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## AI AND TECH REGULATION FOR THE FINANCIAL SECTOR

*Financial institutions are typically familiar with compliance requirements because they have been heavily regulated in most places. In addition to sector-specific regulations, financial services businesses increasingly must also address technology regulations. This article explains the approaches to technology and AI regulation in the European Union and in the United States, provides examples of technology regulation in the European Union, and concludes with practical recommendations.*

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Businesses must think globally but comply locally.<sup>1</sup> On the one hand, they must consider opportunities, risks, and trends around the world, including with respect to new technologies. At the same time, they need to comply with laws and regulations that countries, states, counties, and cities prescribe and enforce locally. Financial institutions face distinct challenges with respect to information technology regulations compared to finance-specific regulation, given their different subject matter, mechanisms, and territorial scope, highlighted in Part I. Lawmakers in Europe, in the US, and elsewhere have traditionally taken different approaches with respect to AI and other information technology regulations, examined in Part II and III respectively. Examples of new technology regulations

that businesses in the financial sector have to grapple with are introduced in Part IV, as a basis for recommended approaches for financial sector businesses to comply with AI and information technology regulations in Part V.

### I. FINANCIAL INSTITUTIONS, TECHNOLOGY, COMPANIES, FINTECHS, AND REGULATIONS

Banks and other traditional financial institutions tend to be well adapted to complying with local laws, because they have long been heavily regulated in most places. To engage in most banking and many finance activities, businesses require licenses from specialized financial regulators that watch over particular territories. Financial institutions traditionally incorporate entities with physical offices and employees where they operate. Global financial groups that act in multiple jurisdictions often set up separate subsidiary companies

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<sup>1</sup> On the origins of the motto “think globally, act locally”, see Daniel Tarantola, *Thinking Locally, Acting Globally?*, 103 American Journal of Public Health 11, Nov. 2013, at 1926, <https://doi.org/10.2105/AJPH.2013.301636>.

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