

Artificial Intelligence and Large Language Models

FINRA Reminds Members of Regulatory Obligations When Using Generative Artificial Intelligence and Large Language Models

Summary

Artificial intelligence (AI), including large language models (LLMs) and other generative AI (Gen AI) tools, present promising opportunities for member firms to enhance their products and services for investors and achieve operational and compliance efficiencies. As member firms incorporate the use of Gen AI or similar tools into their businesses, they should be mindful of the potential implications for their regulatory obligations. In addition, FINRA reminds its member firms that FINRA's rules—which are intended to be technology neutral—and the securities laws more generally, continue to apply when member firms use Gen AI or similar technologies in the course of their businesses, just as they apply when member firms use any other technology or tool.

This *Notice* does not create new legal or regulatory requirements or new interpretations of existing requirements, nor does it relieve member firms of any existing obligations under federal securities laws and regulations.

Questions regarding this *Notice* should be directed to:

- ▶ Phil Shaikun, Vice President and Associate General Counsel, Office of General Counsel (OGC), by [email](#) or (202) 728-8451; or
- ▶ Meredith Cordisco, Associate General Counsel, OGC, by [email](#) or (202) 728-8018.

June 27, 2024

Notice Type

- ▶ Guidance

Suggested Routing

- ▶ Business Senior Management
- ▶ Compliance
- ▶ Cyber
- ▶ Information Technology
- ▶ Legal
- ▶ Operations
- ▶ Risk Management

Key Topics

- ▶ Supervision

Referenced Rules & Notices

- ▶ FINRA Rule 2210
- ▶ FINRA Rule 3110

Background and Discussion

The use of AI¹ tools by FINRA member firms is not new, and FINRA has previously identified regulatory considerations and provided resources for member firms and the brokerage industry with respect to the use of AI tools.² However, AI technology has rapidly evolved in the 2020s, including the development and availability of Gen AI technology capable of generating significantly better text, synthetic data, images, or other media in response to prompts. LLMs are a type of Gen AI that use deep learning techniques and large data sets of language to identify, summarize, predict and generate new text-based content.

As FINRA noted in the 2024 Annual Regulatory Oversight Report, Gen AI technology presents both promising opportunities for investors and member firms and some attendant risks.³ Gen AI tools have the ability to analyze and synthesize vast sets of financial and market data, summarize large and complex documents, and power educational resources that may help investors at all experience levels understand and navigate markets more effectively. Gen AI tools also may allow an associated person to, for example, easily locate and query a member firm's policies and procedures or forms, to generate summaries derived from the member firm's research reports, or to obtain issuer-specific information by drawing on SEC filings and earnings call transcripts. Member firms also may be able to leverage Gen AI tools to aid in surveillance by, for example, generating reports with summaries for the member firm's (human) compliance personnel of potential evidence of malfeasance, such as market abuse or insider trading. While these potential uses are promising, the development of Gen AI also has been marked by concerns about accuracy, privacy, bias, intellectual property, and possible exploitation by threat actors, among others.

Regulatory Obligations When Using Gen AI Tools

FINRA intends for its rules and guidance to be technologically neutral and to function dynamically with evolutions in technology and member firms' processes. The rules apply when member firms use AI, including Gen AI or similar technologies, in the course of their business, just as they apply when member firms use any other technology or tool.⁴ For example, pursuant to Rule 3110 (Supervision), a member firm must have a reasonably designed supervisory system tailored to its business. If a firm is using Gen AI tools as part of its supervisory system—for the review of electronic correspondence, for instance—its policies and procedures should address technology governance, including model risk management, data privacy and integrity, reliability and accuracy of the AI model. Moreover, FINRA rules apply whether member firms are directly developing Gen AI tools for their proprietary use or when leveraging the technology of a third party, including through embedded features in existing third-party products.

As with any technology or tool, a member firm should evaluate Gen AI tools prior to deploying them and ensure that the member firm can continue to comply with existing FINRA rules applicable to the business use of those tools. The rules applicable to Gen AI use will depend on how a member firm deploys the technology, and FINRA will consider issuing further guidance on how particular rules may apply with respect to specific use cases. For example, FINRA has provided guidance that the content standards of Rule 2210 (Communications with the Public) apply whether member firms' communications are generated by a human or technology tool, and that guidance discusses the specific application of the rules to certain AI-generated communications.⁵ Depending on the ways in which a member firm may use Gen AI, such use could implicate virtually every area of a member firm's regulatory obligations.⁶

Opportunities for Engagement

FINRA understands that this area is rapidly evolving, and member firms are continuing to consider Gen AI use cases. As they do so, FINRA stands ready to engage with member firms and other interested parties on the potential supervisory and compliance implications:

- ▶ To the extent member firms find ambiguity in the application of FINRA rules based on their specific use of Gen AI or other technology, they may seek interpretive guidance from FINRA by following [FINRA's process for interpretive requests](#).⁷
- ▶ Member firms also are encouraged to have ongoing discussions with their Risk Monitoring Analyst as AI-related issues or other changes in their business arise.⁸
- ▶ FINRA welcomes general feedback on how its rules might be modernized in light of the use of Gen AI tools or other emerging technologies, consistent with investor protection and market integrity. FINRA will consider providing further guidance or proposing amendments to its rules as appropriate.⁹
- ▶ FINRA will continue engaging with its members, regulators, policymakers and other interested parties on the use of Gen AI, LLMs and other emerging technology. Any parties interested in discussing these matters further with FINRA are welcome to contact our [Office of General Counsel](#) for policy and rules-related discussion, and [REMA/Office of Financial Innovation](#) for all other Gen AI engagement.

Additional Resources

In addition to the resources cited throughout this *Notice*, the following may be useful:

- ▶ [FINRA FinTech Topic Page](#)
- ▶ [2024 FINRA Annual Regulatory Oversight Report](#)
- ▶ [FINRA Report – Artificial Intelligence \(AI\) in the Securities Industry](#) (June 2020)
- ▶ [FINRA Podcast: An Evolving Landscape: Generative AI and Large Language Models in the Financial Industry](#) (March 2024)
- ▶ [FINRA, SEC, NASAA Investor Insight: Artificial Intelligence \(AI\) and Investment Fraud](#) (January 2024)
- ▶ [National Institute of Standards and Technology \(NIST\) Artificial Intelligence Framework](#) (January 2023)

Endnotes

- 1 “Artificial intelligence” is a wide-ranging term that generally means the capability of a machine to imitate intelligent human behavior. This term has been used to refer to a broad spectrum of technologies and applications, such as machine learning, deep learning, neural networks, and natural language processing (NLP). *See generally*, Sara Brown, [Machine Learning, Explained](#), MIT Sloan School of Management (April 21, 2021).
- 2 *See e.g.*, FINRA Report: [Artificial Intelligence \(AI\) in the Securities Industry](#) (June 2020); FINRA, SEC, NASAA Investor Insight: [Artificial Intelligence \(AI\) and Investment Fraud](#) (January 25, 2024); FINRA Podcast: [An Evolving Landscape: Generative AI and Large Language Models in the Financial Industry](#) (March 5, 2024); and FINRA Report: [Technology-Based Innovations for Regulatory Compliance \(“RegTech”\) in the Securities Industry](#) (September 2018).
- 3 *See* [2024 FINRA Annual Regulatory Oversight Report](#) (January 2024) at 10.
- 4 FINRA notes that other federal and state laws, rules and regulations may currently—or in the future—also apply to member firm use of AI tools. As such, member firms should continue to carefully monitor the developing regulatory landscape.
- 5 *See* FINRA’s Frequently Asked Questions About Advertising Regulation, Questions B.4. [Supervising Chatbot Communications and D.8. AI Created Communications](#).
- 6 *See* [2024 FINRA Annual Regulatory Oversight Report](#) at 10 (providing a non-exhaustive list of some regulatory obligations that could be implicated by a member firm’s use of Gen AI).
- 7 *See* [FINRA Interpretive Questions](#) page.
- 8 For more information, *see* [FINRA’s Risk Monitoring](#) page.
- 9 Member firms or other interested parties may provide written feedback on how specific FINRA rules might be modernized by emailing pubcom@finra.org with “Gen AI” in the subject.

©2024. FINRA. All rights reserved. Regulatory Notices attempt to present information to readers in a format that is easily understandable. However, please be aware that, in case of any misunderstanding, the rule language prevails.