

AI Challenges for Securities Firms: Key Summer Reading From FINRA

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In June, the Financial Services Regulatory Authority issued a report on the use of artificial intelligence (AI) in the securities industry, which is characterized by such technologies as machine learning, natural language processing, and computer vision. The report comes as financial and investment firms of all stripes are allocating significant resources to exploring, developing, and deploying AI-based applications to offer innovative products, increase revenues, cut costs, and improve customer service.

The report highlights purposes for which firms are evaluating or using AI, including:

- Enhancing customer experience
- Targeting customer outreach, providing individual brokers with better insights into customer preferences
- Improving investment management and trading performance
- Enhancing compliance and risk management functions
- Automating administrative functions

The report also highlights a number of regulatory and other key factors that firms may want to consider as they develop and adopt AI-based tools, including:

- AI model risk management
- Data governance
- Customer privacy
- Supervisory control
- Cybersecurity
- Outsourcing/vendor management
- Books and records
- Workforce structure

For example, with regard to machine learning models, which employ sophisticated algorithms to make predictions and find patterns that may suggest courses of action, the report notes that firms may benefit from reviewing and updating their model risk management frameworks to address the new and unique challenges such models may pose. This includes challenges related to model explainability, data integrity, and customer privacy.

The report requested comments by interested persons, including about areas in which guidance or changes to FINRA rules may be desirable to support the adoption of AI applications consistent with investor protection and market integrity.

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