

AI governance for financial services firms

Lessons for financial services firms on artificial intelligence governance frameworks from the FCA and BoE artificial intelligence forum

NOVEMBER 2021



The Bank of England and FCA’s Artificial Intelligence Public-Private Forum (**AIPPF**) was established to further constructive dialogue with the public and private sectors and to better understand the use and impact of artificial intelligence (**AI**) and machine learning (**ML**) in financial services. Membership of the AIPPF includes firms active in the development of AI, public authorities, and academics.

In October 2021, at the last quarterly meeting on specific topics, the AIPPF met to discuss the role of governance in the safe adoption of AI and ML in UK financial services. The focus of the meeting was to identify and discuss key issues relating to (i) roles and responsibilities, (ii) governance structures, (iii) transparency and communications, and (iv) standards, auditing and regulatory framework. Minutes of the meeting of the AIPPF are available [here](#).

The table below sets out the key discussion points that arose from the meeting and identifies their significance for financial services firms. The discussions between members of the AIPPF should not be taken as an indication of future policy by the Bank of England or the FCA, but it should inform the development of best practices by any financial services firm using AI and ML.

Topic	Key discussion points	Actions for firms
Roles and responsibilities		
Structuring responsibility in the firm	<p>Single or shared responsibility</p> <ul style="list-style-type: none"> Whether overall responsibility for AI within a firm should be led by one senior manager (eg a Chief AI Officer) or shared between numerous senior managers will depend on the level of maturity of AI in a firm and the skillsets of senior managers. <p>Business function responsibility</p> <ul style="list-style-type: none"> Business areas should take responsibility for the governance standards and outputs of the AI models they use. Responsibility should lie with accountable executives for those business areas, eg the Chief Investment Officer or the Head of Credit. 	<p>Top-down and bottom-up approaches</p> <ul style="list-style-type: none"> Establish clear top-down lines of responsibility from Board and committee level, through senior managers, and to the rest of the firm. Establish bottom-up governance mechanisms ensuring that people at every stage of the AI lifecycle, from planning and design to task and output, sign-off on their respective aspects. <p>Senior management responsibility</p> <ul style="list-style-type: none"> Consider whether the level of AI maturity in the firm and the skillset of the relevant candidate warrant the appointment of a single senior manager to have overall responsibility for AI. Ensure that responsibility and accountability for the governance standards of and decisions made by AI models is located with the relevant executives of the business areas that use them.

Topic	Key discussion points	Actions for firms
Roles and responsibilities continued		
Engaging with third parties	<p>Third-party models</p> <ul style="list-style-type: none"> Challenges relating to the use of third-party AI models include liability, monitoring, auditing and ethical concerns. Responsibility is often divested from third-party providers to firms through contractual agreements, which may result in ethical concerns. The EU Commission’s draft regulation on AI holds both the third party and a client responsible for AI credit scoring models. 	<p>Third-party service providers</p> <p>To comply with responsibilities when relying on third-party service providers:</p> <ul style="list-style-type: none"> Establish and maintain contractual relationships which include obligations for responsible practice from both the third party and the firm. Establish contractual obligations for regular internal and third-party monitoring of the performance and outcomes of AI models. Ensure the firm has sufficient expertise to understand, monitor and evaluate the performance of AI models.
Systems and controls	<p>Three lines of defence model</p> <ul style="list-style-type: none"> First line of defence should be within the business area which uses the AI model. Unclear whether the second line of defence should sit within or outside the business area, but one option is a second line of defence within the business area and a third level at enterprise level (eg compliance) so that governance flows top-down. <p>Operational resilience</p> <ul style="list-style-type: none"> Some elements of AI systems may be compromised and open to cyberattack if too much detail of their inner workings is disclosed in the process of complying with explainability and transparency requirements. 	<p>Reasonable steps</p> <p>Firms can demonstrate reasonable steps when providing human oversight of AI models by:</p> <ul style="list-style-type: none"> Establishing an ethics framework and conducting AI training; Collecting and retaining documentation to ensure auditability of AI models and decisions; Embedding appropriate risk management and control frameworks in the AI lifecycle; Establishing clear lines of sight, reporting and accountability between AI teams; and Setting clear parameters for performance and outcomes of AI models.
Governance structures		
Automated governance process	<ul style="list-style-type: none"> Automated governance processes, including generation of documentation and collection of evidence, should be embedded throughout the lifecycle of an AI system. 	<ul style="list-style-type: none"> Establish automated processes for gathering evidence for governance processes that are embedded throughout the lifecycle of an AI system.

Topic	Key discussion points	Actions for firms
Governance structures continued		
Governance frameworks	<p>Ethics frameworks</p> <ul style="list-style-type: none"> Firms are likely to need new frameworks to deal with the novel challenges presented by AI systems, in particular their ethical implications. Devising these frameworks will require input from multi-disciplinary teams, including ethics experts and people management functions, rather than just compliance, technology and/or risk management professionals. 	<p>Fluid frameworks</p> <ul style="list-style-type: none"> Design AI frameworks, including standards and principles, that are sufficiently fluid to keep up with rapid technological development and review such frameworks regularly. Use a two-tiered governance model to ensure a fluid framework composing (i) a strategy-level that develops standards for the entire firm and (ii) an execution-level that applies the standards on a case-by-case basis. <p>Ethics frameworks</p> <ul style="list-style-type: none"> Create and maintain a framework for thinking through ethical challenges arising from AI systems and addressing them effectively with input from a multi-disciplinary team.
Transparency and communication		
Using AI transparently	<p>Explainability standards</p> <ul style="list-style-type: none"> Lack of research on or viable products available in the market to address issues of explainability. Explainability is not just about the AI model itself but communicating the way the model is used in an accessible, meaningful, and comprehensive way. 	<p>Transparency needed when AI models are used</p> <ul style="list-style-type: none"> Establish systems for recording accurate information about the decision flows taken and ensure that recommendations / decisions are reliable. Ensure that customers are informed when a model is being used to automate decisions and what led to decisions affecting them in an accessible, meaningful and comprehensive way.
Standards, auditing and regulatory framework		
Building trust in AI	<p>Fairness</p> <ul style="list-style-type: none"> There is an existing requirement to treat customers fairly, but it is not always clear what 'fairness' should look like in the context of AI. What is particular difficulty in the context of AI at this stage is understanding what is acceptable and what is not. 	<p>Remediation plans</p> <ul style="list-style-type: none"> Develop remediation plans for situations where an AI algorithm does not behave as expected.

How we can help you

We have a dedicated AI Group, comprising lawyers across various practice areas and jurisdictions, which regularly advises clients on AI legal, regulatory and ethical issues

Our recent experience includes:

- Advising one of the world's largest developers of biometric technology on a response to the European Commission's draft EU AI Regulation
- Advising a developer of AI technology on its standard form contractual documents
- Advising a financial institution on a dispute arising out of the allocation of proprietary rights to an AI system
- Advising an AI app developer on data privacy issues, including undertaking a data protection impact assessment and liaising with the data protection regulator
- Advising one of the world's largest biopharmaceutical companies on collaboration arrangements and licensing agreements to develop AI models in drug discovery
- Advising a global technology company on a cooperation agreement with Mercedes Benz on autonomous vehicles
- Advising a global telecoms provider on an AI system used to predict healthcare issues for its customers
- Advising one of the world's largest online supermarkets in its development of AI-powered smart platforms and robotics systems
- Advising an Israeli AI unicorn involved in biometric and medical AI products on its expansion and potential IPO

OUR MARKET-LEADING PROFILE

- We are one of the leading law firms in AI:
 - As well as advising numerous clients in this area, we are regularly invited to speak to national governments (including the UK and UAE governments) on AI-related legal issues
 - Members of our AI Group are regularly invited to speak at AI conferences. We have previously spoken on behalf of the United Nations and at the prestigious CogX AI conference.
 - Our AI Lead, Minesh, is Chair of the Society for Computers and Law (SCL) AI Group (and a former member of the CBI's Working Group on AI)
 - We produce a quarterly newsletter [AI: stay smart](#) which summarises key AI regulatory and policy updates from around the world
- We are at the forefront of developments in AI law and involved in cutting-edge projects. For example, in collaboration with Best Practice AI (comprising a member of the World Economic Forum's Global AI Council), we recently advised on [the world's first AI explainability statement](#), working alongside the UK Information Commissioner's Office.
- Through our Wavelength offering, we have numerous in-house data scientists who have day-to-day experience of developing AI models. We are therefore able to offer both legal advice and a practical insight into AI-related legal issues.

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Please get in touch if you have any queries or would like to arrange a discussion or training session with our AI Group



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