International Capital Market Association

ICMA

ICMA response to the European Commission's targeted consultation on artificial intelligence in the financial sector

13 September 2024

Part 1: GENERAL QUESTIONS ON AI APPLICATIONS IN FINANCIAL SERVICES

1.1. Use of AI

ICMA Response: Question 1. Are you using or planning to use AI systems?

- **Yes, we are already using AI systems.**
- Not yet, but we plan to use AI systems within the next 2 years.
- No, we are not using AI systems and we don't plan to use it within the next 2 years.

ICMA Response: Question 2. What are the positive things you encounter when using AI?

- **Open answer/Please explain and give examples when possible.**
  - Overall ICMA members have a positive experience when using AI. It increases operational efficiency and can automate less productive workflows freeing capacity for people to focus on more high value tasks, which can also benefit a business's clients.
  - Further positives include the ability to process a vast quantity of data, such as for research or risk purposes. For risk and compliance, AI may be used to quickly identify and flag potential breaches in regulatory requirements.
  - In relation to research, AI may be used for data insights and to provide a more developed starting point for the individual. For example, possible benefits include the quicker identification of relevant data and the ability to highlight trends or inconsistencies across multiple sources.

ICMA Response: Question 3. What are the negative things you encounter when using AI?

- **Open answer/Please explain and give examples when possible.**
  - In general, AI is already implemented and utilised in different areas of financial services and therefore the negative aspects of using AI are not necessarily new to businesses. For example, risks associated with cyber security, data protection, possible hallucinations, unintended bias and dealing with third-party providers are already mitigated through risk frameworks within organisations.
  - There are also environmental considerations such as the level of energy consumption in AI applications. However, having an appropriate framework to manage this can help to limit the impact and maintain a long-term sustainable AI model.

ICMA Response: Question 4. Will you be deploying AI for new or additional processes within your organisation?

- **Yes, which ones?**
    - In general, ICMA members are currently considering possible new use-cases for AI in their organisations.
- No

ICMA Response: Question 5. Are you developing or planning to develop in-house AI applications?

- **Yes, please explain.**
    - Further definition of "in-house" may be useful as this can be understood differently. For example, in some cases, the basic model is from external providers, but the training and support of the model is done in-house and/or the models are customised for internal use (for example, for confidentiality reasons). In other cases, the whole process is conducted internally, including building the model from scratch and supporting it.
- No, please explain broadly whom you plan to collaborate with for the development of your AI applications (fintech, bigtech, etc.). or whether you plan to buy off the shelf fully developed solutions.

Question 6. Which tools are you using to develop your AI applications? Examples: machine learning, neural networks, natural language processing, large language models, etc.

- Open answer/Please explain and give examples when possible.

1.2. Benefits of using AI applications in financial services

Question 7. Please score the following benefits from most significant (10) to least significant (1):

- Fraud detection: AI algorithms can analyse large amounts of data to detect patterns and anomalies that may indicate fraudulent activity, helping to reduce financial losses for businesses and customers.
- Risk management: AI can analyse and predict market trends, assess credit risks, and identify potential investment opportunities, helping financial institutions make more informed decisions and manage risks more effectively.
- Automation of routine tasks: AI can automate repetitive tasks such as data entry, transaction processing, and document verification, freeing up time for employees to focus on more complex and strategic activities.
- Cost savings: by automating processes and improving efficiency, AI can help financial institutions reduce operational costs.
- Personalized financial advice: AI can analyse customer data to provide personalized financial advice and recommendations, helping customers make better financial decisions and improve their financial well-being.
- Compliance and regulatory support: AI can help financial institutions stay compliant with regulations by analysing and interpreting complex regulatory requirements and monitoring transactions for suspicious activities.

- Enhanced decision-making: AI can analyse large amounts of data and provide insights that can help financial institutions make better investment decisions, assess credit risks, and optimize their operations.
- Improved security: AI can enhance security measures by identifying potential security threats, detecting unusual patterns of behaviour, and providing real-time alerts to prevent security breaches.
- Streamlined processes: AI can streamline various financial processes, such as loan underwriting, account opening, and claims processing, leading to faster and more efficient services for customers.
- Improved customer service: AI can be used to provide personalized and efficient customer service, such as chatbots that can answer customer queries and provide assistance 24/7.

ICMA Response: Question 8. What are the main benefits/advantages you see in the development of your AI applications?

- **Open answer/Please explain and give examples when possible.**
    - One of the key benefits of AI is operational efficiency, which can increase the ability to focus on high value tasks and find potentially better and more productive workflows. Other benefits of AI applications include deeper market research, enhanced automation and an improved risk coverage as mentioned earlier in our response.
    - AI technology can also contribute to innovation in the industry more broadly, bringing additional opportunities in other areas of financial technology such as DLT bonds and smart contracts.

1.3. Challenges and risks when using AI applications in financial services

Question 9. Please score the following challenges and risks from most significant (10) to least significant (1):

- Lack of access to the required data, in general.
- Lack of access to the data in an appropriate digital format.
- Lack of access to appropriate data processing technology, e.g. cloud computing.
- Data privacy: it is crucial to ensure that sensitive financial information remains confidential.
- Lack of trust in relation to performance levels/ security aspects/ certified solutions/ reliability of the technology.
- Regulatory compliance with financial regulation: financial services are heavily regulated and not all types of AI applications are in line with requirements under these regulations.
- Innovation: the ability to leverage on combining AI with other technologies to enhance its potential and generate new services?
- Transparency and explainability: AI algorithms can be complex and opaque. It can be difficult for humans to understand how AI arrives at certain conclusions, which can create issues of trust and accountability.
- Bias and discrimination: AI models are trained using data, and if the data is biased, the AI model can also be biased, leading to unfair outcomes.
- Reputational risk from undesirable AI behaviour or output.

- Liability risks: legal uncertainty on who bears the liability in case of damages generated by the malfunctioning of the AI applications.
- Skills gap: the development of AI requires specific tech skills, and there is a shortage of such skills.
- Dependability: as financial institutions rely more and more on AI; the dependability of these systems becomes paramount. Any malfunction or error (e.g. in risk management) can lead to significant financial losses.
- Job displacement: the use of AI can potentially automate certain roles in the financial sector leading to job displacement.
- Cybersecurity: AI systems could be targeted by cybercriminals, leading to potential data breaches or manipulation of AI systems.
- Integration challenges: integrating AI technologies with existing systems and processes can be complex and expensive.
- Additional cost: the deployment and use of AI requires up-front investment and ongoing resources (acquiring or developing applications, keeping them up to date, training/skills).

ICMA Response: Question 10. What are the main difficulties/obstacles you are facing in the development of your AI applications?

- **Open answer/Please explain and give examples when possible.**
    - When developing your own AI applications, it can be difficult to establish how productive a new AI use-case will be. This has consequences from a business perspective, for example it can be hard to quantify how many resources should be allocated to the project, and the expectations of those looking to utilise the application will need to be managed. Considered alongside the high standard of regulatory requirements needed to be met when developing an AI application, the business justification can be challenging. Appropriate training and learning of tasks that might, in future, be primarily driven by AI technology also needs to be considered in the interim.
    - In addition, the way in which an AI application reaches its conclusion can be highly complex for users to understand. Therefore, it is essential that users have access to high-quality supporting documents and support from AI technology providers. Organisations may also have internal frameworks that require a certain level of detail in third-party documentation, including sufficient information for explainability and transparency expectations.

Question 11. Please rank the potential negative impact that widespread use of AI can have on the following risks. 8 being the highest risk.

- Operational risks
- Market risks
- Liquidity risks
- Financial stability risks
- Market integrity risks
- Investor protection risk
- Consumer protection risk

- Reputational risk

Please explain your answer to the previous question and give examples when possible.

ICMA Response: Question 12. AI may affect the type and degree of dependencies in financial markets in certain circumstances, especially where a high number of financial entities rely on a relatively small number of third-party providers of AI systems. Do you see a risk of market concentration and/or herding behaviour in AI used for financial services?

- **Yes, in which areas of AI?**
    - The perceived lack of choice between a limited number of service providers, especially for new and developing AI techniques, could potentially reduce the level of competition in the market and increase the risk of adverse outcomes for users (although concerns such as the ability of dominant firms to raise prices and decrease service quality are largely mitigated by competition laws and other similar technology agnostic regulations).
    - For some regions, the perceived lack of choice in the market may also be compounded by a diverging regulatory landscape, which could cause a potential operational and competition-based gap between regions. However, global initiatives such as data sharing agreements can help limit any unintended impact in areas subject to higher regulatory barriers.
- No, please explain.

1.4. AI and compliance burden

ICMA Response: Question 13. Can AI help to reduce the reporting burden?

- **Yes, in which areas do you see AI reducing reporting burden?**
    - ICMA members found that AI can be used to reduce the burden of regulatory reporting generally. Automating the reporting process can increase efficiency in firms that are subject to a high number of regulatory requirements. AI can also provide insights into large pools of data, such as for ESG reporting purposes, and identify anomalies at a much faster rate than non-AI led analysis. However, ICMA members reiterate the importance of an internal, human validation process on the output of all reports that utilise AI.
- No, why?

Question 14. Do you think AI can facilitate compliance with multiple regulatory standards across the EU and thus facilitate market integration or regulatory compliance? For example, would you consider it feasible to use AI for converting accounting and financial statements developed under one standard (e.g. local GAAP) to another standard (e.g. IFRS)? Please elaborate.

Open answer/Please explain and give examples when possible.

1.5. Data access

Question 15. In order to develop AI applications, do you need access to external datasets that you currently don't have access to?

- Yes
- No

ICMA Response: Question 16. Which datasets would you need to develop meaningful AI applications and for which purpose / use case?

- **Open answer/Please explain and give examples when possible.**
    - For the fixed income industry specifically, both public and private data is used to develop datasets. Some examples of publicly available data include ESG bond data, price and maturity information (where required by applicable regulations).

ICMA Response: Question 17. Do you face hurdles in getting access to the data you need to develop AI applications in financial services?

- Yes, please explain which type of data you would need to have access to.
- **No**

ICMA Response: Question 18. Are you familiar with the EU Data Hub, a data sharing tool for supervisors and financial companies?

- Yes, do you think it can improve access to data?
- **No, are you aware of other data sharing initiatives that you find useful?**
    - Few ICMA members were aware of the EU Data hub. To encourage more uptake, it might be beneficial to have further clarity on the extent to which synthetic data compares to the results from real data.

ICMA Response: Question 19. Should public policy measures (e.g. legislative or non-legislative) encourage the exchange of data between market participants, which can be used to train AI systems for use cases in finance?

- **Yes. Which type of measures do you propose?**
    - In general, ICMA members are supportive of measures that facilitate the use of publicly available bond data. An example of a policy measure supporting the access to data is the introduction of the consolidated bond tapes in the EU and UK over the next couple of years. This further reinforces the already large amount of public bond data accessible, and, therefore, a data sharing initiative would need to be directed to a specific industry purpose to encourage participation.
- No

<u>1.6. Business model</u>

Question 20. Has AI changed your business model?

- Yes, how?
- No

ICMA Response: Question 21. Which parts of the value chain are being improved with AI?

- **Open answer/Please explain and give examples when possible.**

- AI tools have the potential to help in all areas where data is utilised, so these parts of the business model can be improved.

ICMA Response: Question 22. Are there functions that cannot/would not be improved by AI?

- **Open answer/Please explain and give examples when possible.**
  - It is important to consider business areas which could be most impacted by the risks associated with AI, and to ensure that due diligence, attention and care is given if AI is applied in these areas.

1.7. General purpose AI

For the purpose of this targeted consultation, respondents should consider general purpose AI as defined in the AI Act (Article 3(63)), i.e. meaning any "AI model, including where such an AI model is trained with a large amount of data using self supervision at scale, that displays significant generality and is capable of competently performing a wide range of distinct tasks regardless of the way the model is placed on the market and that can be integrated into a variety of downstream systems or applications, except AI models that are used for research, development or prototyping activities before they placed on the market".

Question 23. Do you use general purpose AI models, including generative AI, and their respective reference architectures?

- Yes, please explain why you want to opt for these AI models in your organisation.
- Not yet, but we plan to use general purpose AI models within the next 2 years.
- No, please explain which other AI reference architectures (e.g. more traditional ones) you plan to use to develop your AI applications and why.

Question 24. How do you plan to operationalise and adopt general purpose AI at scale?

- Open answer/Please explain and give examples when possible.

Question 25. How does the increasing availability of general-purpose AI models, including generative AI applications, impact the need to access new datasets?

- Open answer/Please explain and give examples when possible.

ICMA Response: Question 26. Compared to traditional AI systems such as supervised machine learning systems, what additional opportunities and risks are brought by general purpose AI models?

- Open answer/Please explain and give examples when possible.
  - General purpose AI tools are democratising access to a wealth of information that was previously unfeasible for many, and in doing so, enabling individuals to undertake new tasks.
  - There is a need to train and equip users to make the most of this technology and to ensure that it remains equitable. For example, educating users on the potential risks of hallucinations and inherent biases. Although, these risks are not necessarily only limited to general-purpose AI models, and their impact may be mitigated through strong AI governance frameworks, regular staff education and training.

Question 27. In which areas of the financial services value chain do you think general purpose AI could have a greater potential in the short, medium and long term?

- Open answer/Please explain and give examples when possible.

1.8. AI Governance in relation to non-high risk use cases, and which are not subject to specific requirements under the AI Act

ICMA Response: Question 28. Have you developed, or are you planning to develop an AI strategy or other relevant guidelines within your organisation for the use of AI systems?

- **Yes, which ones?**
  - Strong internal governance frameworks, staff training and guidelines are essential to responsible use of AI.
- No

ICMA Response: Question 29. Have you put in place or are you planning to put in place governance and risk management measures to ensure a responsible and trustworthy use of AI within your organisation?

- **Yes, which ones?**
  - It is recognised by ICMA members that having a comprehensive AI governance and risk framework within an organisation is key for responsible use of AI. Whilst some addendums may be needed as new AI technologies are implemented, having a framework in place already enables it to be quickly built upon.
  - In addition to this, existing pieces of legislation such as UCITS, AIFMD and MiFID II/MiFIR already establish safeguards for the responsible use of technology, including AI and related service providers. It is recommended that the supervision and enforcement of the EU AI Act takes into account this existing legislation, that covers AI use, to ensure that it is appropriately interlinked into current regulation.
- No

1.9. Forecasts

Question 30. What are the main evolutions to be expected in AI in finance?

- Open answer/Please explain and give examples when possible.

Question 31. Which financial services do you expect to be the most impacted by AI?

- Open answer/Please explain and give examples when possible.

Question 32. Do you have any additional information to share?

Part 2: QUESTIONS RELATED TO SPECIFIC USE CASES IN FINANCIAL SERVICES

Question 33. In which sector are you using AI?

You may select more than one answer.

- Banking and payments

- Market infrastructure
- Securities markets
- Insurance and pensions
- Asset management
- Other

2.1. Questions per sector

Banking and payments (if selected)

In banking, possible AI use cases range from credit risk assessment and credit scoring to advice, compliance, early warning (for example of unusual social media activity / massive withdrawal of deposits), fraud/AML and customer service.

Depending on the specific use cases, relevant legislation would include:

- the AI Act (for the identified high-risk use cases such as creditworthiness and credit-scoring of natural persons)
- the Consumer Credit Directive and the Mortgage Credit Directive(creditworthiness of natural persons and robo-advice)
- the Capital Requirements Regulation (CRR) (for example provisions on risk management in relation to credit risk assessment)
- the Payment Services Directives (PSD) (for example for fraud detection)
- and the Anti-Money Laundering Directive (AMLD) (for example for AML risk use cases)

Question BANKING 1. For which use case(s) are you using/considering using AI?

- Open answer. Examples: risk assessment, credit scoring, robo-advice, sustainable finance, personal finance management, regulatory compliance, fraud detection, AML, customer service, etc.

Question BANKING 2. What are the opportunities that AI brings to your use case?

- Open answer/Please explain and give examples when possible.

Question BANKING 3. What are the main challenges and risks that AI brings to your use case (e.g. discrimination, opacity of the AI application developed, difficult to control/supervise it, etc.)?

- Open answer/Please explain and give examples when possible.

Question BANKING 4. What is the main barrier to developing AI in your use case (e.g. lack of skills and resources, readiness of the technology, high regulatory costs for compliance with the relevant frameworks, etc.)?

- Open answer/Please explain and give examples when possible.

Question BANKING 5. Does AI reduce or rather increase bias and discrimination in your use case?

- Please explain and give examples when possible.

Question BANKING 6. Has general purpose AI opened new possibilities or risks in your use case?

- Yes
- No
- Please explain and give examples when possible.

Question BANKING 7. On whom do you rely for the development of your AI solutions?

- External providers
- In-house applications
- Partial collaboration with external providers
- Please explain and give examples when possible.

Market infrastructure (if selected)

According to the European securities and markets authority (ESMA)1, AI is currently not widely used by financial market infrastructures in their operations. However, use of AI systems in post-trading is emerging and will likely become more relevant in the future, such as for predicting settlement fails, anomaly detection, data verification and data quality checks.

Question MARKET 1. For which use case(s) are you using/considering using AI?

- Open answer. Examples: risk management, sustainable finance, regulatory compliance, etc.

Question MARKET 2. What are the opportunities that AI brings to your use case?

- Open answer/Please explain and give examples when possible.

Question MARKET 3. What are the main challenges and risks that AI brings to your use case (e.g. discrimination, opacity of the AI application developed, difficult to control/supervise it, etc.)?

- Open answer/Please explain and give examples when possible.

Question MARKET 4. What is the main barrier to developing AI in your use case (e.g. lack of skills and resources, readiness of the technology, high regulatory costs for compliance with the relevant frameworks, etc.)?

- Open answer/Please explain and give examples when possible.

Question MARKET 5. Does AI reduce or rather increase bias and discrimination in your use case?

- Please explain and give examples when possible.

Question MARKET 6. Has general purpose AI opened new possibilities or risks in your use case?

- Yes
- No
- Please explain and give examples when possible.

Question MARKET 7. On whom do you rely for the development of your AI solutions?

- External providers
- In-house applications

- Partial collaboration with external providers
- Please explain and give examples when possible.

Securities markets (if selected)

In securities markets, possible AI use cases range from risk assessment to trade execution (e.g. algorithmic trading), robo-advice, regulatory compliance and market abuse to customer service. Depending on the specific use cases, relevant legislation would include, for example:

- Markets in Financial Instruments Directive (MiFID) (for example on trading and robo-advice) Market Abuse Regulation (MAR) (for example for market abuse detection use cases).
- Robo advice: According to the upcoming AI Act, there are specific transparency requirements for AI systems which are not high-risk. The requirements imply that these AI systems are developed and used in a way that allows making humans aware that they communicate or interact with an AI system. This would for example apply to use cases such as robo-advice or other customer personalised AI applications.

Question SECURITIES 1. For which use case(s) are you using/considering using AI?

- Open answer. Examples: risk assessment, individual or collective portfolio management, algorithmic trading, robo-advice, sustainable finance, personal finance management, regulatory compliance, customer service, market abuse detection, etc.

Question SECURITIES 2. What are the opportunities that AI brings to your use case?

- Open answer/Please explain and give examples when possible.

Question SECURITIES 3. What are the main challenges and risks that AI brings to your use case (e.g. discrimination, opacity of the AI application developed, difficult to control/supervise it, etc.)?

- Open answer/Please explain and give examples when possible.

Question SECURITIES 4. What is the main barrier to developing AI in your use case (e.g. lack of skills and resources, readiness of the technology, high regulatory costs for compliance with the relevant frameworks, etc.)?

- Open answer/Please explain and give examples when possible.

Question SECURITIES 5. Can AI reduce bias and discrimination or increase them in your use case?

- Yes
- No
- Please explain and give examples when possible.

Question SECURITIES 6. Has general purpose AI opened new possibilities or risks in your use case?

- Yes
- No
- Please explain and give examples when possible.

Question SECURITIES 7. On whom do you rely for the development of your AI solutions?

- External providers
- In-house applications
- Partial collaboration with external providers
- Please explain and give examples when possible.

Question SECURITIES 8. 'Herding effects', where trading is dominated by trading algorithms that make decisions based on similar model calibrations, are often considered as a risk for financial markets. Do you believe that the use of AI has increased this risk?

- Yes
- No
- Please explain and give examples when possible.

Question SECURITIES 9. Machine learning trading algorithms can interact with each other in unpredictable ways on the market. Do you see any risks to market integrity and efficiency stemming from these interactions, such as collusion that can amount to market manipulation or sudden bouts of illiquidity where trading algorithms stop trading in response to unusual patterns of market behaviour?

- Yes
- No
- Please explain and give examples when possible.

Question SECURITIES 10. Can robo-advice based on general purpose AI, which can sometimes produce 'hallucinations', i.e. nonsensical or inaccurate replies, be made compatible with regulatory requirements applicable to investment advice?

- Yes
- No
- Please explain and give examples when possible.

Question SECURITIES 11. What precautions will you put in place to ensure robo-advice is developed in compliance with the requirements for investment advice?

Insurance and pensions (if selected)

In insurance, possible AI use cases range from insurance pricing and underwriting to advice, compliance, fraud detection/AML and customer service. Depending on the specific use cases, relevant legislation would include

- the AI Act (for the identified high risk use-cases such as life and health insurance risk assessment and pricing in relation to natural persons)
- the Insurance Intermediation Directive (IDD) (for example robo-advice),
- Solvency II and institutions for occupational retirement provisions (IORPs) (for example provisions on risk management in relation to insurance risk assessment), and the Anti-Money Laundering Directive (AMLD) (for example AML use cases).

Question INSURANCE 1. For which use case(s) are you using/considering using AI?

- Open answer. Examples: risk management, insurance pricing and underwriting, setting capital requirements/technical provisions, robo-advice, regulatory compliance, sustainable finance, fraud detection, AML, customer service, sales and distribution, claims management, etc.

Question INSURANCE 2. What are the opportunities that AI brings to your use case?

- Open answer/Please explain and give examples when possible.

Question INSURANCE 3. What are the main challenges and risks that AI brings to your use case (e.g. discrimination, opacity of the AI application developed, difficult to control/supervise it, etc.)?

- Open answer/Please explain and give examples when possible.

Question INSURANCE 4. What is the main barrier to developing AI in your use case (e.g. lack of skills and resources, readiness of the technology, high regulatory costs for compliance with the relevant frameworks, etc.)?

- Open answer/Please explain and give examples when possible.

Question INSURANCE 5. Does AI reduce or rather increase bias and discrimination in your use case?

- Please explain and give examples when possible.

Question INSURANCE 6. How can insurers ensure that the outcomes of AI systems are not biased?

- Open answer/Please explain and give examples when possible.

Question INSURANCE 7. Has general purpose AI opened new possibilities or risks in your use case?

- Yes
- No
- Please explain and give examples when possible.

Question INSURANCE 8. On whom do you rely for the development of your AI solutions?

- External providers
- In-house applications
- Partial collaboration with external providers
- Please explain and give examples when possible.

Asset management (if selected)

In asset management, possible AI use cases range from risk and portfolio management, robo-advice, regulatory compliance and market abuse to customer service. Depending on the specific use cases, relevant legislation would include, for example:

- Undertakings for the Collective Investment in Transferable Securities (UCITS)
- Alternative Investment Fund Managers Directive (AIFMD)
- or Markets in Financial Instruments Directive (MiFID)

Question ASSET MANAGEMENT 1. For which use case(s) are you using/considering using AI?

- Open answer. Examples: risk management, individual and collective portfolio management, regulatory compliance, trades monitoring, robo-advice, customer service, sustainable finance, etc.

Question ASSET MANAGEMENT 2. What are the opportunities that AI brings to your use case?

- Open answer/Please explain and give examples when possible.

Question ASSET MANAGEMENT 3. What are the main challenges and risks that AI brings to your use case (e.g. discrimination, opacity of the AI application developed, difficult to control/supervise it, etc.)?

- Open answer/Please explain and give examples when possible.

Question ASSET MANAGEMENT 4. What is the main barrier to developing AI in your use case (e.g. lack of skills and resources, readiness of the technology,high regulatory costs for compliance with the relevant frameworks, etc.)?

- Open answer/Please explain and give examples when possible.

Question ASSET MANAGEMENT 5. Does AI reduce or rather increase bias and discrimination in your use case?

- Please explain and give examples when possible.

Question ASSET MANAGEMENT 6. Has general purpose AI opened new possibilities or risks in your use case?

- Yes
- No
- Please explain and give examples when possible.

Question ASSET MANAGEMENT 7. On whom do you rely for the development of your AI solutions?

- External providers
- In-house applications
- Partial collaboration with external providers
- Please explain and give examples when possible.

Question ASSET MANAGEMENT 8. When delegating functions to third parties, do you check the extent to which the provisions of services will entail the use of AI?

- Yes
- No
- Please explain and give examples when possible.

Other (if selected)

Question OTHER 1. For which use case(s) are you using/considering using AI?

- Open answer. Examples: accounting, financial planning, credit rating, etc.

Question OTHER 2. What are the opportunities that AI brings to your use case?

- Open answer/Please explain and give examples when possible.

Question OTHER 3. What are the main challenges and risks that AI brings to your use case (e.g. discrimination, opacity of the AI application developed,difficult to control/supervise it, etc.)?

- Open answer/Please explain and give examples when possible.

Question OTHER 4. What is the main barrier to developing AI in your use case (e.g. lack of skills and resources, readiness of the technology, high regulatory costs for compliance with the relevant frameworks, etc.)?

- Open answer/Please explain and give examples when possible.

Question OTHER 5. Does AI reduce or rather increase bias and discrimination in your use case?

- Please explain and give examples when possible.

Question OTHER 6. Has general purpose AI opened new possibilities or risks in your use case?

- Yes
- No
- Please explain and give examples when possible.

Question OTHER 7. On whom do you rely for the development of your AI solutions?

- External providers
- In-house applications
- Partial collaboration with external providers
- Please explain and give examples when possible.

Part 3:AI ACT

In December 2023 the European Parliament and the Council reached a provisional political agreement on the first comprehensive AI framework, put forward by the Commission on 21 April 2021. The regulation was adopted by the European Parliament on 13 March 2024 and will enter into force later this spring once it has been published in the Official Journal of the EU. This horizontal acquis is applicable across all economic sectors.

The AI Act defines an AI system as “a machine-based system designed to operate with varying levels of autonomy, that may exhibit adaptiveness after deployment and that, for explicit or implicit objectives, infers, from the input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments”. Recital 11 further sets out the reasons for this definition, notably setting out that it is based on key characteristics that distinguish it from simpler traditional software systems of programming approaches.

The AI Act will establish two high risk use cases for the financial sector:

1. AI systems intended to be used to evaluate the creditworthiness of natural persons or establish their credit score, with the exception of those AI systems used for the purpose of detecting financial fraud
2. AI systems intended to be used for risk assessment and pricing in relation to natural persons in the case of life and health insurance

The aim of this section is to identify which are your specific needs in order for the Commission to be able to adequately assist you with appropriate guidance for the implementation of the upcoming AI framework in your specific market areas, especially in particular to the high-risk use cases identified.

3.1. Scope and AI definition

Question 34. Which of the following use cases that could fall into the categorisation of high-risk are potentially relevant to your activity?

- AI systems intended to be used to evaluate the creditworthiness of natural persons or establish their credit score.
- AI systems intended to be used for risk assessment and pricing in relation to natural persons in the case of life and health insurance.
- Both.
- None.

Question 35. Please explain the overall business and/or risk management process in which the high-risk use case would be integrated and what function exactly the AI would carry out.

Question 36. Are there any related functions AI would carry out which you would suggest distinguishing from the intended purpose of the high-risk AI systems in particular to the use cases identified in question 34?

Question 37. Please explain why these functions would/should in your view not be covered by the high-risk use cases set out in the AI act either because they would not be covered by the definition of the use case or by relying on one of the conditions under article 6(3) of the AI Act and explaining your assessment accordingly that the AI system would not pose a significant risk of harm if:

A. the AI system is intended to perform a narrow procedural task
B. the AI system is intended to improve the result of a previously completed human activity
C. the AI system is intended to detect decision-making patterns or deviations from prior decision-making patterns and is not meant to replace or influence the previously completed human assessment, without proper human review
D. or the AI system is intended to perform a preparatory task to an assessment relevant for the purpose of the use cases listed in Annex III of the AI Act

Question 38. At this stage, do you have examples of specific AI applications/use cases you believe may fall under any of the conditions from article 6(3) listed above?

- Please describe the use case(s) in cause and the conditions you believe they may fall under.

ICMA Response: Question 39. Based on the definition of the AI system, as explained above (and in article 3(1) and accompanying recitals), do you find it clear if your system would fall within the scope of the AI Act?

- **Yes**
- No, it is not clear/ easy to understand if it falls within the scope of the AI Act. If "No", please specify in relation to what aspects and/or which algorithmic/mathematical models?

3.2. AI Act requirements

Question 40. Bearing in mind there will be harmonised standards for the requirements for high-risk AI (Mandates sent to CEN-CENELEC can be monitored here), would you consider helpful further guidance tailored to the financial services sector on specific AI Act requirements, in particular regarding the two high-risk AI use cases?

- Yes. If yes, on which specific provisions or requirements and on what aspects concretely?
- No

3.3. Financial legislation requirements

Question 41. Future AI high-risk use cases would also need to comply with existing requirements from the financial legislation. Would you consider helpful further guidance meant to clarify the supervisory expectations for these use cases?

- If yes, please explain your choice and indicate if the guidance should be highlevel and principles based or tailored to specific use cases.
- No, the supervisory expectations are clear.

ICMA Response: Question 42. There are other use cases in relation to the use of AI by the financial services sector which are not considered of high-risk by the AI Act, but which need to comply with the existing requirements from the financial legislation. Would you consider helpful further guidance meant to clarify the supervisory expectations for these use cases?

- **If yes, please explain your response, and indicate if the guidance should be highlevel and principles based or tailored to specific use cases.**
    - Further clarification on the supervisory expectations for some areas in which AI is applied to may be useful. For example, it would be expected that categories such as market research have fewer supervisory requirements compared to risk and process automation.
- No, the supervisory expectations are clear.

Question 43. Are you aware of any provisions from the financial acquis that could impede the development of AI applications (e.g. provisions that prohibit the use of risk management models which are not fully explainable or the use of fully automated services for the interaction with consumers)?

- If yes, please indicate the acquis/ provision in cause.
- No, I am not aware of any provision(s) of this kind