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A Walk Down the New Wall Street: Managing the Arrival, Risks, and Promise of AI in Investment Management

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Introduction

Article Objectives. With the ever-increasing fervor around the use if AI/GenAI, several colleagues have shared with me over the past several weeks how individuals are hungry for more than mere musings on the SEC's now-rescinded rule proposal on conflicts of interest and predictive analytics. The general sentiment has been that, although content exists around AI/GenAI, much of it is not specific to our industry, and for any content that is relevant, it hasn't yet reached the level of practical application (or even foundational education). This article is intended to be an incremental but foundational step toward curing that. To that end, I thought the most appropriate goals of this piece would be as follows:

- **Provie basic foundational information about AI/ GenAI relative to our industry (such as its prevalence of use, benefits, and basic AI/GenAI vocabulary)** ***(pp. 2-3),***
- **Provide a more particular sense of the types of risks AI/GenAI use by investment managers can present** ***(pp.3-4)*****, and**
- **Provide ideas regarding how to potentially address those risks from a governance, risk, and compliance perspective** ***(pp.4-5)*****.**

Key Points. Additionally, although the remainder of this article will delve more deeply, there are three fundamental points to be gleaned:

- The use of traditional artificial intelligence (AI) and generative AI (GenAI) by investment managers has evolved from a state of potentiality to a state of prevalence, and is quickly approaching the status of a functional and strategic imperative. The main contributing factors include the high level of accessibility of such tools, as well as their demonstrable and potential benefits (e.g. the ability to create ultra-customized portfolios, processing vast amounts of data to hone security selection recommendations, creating operational efficiency, generating risk and other assessments based on myriad data types, etc.).
- Accompanying the benefits of AI/GenAI are also various tangible risks (e.g. portfolio recommendations based on culled data that is inaccurate or even fabricated, the inability to understand how certain tools

have arrived at a recommendation or decision, etc.). These risks have the potential to impact investors and prospective investors, as well as firm operations and even broader markets themselves.

- Even in the absence of specific regulation, general risk management and fiduciary duty principles suggest that these risks should be accounted for in an investment manager's governance, risk, and compliance apparatus. Accordingly, investment managers should consider implementing Responsible AI or AI Usage programs that address any number of relevant topics such as AI/GenAI tool implementation and monitoring, employee education/"reskilling," and oversight of 3rd party service providers who themselves use or rely on Ai/GenAI (among others)

And with that, let's go for a walk down the new Wall Street, shall we?

Prevalence & Benefits

AI/GenAI has meaningfully reached the shores of investment management; it is no longer a vague figure on a distant horizon. Its ease of accessibility, coupled with demonstrable and potential benefits, have not only contributed to its arrival, but have turned its use from being a "nice to have" for firms to a fast-approaching competitive and functional imperative.

In 2022, a CFA Institute study had already revealed that 81% of institutional investors were more interested in investing in a fund that relies on AI and big data tools than a fund that relies primarily on human judgment to make investment decisions. The same survey found 87% of respondents said they trusted their asset manager more because of increased use of technology. The 2022 survey appears to have been prescient in retrospect. [1] In 2023, Vanguard claimed to be using GenAI as part of its portfolio management process,[2] and JP Morgan was reported to have begun using GenAI for compliance management (reviewing legal documents and extracting essential data points and clauses). [3] More recent industry research produced this year has shown that over 50% of investment managers are using AI within their investment strategy or asset class research, with over 30% planning to do so.[4] Similar research this year indicates that among alternative fund managers, 92% of such managers are already using AI as part of their risk and compliance procedures, with 55% of them having started two years ago.[5] And just this past July, TIAA announced the rollout of a GenAI platform[6], and T. Rowe Price similarly noted it has seen a 30% increase in productivity attributable to its AI usage.[7]

The reasons for this ramping make sense. GenAI models such as GPT, Llama2 (Meta's flagship GenAI tool), Titan (Amazon's flagship GenAI tool), and Claude2 (Anthropic's flagship GenAI tool) are as accessible to an ordinary individual as they are the world's wealthiest corporations and most advanced nation states. Additionally, the benefits of AI/GenAI – demonstrable or potential – are numerous and compelling, which include but not are limited to the following (**Appendix B** contains a more expansive list):

Potential Benefits

- The ability to sift through large amounts of data – and take into account new data types – that are relevant to security selection and market analysis
- The ability to provide ultra-customized portfolios at scale
- The ability to create personalized and tailored marketing materials based on open-source (i.e. public) information
- The ability to create robotic telephonic or web-based client and prospective client interactions

- The ability to automatically generate risk and other assessments based on processing and analyzing vast amounts and types of data (structured, semi-structured, and unstructured).

Between AI/GenAI's accessibility and these types of benefits, its increased use is not surprising, nor is the appetite by both investment managers and clients to begin leveraging and experiencing it. Indeed, such technology bears the promise of solving for age-old challenges such as optimizing the suitability and personalization of investment advice, enhancing market and other risk forecasting, and driving operational excellence so that human investment and risk professionals can devote their thinking to higher-level cognitive activities. Without doubt, AI/GenAI's arrival on the block holds great promise for clients and industry professionals alike.

Potential Risks

Accompanying AI/GenAI's potential benefits are potential risks as well. These risks are far more numerous than simply presenting conflicts of interest considerations (which is the narrow scope of the SEC's rescinded predictive analytics rule proposal).

Conflicts of interest are certainly one important category of risk AI/GenAI presents. It gets to the heart of one leg of an investment manager's fiduciary duty – the duty of loyalty. However, the SEC's rule proposal seemed to fall short of addressing the other leg of a manager's fiduciary duty – the duty of care.

AI and GenAI are vulnerable to more than just providing recommendations or communications that may steer an investor or prospective investor to make a decision that is in the manager's rather than client's or prospective client's best interest. As we all know, the topic of "AI washing" has emerged in our space in the same way "green washing" did, and it will undoubtedly continue to be scrutinized by the SEC as a matter of course. In addition to regulatory interests de jour, however, are also a number of very practical risks AI/GenAI pose, which, given their nature, should also capture our attention – and which will also likely land on the regulatory radar at some point as well.

Fundamentally, AI/GenAI is dependent on the quality of the data its pull in and can pull in data from a variety of sources (public and otherwise). This data can have flaws such as embedded biases (e.g. prior to making a security recommendation, a GenAI tool reviews information from the internet that states females are less effective CEOs of publicly traded companies than males) or come in various forms that can create complexities for analysis and processing (e.g. semi-structured or unstructured data could be more challenging to assess and therefore make conclusions or recommendations less reliable). Additionally, AI/GenAI output are vulnerable to other categorical risks such as hallucinations (providing a response or recommendation that is or is based on information that is wrong), data drift (when the data or the type of data being input/gathered into an AI/GenAI tool changes over time relative to the data the AI/GenAI model was considering and using at the outset), model drift (decay in an AI/GenAI's predictive power as a result of changes in real world data, such as a model that is meant to detect spam becoming less effective based on typical email content used in spam campaigns changing over time), and lack of explainability (where a decision or recommendation by AI/GenAI cannot be explained or the logic/reasons behind the decision/results cannot be seen and understood), among others.

These types of risks can manifest in an investment manager's business in a variety of ways. While **Appendix B** contains a more extensive list, such risks may include (among others):

AI/GEN AI Potential Risks

- Investment professionals are unable to see or understand the factors a GenAI tool took into account when making a recommendation
- A tool placing outsized weight on a certain factor that has been deemed less relevant to security analysis
- The tool obtaining or accessing material non-public information as part of the data retrieval process
- Investment recommendations are based on factors that are simply made up or wrong
- Investment managers engaging in AI washing

All of these risks create general risk management and ethical considerations that warrant addressing even absent specific regulatory guidance. Additionally, I would not rule out these risks turning into true compliance risks even in the absence of targeted regulation. The SEC continues to examine and investigate certain advisers' use of AI, and in prior analogous contexts, it has brought cases against investment managers for failing to supervise and understand models that employed algorithms for things such as automated trading, wash sale monitoring, and performance reporting, to name a few.[8] The topic also continues to garner attention with FINRA.[9] Accordingly, it seems prudent for investment managers to implement some framework or architecture that is designed to mitigate AI/GenAI risk specific to their organizations.

Responsible AI/AI Usage

To address the types of risks discussed in the above section, investment managers need to ensure they are practicing Responsible AI and have a Responsible AI and/or AI Usage program in place. Leveraging existing governance, risk, and compliance practices and methodologies, it is feasible for investment managers to design such programs even in the absence of specific regulatory guidance or standards.

"Responsible AI" is a broad term that encompasses the business and ethical choices associated with how organizations adopt and deploy AI capabilities. Implicit within this concept are of course other standards, such as ensuring AI/GenAI tools are working as and when they are intended. Although the SEC has not provided guidance in this regard, first, I don't know that common governance, risk, and compliance practices and methodologies are poorly suited to manage the types of risk AI/GenAI engenders; rather, the challenges seem to be more in climbing a learning precipice. Additionally, FINRA has provided high-level guidance[9], and a more particular analogous resource to consider is guidance on model development, implementation, and use promulgated by the Board of Governors of the Federal Reserve.[10] Such guidance touches upon topics such as disciplined model development and implementation processes, as well as ongoing monitoring and testing. Last, a variety of public policy statements and even legislation have been undertaken in both our own country (with the Biden Administration having issued an Executive Order and a blueprint concerning the responsible use of AI/GenAI)[11] as well as on a global scale (including the EU Artificial Intelligence Act[12], as well as other steps taken by the UK[13], China[14], the G7[15], and other international collaborations).[16] These policy statements and legislative actions provide the contours of relevant considerations and issues.

Using these resources and perspectives as a starting point, the following selected topics (among others) would seem to be reasonable elements for what having a Responsible AI/AI Usage program at an investment

manager should contain (**Appendix C** contains a more detailed blueprint):

Blueprint for a Responsible AI/AI Usage Program

- *Education & "Reskilling*: Providing initial and ongoing education to employees on how AI and Gen AI work
- *AI/GenAI Tool Development & Implementation*: Ensuring AI/GenAI tools (and applications thereof) meet certain standards before being deployed and on an ongoing basis
- *Ongoing Monitoring, Testing & Reporting*: Conducting real-time monitoring and systematic periodic back-testing of AI/GenAI outputs for instances of risk events that have occurred or might occur
- *Disclosures*: Updating disclosures to clients/prospective clients to detail risks and potential conflicts of interest associated with the manager's use of AI/GenAI
- *Cyber & Information Security*: Implementing measures to ensure that an AI/GenAI tool (and applications thereof) is not anomalously exposed to cyber and information security risks
- *Business Continuity Planning*: Integrating an AI/GenAI tool's use into a firm's BCP program as an identified dependency (depending on the criticality of the tool/solution to the manager)
- *Governance*: Implementing governance bodies and processes, as well as policies & procedures, that serve to facilitate and oversee AI/Gen tool (and application thereof) development, implementation, and ongoing monitoring
- *Use of AI/GenAI by 3rd Party Service Providers:* Assessing 3rd party vendors' or service providers' own use of AI/GenAI, as well as the vendor's/service provider's Responsible AI program

Takeaway Resources & Parting Thoughts

In addition to the body of this article itself, I have included several appendices and supplemental materials designed to serve as handy references for you as you head off into conferences, board meetings, and cocktail parties. Those appendices, which I urge you to read at some point and at least keep in your folios, are as follows:

- ***Appendix A – Common AI Terms.*** Appendix A serves as a glossary of terms commonly used and heard surrounding the topic of AI/GenAI. While not all of them are used in this article per se, I wanted to equip people with a basic vocabulary so that language does not become a barrier to learning in this space. Additionally, throughout this article, the font color for certain words and phrases is azure. These azure-colored words and phrases represent terms whose definitions appear in Appendix A (though in some instances I provide shorthand definitions in the body of the article itself where it seemed more needed).
- ***Appendix B – Potential AI Uses, Benefits & Potential Risks.*** Appendix B serves as a map that more particularly shows potential uses and benefits of AI/GenAI, as well as the corresponding potential risks of such uses. It is intended to provide a deeper level of insight compared to most publicly available research and commentary on AI/GenAI in our industry.

- *Appendix C – Blueprint for a Responsible AI Program.* Even absent regulation, AI/GenAI can create tangible risks for clients, prospective clients, and investment managers themselves. As a result, the information in Appendix C is meant to put forth a potential Responsible AI program framework investment managers could consider adopting in some shape or degree, depending on their current or aspirational uses of AI/GenAI.
- *Appendix D – Bibliography).* In the interests of facilitating the type of "reskilling" that all of us will need to do to live and thrive in our industry's next phase, I have shared the list of research I used in preparing or have referred to in this article.

More broadly than the aforementioned resources, I certainly acknowledge that numerous topics touched upon in this article could be the subject of an article in their own right. The same can be said of topics not even touched upon in this article beyond the context of mere vocabulary (e.g. artificial neural networks, deep learning, unsupervised learning, etc.) If you're anything like me, the new epoch of AI/GenAI in general – not just for our industry – sparks a complicated mix of excitement and fear, the proportion of which can vacillate each day. The practical and existential questions it raises are at once fascinating and overwhelming. But, I do believe we have the tools to manage this new phase of human evolution, and productive and helpful steps are being taken to navigate these new waters. While much work in our industry needs to be done, I believe we are more than capable of doing it, provided we collaborate (and that includes public-private collaboration). If we do, I've no doubt we'll achieve outcomes in line with the sentiment author and video game enthusiast Joanna Maciejewska has before expressed: *I want AI to do my laundry and dishes so that I can do art and writing, not for AI to do my art and writing so that I can do my laundry and dishes.*

I'll drink to that, Joanna . . . and with my own, human hand.

Thanks for reading.

Appendix A – Common AI/GEN Terms

TERM	DEFINITION
Artificial Intelligence (AI)/Traditional AI	The simulation of human intelligence processes – such as communication, learning, and decision-making – by machines or computer systems based on pre-defined rules. AI/Traditional AI is geared toward performing tasks based on pre-defined rules, but not generating new content that has not been configured previously. For AI/Traditional AI, think of a chatbot with only a limited number of responses available to handle customer questions or statements.
AI Ethics	Issues that AI designers and users must consider to ensure that AI systems are safe, secure, unbiased, and environmentally friendly.
Artificial Neural Network (ANN)	Also simply known as a neural network, a machine learning program or model that makes decisions in a manner similar to the human brain by using processes that mimic the way biological neurons work together to identify phenomena, weigh options, and arrive at conclusions. Designers of ANN write lines of code where there are nodes that each contain a mathematical function, similar to human neurons that each have a specific biological function in the brain. At each node, a mathematical equation is performed in relation to data inputs, and answers are then passed on to the next node, which performs another mathematical equation; the ultimate output essentially represents a final prediction or answer based on an equation that takes into account the inputs from all nodes and the answers to their own mathematical equations that have been supplied up until that point in the chain/layering. Large data sets are required, and ANNs are what enable features such as speech and vision recognition in GenAI.
Conversational AI	Used in conversational user interfaces, such as chatbots, virtual assistants, messaging platforms, social media, SMA, and websites.

TERM	DEFINITION
Data Drift	Refers to when the distribution of input data changes over time
Deep Fake	A video of a person in which their face or body has been digitally altered so that they appear to be someone else, typically used maliciously or to spread false information.
Deep Learning	A function of AI that imitates the human brain (based on ANNs), but which can learn from unstructured data without supervision and classify concepts from images, text, or sound. When we think of completely autonomous (and uncontainable) AI, deep learning is foundational to that.
Emotion AI	AI used to analyze the emotional state of a user via computer vision, audio/video input, sensors, and/or software logic. It can initiate responses that are personalized to fit the mood of a user/consumer.
Explainability/Explainable AI	Where a decision or recommendation by AI can be explained and the logic/reasons behind the decision/results can be seen and understood.
Generative AI (GenAI)	A type of technology that uses AI to create content, including text, video, code, images, recommendations – any content that is something new based on data and information inputs. Geared toward creating new content based on continued learning (think of a chatbot that has unlimited capacity to handle non-predefined customer questions and dialogue due to its ability to continually learn and process vast amounts of data, as opposed to simply having canned responses at its disposal).
Hallucination	Made up data presented as fact by an AI system, or other responses by an AI system in connection with a request or dialogue that are not reasonably anticipated. Hallucinations can also include fabricated references or sources.
Intelligent Document Processing (IDP)/	The ability to automatically read and convert unstructured and semi-structured data, identify usable data and extract it, then use it via automated processes.
Large Language Model (LLM)	An AI model that has been trained on large amounts of text so that it can understand language and generate human-like text.
Machine Learning	A subset of AI focused on developing algorithms and models that help machines learn from data and predict trends and behaviors, without human assistance.
Model Drift	A decay in a model's predictive power as a result of changes in real world data. For example, a model that detects spam becomes less effective based on typical email content used in spam having changed.
Multimodal Models & Modalities	Language models that are trained on and can understand multiple data types, such as words, images, audio and other formats. The model processes text, speech, and visual inputs to arrive at predictions, decisions, or other actions/results.
Natural Language Processing (NLP)	A sub-field of AI, NLP focuses on the ability of computers to read and analyze large volumes of unstructured language data (e.g. text).
Natural Language Generation (NLG)	Solutions that automatically convert structured data, such as that found in a database, an application, or live feed, into a text-based narrative.
Predictive Analytics	A type of analytics that uses technology to predict what will happen in a specific time frame based on historical data and patterns.
Prompt	An input that a user feeds into an AI system in order to get a desired result or output. For example, a user may feed a set of bullet points on Othello into an AI system and ask it to create an article.
Responsible AI	A broad term that encompasses the business and ethical choices associated with how organizations adopt and deploy AI capabilities. Generally, Responsible AI looks to ensure that AI

TERM	DEFINITION
	is transparent (you can see how the model works), explainable (you can understand why a specific decision or result was arrived at), and fair (a specific decision or recommendation does not disadvantage a group).
Robotics	Robotics involves the creation of robots to perform tasks without further intervention, while AI is how systems emulates the human mind to make decisions and learn. Think of robotics as the bodily/physical manifestation of AI, through voice, mechanics, or other physical applications.
Semi-Structured Data	Data that is structured in some way but does not obey the tabular structure of traditional databases or other conventional data tables most commonly organized in rows and columns. A simple example is a form, which may have radio-button fields but allows for "free form" narrative in certain portions.
Structured Data	Data which conforms to a specific data model, has a well-defined structure, follows a consistent order and can be easily accessed and used by a person or a computer program. Structured data are usually stored in rigid schemas such as databases. It is defined and searchable.
Supervised Learning	A type of machine learning in which classified output data is used to train the machine and produce the correct algorithms.
Turing Test	The Turing test was created by computer scientist Alan Turing to evaluate a machine's ability to exhibit intelligence equal to humans, especially in language and behavior. When facilitating the test, a human evaluator judges conversations between a human and machine. If the evaluator cannot distinguish between responses, then the machine passes the Turing test.
Unstructured Data	Data that does not conform to a data model and have no rigid structure. Lacking rigid constructs, unstructured data are often more representative of "real world" business information (examples – Web pages, images, videos, documents, audio).
Unsupervised Learning	A type of machine learning in which an algorithm is trained with unclassified and unlabeled data so that it acts without supervision.

Appendix B – Potential AI/GEN AI Uses, Benefits & Risks

FUNCTION(S)	POTENTIAL BENEFIT(S)	POTENTIAL RISK(S)
Portfolio management practices (security research selection, portfolio construction, investment recommendations trading, market cycle monitoring, 3rd party manager selection, etc.)	• The ability to sift through large amounts of data – and take into account new data types – potentially relevant to security and market analysis • The ability to recognize patterns based on a data universe that is only accessible via AI capabilities • The ability to provide customized portfolios at scale	• Investment professionals are unable to see or understand the factors the tool took into account when making a recommendation, or understand the logic of how the factors considered led to the tool's recommendation • A tool placing outsized weight on a certain factor that has been deemed less relevant to security analysis • Investment recommendations are based on factors that are simply made up or wrong • Recommending a security be sold due to a reason such as the CEO of

FUNCTION(S)	POTENTIAL BENEFIT(S)	POTENTIAL RISK(S)
		the issuer being African American or Jewish • Recommending a more conservative portfolio due to a reason such as the client is female • A tool obtaining or accessing inside information as part of the data retrieval process • A tool engaging in market manipulation • Depending on the level of dependence on the AI/GenAI tool, the tool becoming inoperable and impacting core functions • Depending on the tool's construction, the tool is susceptible to cybersecurity, information security, or internal threat risks • For third-party tools, inadequate vendor vetting to understand how the risks identified above are mitigated
Investor communications (e.g. sales and marketing materials, RFP responses, website interfaces, electronic communications, etc.)	• The ability to create personalized and tailored marketing materials based on open-source (i.e. public) information about clients and prospective clients, and do so at scale • The ability to efficiently source required disclosures to new content without manual review or intervention • The ability to create robotic telephonic or web-based interactions to answer client or prospective clients' questions • The ability to respond to RFPs with both standard and customized material in an automated fashion	• Marketing and sales professionals are unable to see or understand the factors the tool took into account when creating a piece of customized marketing or sales material, or understand the logic of how the factors considered led to the tool's piece creation • Sales or marketing content that contain information that is simply wrong, fabricated, or misleading • Electronic communications generated by AI (such as a tweet or email) is wrong, fabricated, or misleading • For third-party tools, inadequate vendor vetting to understand how the risks identified above are mitigated

FUNCTION(S)	POTENTIAL BENEFIT(S)	POTENTIAL RISK(S)
	• The ability to review and report out on RFP responses received in automated fashion	• RFP content creators or reviewers are unable to see or understand the factors the tool took into account when generating customized, one-off RPF content • RFP responses and documents contain information or are based on factors that are simply made up or wrong (i.e. hallucinations) • RFP responses or documents leaking sensitive information • For third-party tools, inadequate vendor vetting to understand how the risks identified above are mitigated
Risk & compliance monitoring & testing (e.g. personal trade monitoring, guideline monitoring, marketing materials reviews, annual compliance review report creation, board report creation, policy & procedure testing, regulatory filings, risk assessments, etc.)	• The ability to conduct automated reviews of personal trading, new customers, marketing pieces, and other data used to conduct monitoring or risk assessments (beyond what current software systems do at present) • The ability to automatically generate risk assessments, annual compliance reviews, regulatory filings, and other reports based on processing and analyzing vast amounts of data (even data that is not part of a coherent, unified enterprise data management architecture) • The ability to review and summarize large amounts of data in legal and regulatory documents, such as contracts, prospectuses, etc. in an efficient manner	• Compliance professionals are unable to see or understand the factors the tool took into account when approving or denying certain transactions or activities • A tool placing outsized weight on a certain factor that has been deemed less relevant to monitoring tasks • Compliance reports or generated documents contain information or are based on factors that are simply made up or wrong • Depending on the level of dependence on the AI/GenAI tool, the tool becoming inoperable and impacting core functions • Depending on the tool's construction, the tool is susceptible to cybersecurity, information security, or internal threat risks • For third-party tools, inadequate vendor vetting to understand how the risks identified above are mitigated

APPENDIX C – BLUEPRINT FOR A RESPONSIBLE AI/AI USAGE PROGRAM

TOPIC	DETAILS
Education & "Reskilling"	• Providing initial and ongoing education to employees on how AI/Gen AI work, including technical aspects, vocabulary, ethical considerations, risks, and firm policies and standards (for the benefit of those using AI/GenAI and those overseeing/monitoring it) • Providing employees training to develop new skillsets to utilize AI and Gen AI to augment their work • Hiring new employees with AI/GenAI expertise to assist with other aspects of the firm's Responsible AI program
Tool Development & Implementation	Prior to any proprietary or 3rd party developed AI/GenAI tool or solution being employed, ensuring such tool (or application of such tool): • Has a clearly stated purpose • Has sound design, theory, and logic underlying/embedded within the tool/solution • Is tested prior to implementation (which should include both a sandbox and pilot approach) to ensure it is working as intended and is designed as soundly as possible to mitigate risks such as hallucinations, lack of explainability, bias, data drift, and model drift, among others • Has its risks understood, with mitigating and compensating controls having been identified • Has adequate disclosures (if client-impacting) attendant to its use • Has adequate cybersecurity and BCP controls in place depending the nature of its intended use
Ongoing Monitoring, Testing & Reporting	• Establishing systems and measures for real-time monitoring and systematic periodic back-testing AI/GenAI outputs for instances of risk events that have occurred or might occur (e.g. hallucinations, lack of explainability, bias, data drift, and model drift, etc.) • Establishing standards for integrating AI/GenAI tools (and applications of such tools) into cybersecurity and BCP testing and tabletop exercise frameworks • Establishing reporting and escalation processes when a risk event or its likely occurrence has been detected through monitoring and testing
Disclosures	• Updating disclosures to clients and prospective clients to detail risks and potential conflicts of interest associated with the manager's use of or reliance on AI/GenAI

TOPIC	DETAILS
Risk & Conflict Mitigation	• For risks and conflicts that have been identified by a manager's use of or reliance on AI/GenAI, implementing measures (where possible) to mitigate or eliminate such risks and/or conflicts
Cyber & Information Security	• Implementing measures to ensure that an AI/GenAI tool (and applications of such tool) is not anomalously exposed to cyber and information security risks, with corresponding periodic testing of such tool
Business Continuity Planning	• Integrating an AI/GenAI's tool use into a firm's BCP program as an identified dependency, with corresponding testing and continuity measures implemented (depending on the criticality of the tool to the manager)
Governance	• Establishing a governance bodies and processes that serve to facilitate and oversee AI/GenAI tool and tool application development, implementation, ongoing monitoring, and (for 3rd party solutions) vendor oversight
Policies & Procedures	• Designing policies and procedures at the local business-line level that ensure business lines are developing, implementing, and monitoring AI/GenAI tools (and applications thereof) established firm standards • Periodically testing and reviews of such policies & procedures across compliance and internal audit functions, as well as external auditors
Vendor Use AI/GenAI	• Prior to onboarding a 3rd party vendor or service provider of any kind (sub-adviser, custodian, etc.), assessing such vendor's or service provider's own use of AI/GenAI, as well as the vendor's/service provider's Responsible AI program • Performing ongoing due diligence of the 3rd party vendor/service provider regarding any changes to its use of AI/GenAI, or changes to or violations of its Responsible AI program

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