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AI for Broker-Dealers and Investment Advisers: Legal and Regulatory Considerations

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This practice note discusses the legal and regulatory considerations for broker-dealers and investment advisers implementing artificial intelligence (AI) technologies in their operations. It discusses obligations under the Securities and Exchange Commission's (SEC) and Financial Industry Regulatory Authority's (FINRA) rules, as well as under the Investment Advisers Act of 1940 for broker-dealers and investment advisers using AI in various parts of their operations. Key broker-dealer considerations include establishing an AI governance team, AI model explainability and output accuracy, recordkeeping of AI usage and output, supervision of third parties, and pitfalls relating to AI communications with the public. This practice note also highlights obligations under Regulation S-P and Regulation S-ID regarding privacy and data protection, as well as litigation risks.

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