

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

A Practical Guidance® Practice Note by Susan Light, David Dickstein, Alexander Kim, and Nicholas Gervasi, Katten Muchin Rosenman LLP



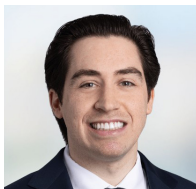
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This practice note discusses legal and regulatory considerations for broker-dealers and investment advisers implementing artificial intelligence (AI) technologies in their operations. It discusses obligations under Securities and Exchange Commission (SEC) and Financial Industry Regulatory Authority (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, including emerging AI trends such as generative AI and AI agents. 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. Overall, the practice note emphasizes that firms using AI should integrate these tools into existing supervisory, compliance, privacy, and risk-management frameworks rather than treating AI as a standalone technology issue.

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### **Susan Light, Partner and Co-Chair, Broker-Dealer Regulation, Katten Muchin Rosenman LLP**

Susan Light offers clients a universe of insights gained over 30 years as a senior leader and regulatory officer inside both the New York Stock Exchange (NYSE) and the Financial Industry Regulatory Authority (FINRA). That experience and knowledge allows her to handle any securities regulatory problem that may confront broker-dealers and other financial services firms. She is particularly well suited to advise on complex investigations of securities law violations, including those involving firmwide supervisory failures.

Sue represents large and small broker-dealers, as well as hedge funds, investment banks and other financial services providers. She helps these clients understand the regulatory landscape, design procedures to avoid regulatory problems and resolve investigations and enforcement actions. Sue's experience at the highest levels of the NYSE and FINRA is the difference that allows her to deliver quick, efficient answers and top-quality representation. And in matters that involve regulators, her extensive network of contacts allows her to successfully engage with them on her clients' behalf.

### **David Dickstein, Partner, Katten Muchin Rosenman LLP**

David Dickstein addresses a wide range of regulatory and compliance issues for investment advisers, hedge and private equity funds.

David has extensive experience with the application of federal and state securities laws to investment managers, including the Investment Advisers Act of 1940, the Investment Company Act of 1940, the Securities Act of 1933, the Securities Exchange Act of 1934, the Graham-Leach-Bliley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, applicable Financial Industry Regulatory Authority (FINRA) rules, and state blue sky laws. Investment advisers regularly seek David's counsel on matters such as private fund structuring and distribution, the need for investment adviser registration, completing the Form ADV, disclosing conflicts of interest, compliance policies and procedures, rules on personal trading, marketing materials and federal and state pay-to-play and lobbying registration matters.

David advises broker-dealers and investment advisers on soft dollars and best execution, wrap-fee programs, trade allocations, marketing arrangements and bad actor matters. Additionally, he conducts compliance audits and provides guidance on Securities and Exchange Commission (SEC) examinations and investigations.

David also helps clients navigate securities status issues under the federal securities laws and investment company status issues under the Investment Company Act of 1940 in connection with corporate, private credit and real estate transactions.

### **Alexander Kim, Associate, Katten Muchin Rosenman LLP**

Digital asset platforms, prediction market operators, and financial institutions operating at the intersection of traditional finance and emerging technology face a unique challenge: navigating regulatory frameworks that are still taking shape. Whether launching a prediction market, building a digital asset exchange, or creating novel derivatives products, regulatory missteps can derail product launches, trigger enforcement actions, or create competitive disadvantages that persist for years.

Alex Kim counsels some of the largest digital asset trading platforms and blockchain technology companies, and commodities market participants on regulatory and strategic positioning. Alex's practice focuses on helping clients move forward confidently in uncertain regulatory environments, turning complex US Commodity Futures Trading Commission (CFTC), US Securities and Exchange Commission (SEC) Financial Industry Regulatory Authority (FINRA) and National Futures Association (NFA) requirements into practical strategies that protect their businesses while enabling growth.

### **Nicholas Gervasi, Associate, Katten Muchin Rosenman LLP**

Nicholas Gervasi supports financial services clients across securities and derivatives markets in their regulatory and transactional matters. He advises exchanges, clearinghouses, futures commission merchants, and introducing brokers on registration, compliance, and regulatory issues.

From his training as an architect and designing buildings against many constraints, Nick understands how to balance competing interests between the law and client goals. Before joining Katten, he worked as a project architect at an architecture and urban design research group where he experienced firsthand the importance of creative problem-solving. During law school, he learned about the dynamic between regulators and registrants by working for the Federal Reserve Bank of New York, the US Securities and Exchange Commission, and the quantitative investment management arm of a global asset manager.

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