

# UK - PRA and FCA respond to Government's AI regulatory strategy

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The Prudential Regulation Authority (“**PRA**”) and Financial Conduct Authority (“**FCA**”) have responded to the Government's publication of its pro-innovation strategy on AI

## Why should I read this?

In February the UK Government published its [response paper](#) to the feedback received on its AI regulation white paper, which it published in March 2023. At the same time it published [initial guidance](#) for UK regulators on implementing the UK's regulatory principles.

The PRA and FCA have now responded to those February publications, setting out the work each has conducted in respect of the use of artificial intelligence and machine learning (“**AI/ML**”) in the financial services, the relevant regulatory frameworks already in place, and their respective current and future plans in relation to the deployment of AI/ML by financial services firms.

## What do I need to know about the responses?

The PRA's and FCA's responses cover broadly similar ground to their joint discussion paper on the use of AI/ML in financial services ([DP5/22](#)) and the associated feedback statements ([PRA FS2/23](#) and [FCA FS23/6](#)).

Each of the PRA and FCA has addressed their approach to the five principles outlined in the government's guidance. These approaches constitute a helpful mapping tool setting out the way in which both regulators consider that their existing rules and powers apply to the deployment of AI/ML by firms within the scope of supervision. In the absence of specific guidance on the way in which those rules apply to such firms, which is something the market has called for, this form of checklist, combined with the existing discussion paper and feedback statement is all there is.

Some points of particular interest arise from the regulators' responses:

1. For the first time the PRA has suggested that it broadly considers the current regime is fit for purpose, stating that “At the current time, and as set out in this letter, we believe we have in place a regulatory framework, grounded in our statutory objectives, that will appropriately support the delivery of the benefits that AI/ML can bring, while addressing the risks, in line with the principles set out in the Government's White Paper”.
2. The regulators themselves use AI/ML and have given some further details about how they do so, including by employing data scientists.
3. The FCA in its response has the first time referred to the potential for an AI sandbox in the future. Few details are given, but it appears that this is separate to the AI and Digital Hub announced on the same day by the Digital Regulation Cooperation Forum (“DRCF”) to give innovators consolidated answers to complex questions from each DRCF member (the FCA, ICO, CMA and Ofcom).

The strong message that comes from the responses is that neither the FCA nor the PRA is likely to materially change its approach to the use of AI/ML by regulated firms in the immediate term. Rather, they will actively monitor developments in the area, seeking proactively to identify risk,

while working with each other and, in the FCA's case, the other members of the DRCF. The key next step for each appears to be the third iteration of the joint FCA and Bank of England survey on machine learning.

## **How Eversheds Sutherland can help**

The Technology in our Financial Services group works closely with financial services clients around the world to understand the thematic shifts and surrounding regulatory environment shaping products, processes and business models. We boast a multi-disciplinary, multi-jurisdictional team which is at the forefront of change across the global themes of AI, Biometrics, Blockchain and crypto, cloud, cybersecurity, digitisation, payments, operational resilience and Regtech and which transcends traditional areas of practice.

The promulgation of new laws and the close attention of financial services regulators around the adoption of AI or machine learning to create efficiencies and unlock the inherent commercial value of the growing volumes of customer and business data present very complex legal issues, particularly around governance, transparency, accountability, and ethics. We have worked on a number of global and local AI projects which cover these legal ramifications and have been advising policy-makers in a number of countries too on this area.

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