) would be most effective in enabling testing and scaling of impactful use cases and resolving key implementation challenges?	We recommend the establishment of a consortium to facilitate multi-stakeholder collaboration on responsible AI. This consortium should be supported with dedicated funding to enable its role in accelerating policy development, enhancing risk mitigation and fostering innovation through pooled expertise. Collaborative efforts within the consortium - such as the development of industry guidelines, sharing of best practices, and strengthening of talent pipelines - would be instrumental in building sector-wide capacity. Additionally, joint pilots and working groups can serve as effective platforms for exchanging knowledge and operational experience, helping to address implementation challenges and scale impactful use cases. We note the Monetary Authority of Singapore's new PathFin.ai programme[6] as an excellent example of how to identify and scale impactful use cases and

[6] https://www.mas.gov.sg/schemes-and-initiatives/pathfinai

		connect solution providers with potential adopters. ASIFMA and its members would be very willing collaborators in the forums described above.
17	Would your organisation be interested in participating in BNM-facilitated knowledge exchange sessions with other industry players or stakeholders? If yes, what topics or areas should be included in such discourse?	Yes, our members would be keen to participate in BNM-led initiatives focused on responsible AI. We suggest that such engagements include discussions on key topics such as: • Generative AI use cases; • AI model risk management and broader AI-specific risk management frameworks; • Transparency around training data and generated content to mitigate risks related to misinformation and copyright infringement; • Senior management accountability in AI governance; • Ethical considerations in AI deployment; and • Regulatory compliance and supervisory expectations. These topics reflect areas of growing importance and would benefit from structured dialogue between regulators and industry stakeholders. ASIFMA would be pleased to help play a coordinating role in such sessions.
18	Please suggest the role BNM could play in facilitating and supporting industry-led initiatives that promote knowledge sharing and collaboration on AI-related matters within the financial sector.	We believe that BNM and ASIFMA can jointly facilitate in-person roundtable discussions focused on specific AI topics, with an emphasis on delivering tangible outcomes and regulatory clarity, such as regulatory or industry guidance, best practices or a playbook addressing new and/or emerging risks. Similarly, knowledge sharing on the various approaches to AI regulatory frameworks across the Asia-Pacific region and beyond would help to identify fragmentation realities and minimise their impact. In this respect, we would encourage BNM to ensure any such guidelines are interoperable and aligned with international standards, enabling international FSPs to

		navigate global regulatory landscapes seamlessly.