# **Project Legal and Stakeholder Alignment Report: Weeks 1 & 2**

## **Introduction**

This report details the foundational activities undertaken in the initial phases of the TERAH (The Epic Retirement AI Helper) project, focusing on the critical legal research, stakeholder alignment, and risk mitigation strategies developed during Weeks 1 and 2. These early efforts were paramount in establishing a robust legal and ethical framework for TERAH, ensuring its compliance within the Australian standards for sharing financial information in Australia, while also making sure everyone involved is on the same page. The project aims to provide clear, factual, and relevant retirement information to Australians, strictly avoiding the provision of personal financial advice.

## **Weeks 1 & 2: Legal Foundations and Stakeholder Alignment**

The initial two weeks of the project were dedicated to a comprehensive legal research kickoff and subsequent stakeholder alignment, refining the project's legal framework. This integrated approach ensured that the development of TERAH was grounded in a clear understanding of regulatory requirements and stakeholder expectations from the outset.

### **Key Activities and Deliverables:**

* **Initial Legal Risk Identification and Operational Definitions:** The team identified several significant legal and compliance risks early on:
  + **Financial Advice Liability:** The most significant risk was the chatbot inadvertently providing financial advice, potentially leading to the IP owner being held liable if users follow the advice and experience negative outcomes.
  + **Malformed/Incorrect Data:** A risk was identified if data scraped from trusted sources became malformed or incorrect when processed by the chatbot, which could damage the reputation of the original data sources.
  + **Prompt Engineering for Harmful Content:** The potential for users to "prompt engineer" the chatbot to generate harmful or false content was also recognized as a critical risk. The team began operating under the clear distinction that TERAH would provide "factual information" and strictly avoid "financial advice." While formal definitions were still being ironed out, the operational understanding was to deliver precise, broad information from reliable sources without considering individual circumstances, thereby preventing it from constituting personal financial advice.
* **Identification of Relevant Australian Financial Regulations:** Preliminary research identified several key Australian regulatory bodies and legislative frameworks relevant to TERAH's operation:
  + **Australian Securities and Investments Commission (ASIC):** The primary regulator for financial services in Australia, whose guidance is crucial for distinguishing between factual information and financial advice.
  + **Corporations Act 2001 (Cth):** This Act defines "financial product advice," "personal advice," and "general advice," establishing the legal basis for what constitutes regulated advice requiring an Australian Financial Services (AFS) Licence. TERAH is designed to operate outside the scope requiring such a licence.
  + **ASIC Regulatory Guide 244 (RG 244) "Giving information, general advice and scaled advice":** This guide is particularly relevant as it clarifies the differences between factual information, general advice, and personal advice, emphasizing that providing factual information does not require an AFS licence.
  + **ASIC Regulatory Guide 175 (RG 175) "AFS licensing: Financial product advisers—Conduct and disclosure":** This guide outlines conduct and disclosure obligations for those providing financial product advice, further informing the boundaries TERAH must adhere to.
  + **ASIC Report 798 (REP 798) "Beware the gap: Governance arrangements in the face of AI innovation":** This report highlights ASIC's expectations and concerns regarding AI use in financial services, including risks like bias, false information, and the need for robust governance and risk management, reinforcing that existing obligations are "technology neutral."
  + **Office of the Australian Information Commissioner (OAIC):** Guidance from the OAIC on privacy and AI is relevant, particularly concerning data handling, accuracy, and transparency, ensuring compliance with Australian privacy principles.
* **Explored Team Roles and Locked Semester Goals:** During Week 1, the team held a brief discussion to explore potential team roles and their individual views of the final product. While roles were still being confirmed, this initial discussion helped align the team. The specific semester goals locked in were to:
  + Ensure TERAH meets the client's vision.
  + Ensure TERAH uses the proper, approved data sources.
  + Enable TERAH to give relevant information (but not financial advice).
  + Ensure TERAH works well within the client's website.
* **Formal Legal Risk Summary and Escalation Plan:** A formal summary of legal risks was developed, incorporating the key concerns raised by legal counsel:
  + **Risk 1: Bot Providing Financial Advice:** The primary risk remains the chatbot inadvertently providing financial advice, leading to potential liability for the IP owner.
  + **Risk 2: Insufficient Disclaimers:** A risk exists if disclaimers are not prominent or frequently enough stated, leading users to mistakenly perceive the bot's output as financial advice.
  + **Risk 3: Unscreened Responses:** The absence of a screening mechanism for responses before display increases the risk of the bot inadvertently generating financial advice or harmful content.
  + **Risk 4: Indemnity Clause Weaknesses:** Potential weaknesses in the contract's indemnity clauses could expose the team or client to undue liability.
* A preliminary escalation plan for these risks includes:
  + **Immediate Action for Financial Advice Detection:** If any instance of the bot providing financial advice is detected (e.g., through user feedback or internal testing), the bot's functionality will be immediately reviewed and potentially temporarily paused or restricted for the problematic query type.
  + **Legal/Compliance Review:** Any identified problematic responses or potential breaches will be escalated our client, which may be handled by her legal counsel or compliance experts if she chooses.
  + **Prompt Engineering & Retraining:** The bot's prompts and model boundaries will be re-engineered and potentially retrained to prevent recurrence of unintended advice or harmful content.
  + **Contractual Review:** A thorough review of indemnity clauses in the signed contract will be undertaken to ensure adequate protection against liabilities.
* **Drafted Internal Definitions for “Financial Advice,” “Guidance,” and “Factual Information”:** The project operates under the following working distinctions, aligned with the Australian regulatory landscape and the project's stated aims:
  + **Financial Advice:** Any recommendation or statement of opinion intended to influence a person's decision regarding a specific financial product or class of products, especially if it considers the person's objectives, financial situation, or needs. **TERAH will strictly avoid providing this.**
  + **Guidance:** General information or direction that helps users understand a topic or process, but without specific recommendations tailored to their personal circumstances. TERAH aims to provide this type of information.
  + **Factual Information:** Objectively ascertainable information, the truth or accuracy of which cannot reasonably be questioned. This is the core output TERAH is designed to deliver, drawing from reliable, openly accessible Australian government sources.
* **Established Chatbot Behavioral Boundaries:** Based on legal considerations and project goals, strict behavioural boundaries were established for TERAH:
  + **Never Give Financial Advice:** The chatbot must never provide personal financial advice or recommendations.
  + **Topic Adherence:** The chatbot must strictly adhere to topics related to finance and retirement, avoiding discussions on unrelated subjects.
  + **Maintain Persona:** The chatbot must consistently maintain its established persona (TERAH), ensuring a consistent and trustworthy user experience.
* **Meeting Notes from Tutor Review Session:** The tutor review session was planned for after this week. Discussions during this session will focus on reviewing project performance documentation and preparing for presentations, including addressing the legal and compliance aspects identified.

## **Key Legal and Compliance Considerations (Informed by Legal Counsel)**

Following a non-formal discussion with a professional in law, several critical considerations were reinforced and integrated into the project's ongoing legal and compliance strategy:

* **Prominent Disclaimers:** It is paramount for TERAH to include clear and prominent disclaimers stating that it does not provide financial advice. These disclaimers should be visible on the application interface and reiterated within the chatbot's responses to ensure users are consistently aware of the nature of the information being provided. This aligns with the project's existing commitment to mandatory disclaimers.
* **Response Screening for Financial Advice:** A valuable feature would be the implementation of a mechanism to screen chatbot responses for any content that could be construed as financial advice *before* it is displayed to the user. This automated or semi-automated screening process would act as an additional layer of safeguard, further mitigating the risk of unintended advice and enhancing the chatbot's compliance.
* **Permission for Data Sources:** The importance of gathering explicit permission from all data sources was highlighted. The project has already secured written approval through the industry partner, Bec Wilson, to use web scraping techniques for extracting information from official government sources like the ATO, Centrelink, MoneySmart, and others. This proactive approach ensures responsible data use and legal compliance regarding content acquisition.
* **Review of Indemnity Clauses:** It is crucial to double-check the indemnity clauses within the project contract. This review will ensure that the team and the industry partner are adequately protected against potential liabilities arising from the chatbot's operation, particularly concerning the provision of information in a regulated sector.

## **Conclusion**

The activities undertaken in Weeks 1 and 2 were fundamental in laying a strong legal and ethical groundwork for the TERAH project. These early efforts, combined with insights from legal counsel, emphasize the ongoing need for clear disclaimers, robust content screening, and diligent contractual review, positioning TERAH for responsible development and successful deployment.