AIFS0021

Written evidence submitted by The Association of Financial Markets in Europe (AFME)

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on **UK Parliament Treasury Select Committee's Call For Evidence on AI in Financial Services**. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society. AFME's work on AI involves collaborating with member banks on topics such as AI Risk and Governance, AI Regulations & Policy, and AI Implementation.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

AFME is registered on the EU Transparency Register, registration number 65110063986-76.

We summarise below our high-level response to the consultation, which is followed by answers to the individual questions raised.

How is AI currently used in different sectors of financial services and how is this likely to change over the next ten years?

The wholesale capital markets sector has been an extensive user of traditional machine learning for several years and, as such, has developed a robust risk and governance infrastructure around this technology. As generative AI (GenAI) gains momentum, firms are experimenting with the technology to understand its risks and ensure mitigations are in place. Current use cases tend to focus on driving efficiencies in the middle and back-office; however, over the next decade—as new technologies such as GenAI and multi-agent systems mature—we anticipate a shift toward more automated decision-making systems. That said, autonomous trade execution decisions remain a complex area that may be difficult to fully automate given regulatory and risk concerns.

To what extent can AI improve productivity in financial services?

AI has the potential to greatly improve productivity across wholesale banking, but firms remain cautious to ensure that any risks are adequately understood and mitigated. Potential improvements include:

- **Efficiency Gains:** AI-driven automation of manual work leads to quicker and higher-quality processes while freeing staff to perform higher value-added tasks.
- **Operational Impact:** Key tasks such as documentation, summarisation, and knowledge exchange would benefit from AI's ability to process unstructured data, resulting in significant cost savings. Further, as AI Agents continue to mature, there is potential for AI to further increase efficiencies in operational processes such as settlements, reconciliations and documentation.

What are the risks to financial stability arising from AI and how can they be mitigated?

- **Market Volatility and Cybersecurity:** We do not expect AI to materially impact financial stability. Our sector already deploys algorithmic trading at scale and has invested heavily in robust risk controls—

including kill switches and enhanced cybersecurity protocols—and remains committed to monitoring and revising these as new scenarios emerge. Additionally, the use of AI for autonomous trading decisions at scale is not anticipated in the near term and would not be deployed without achieving the same levels of robustness as existing algorithmic trading systems.

- **Third-Party Dependencies:** Concentration of AI capabilities among a few large technology providers should be monitored. However, as AI models continue to proliferate and open-source models achieve near parity with commercial offerings, this risk may be naturally diluted. Moreover, the use of models often relies on firms' own data and bespoke process flows, which further limits the concentration effect. Further, existing third-party risk management frameworks are largely technology-agnostic, and the processes in place to review and revise these frameworks ensure that they remain fit for purpose and relevant as innovation develops.
- **GenAI Risks:** While GenAI applications have the potential to drive significant improvements, firms ensure that staff are trained to understand GenAI-specific risks—such as hallucination and bias—and know how to mitigate them. We expect these risks to diminish as the technology improves, with potentially other risks emerging over time.

Conclusion

The wholesale capital markets sector is well positioned to harness the benefits of AI, by leveraging our industry experience in developing and deploying AI Technology in highly regulated financial workflows. We recommend that Government and regulators continue engaging with industry stakeholders to monitor AI developments and support safe and sustainable innovation.

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