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HARNESSING ARTIFICIAL INTELLIGENCE IN ANTI-MONEY LAUNDERING COMPLIANCE

As money laundering has been and continues to be pervasive in the financial system, the sophistication of bad actors has only increased with the use of artificial intelligence to perpetrate fraud and other illicit activities. This article discusses the opportunities and challenges in integrating artificial intelligence in financial services firm's anti-money laundering compliance programs.

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Money laundering remains a pervasive global issue that is only becoming more challenging with the digitization of finance across the world. Criminal masterminds are becoming even more sophisticated, using Artificial Intelligence (“AI”) to perpetrate massive frauds and schemes, ranging from synthetic identity fraud (AI-generated passports for identity verification) to deepfakes (AI-generated voice impersonation) to obscuring and disguising transactions to mimic legitimate purposes. To combat a more challenging landscape, the financial sector stands at the precipice of a technological revolution, where AI is not only reshaping the types and modes of fraud and money laundering, but also reshaping traditional processes, including those related to Anti-Money Laundering (“AML”) compliance. In this increasingly digital environment, financial institutions are beginning to explore and turn to AI to enhance the efficiency and effectiveness of their AML programs. However, this transition is not without its hurdles. The integration of AI in AML compliance presents a host of opportunities and challenges that institutions must navigate carefully to ensure regulatory compliance and ethical governance.

DEFINITION OF ARTIFICIAL INTELLIGENCE AND

CURRENT REGULATORY LANDSCAPE

Like many other terms of art in the digital finance ecosystem, “artificial intelligence” does not have one single definition used consistently. “Artificial intelligence” encompasses a wide range of concepts and technologies, and its definition can vary depending on the context — technical, legal, academic, or practical. One common definition used by the National Institute for Standards in Technology (“NIST”) defines “artificial intelligence” as “a machine-based system that can, for a given set of human-defined objectives, make predictions, recommendations, or decisions influencing real or virtual environments.”¹

As to the use of AI in the financial services industry, within the US regulatory landscape, several government agencies have adopted or proposed frameworks for AI; however, there is no federal comprehensive framework. In the AML world, in June 2024, FinCEN issued a proposed rule to strengthen and modernize AML/CFT

¹ NIST AI Risk Management Framework 1.0, available at <https://www.nist.gov/itl/ai-risk-management-framework>.

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