FSB FINANCIAL STABILITY BOARD

Sound Practices for Responsible Adoption of Artificial Intelligence (AI): Consultation report

Response to Consultation

Finance Watch

1. Do you agree with the benefits and risks of AI adoption by financial institutions described in this report? Are there any substantive benefits or risks not covered?

Finance Watch agrees with the risks identified in the report and supports the comprehensive approach taken by the FSB.

However, the report misses to take a broader view on AI and identify more fundamental issues related to its wide-spread adoption in the financial sector. In particular, the very nature of AI is at odds with the fundamental principles underlying decision-making in finance and financial regulation – accountability, responsibility and transparency. First, there is a fundamental difference between human intelligence and the logic of operation of technologies which fall under the broad definition of "artificial intelligence". This difference essentially boils down to the fact that AI draws conclusions and makes predictions based on the correlations detected in the data used for AI model training (inductive logic), whereas human brains are able to reach conclusions with a much broader set of methods, including deduction, abduction, as well as heuristics or intuition. Second, the current system of financial regulation and the financial system itself (including widely used methods, models and methodologies) are built on the principle of causation, i.e. establishing a causal relationship between the cause and the consequence in every individual case (and not in the aggregate, which is the correlation logic used by AI). The causation principle itself is a pre-condition to a rule-based system with accountability, responsibility and transparency. By contrast, AI technologies operate as "black boxes" – generating outputs without clear explanations of their reasoning. By definition, such outputs are not accessible to human analytical ability. This renders the ability of humans to intervene impractical, if not impossible, and is particularly problematic. If AI-driven credit assessments, insurance pricing, or investment products cannot be adequately explained, customers, investors, and regulators may struggle to detect errors, biases, or systemic risks. Without robust explainability requirements, AI-powered decisions could undermine confidence in the fairness of financial markets.

Please refer to Finance Watch's report "Artificial intelligence in finance: how to trust a black box?" (https://www.finance-watch.org/policy-portal/digital-finance/report-artificial-intelligence-in-finance/) for more details.

2. **Are the sound practices sufficiently comprehensive and clear to enable financial institutions' responsible AI adoption?**

3. **Do the sound practices strike an appropriate balance between managing risks relating to all forms of AI, and addressing some of the risks relating to emerging and new complex forms of AI, such as GenAI and agentic AI?**

4. **Are the sound practices sufficiently flexible to accommodate and address newer types of AI and responsible adoption over time?**

5. **Do the case studies in this report sufficiently highlight how different types of financial institutions can benefit from responsible AI adoption? Are there additional case studies for inclusion in the report? If so, please provide such case studies, particularly for nonbanks.**

6. **Do the case studies in this report provide actionable insights for financial institutions in their responsible AI adoption?**

7. **Are the definitions in the glossary clear and aligned with industry sound practices, including recent developments in AI?**

8. **Are there any comments you would like to make on this report? Please fill in.**

   Finance Watch welcomes the sound practices discussed in the report. However, given the risks related to the adoption of AI (see our response to Question 1) and the very rapid growth of AI capabilities, adoption of these practices by financial institutions on a voluntary basis will be insufficient to address the risks and ensure the benefits of AI can be delivered without jeopardizing financial stability and consumer protection. In its October 2025 report "Monitoring Adoption of Artificial Intelligence and Related Vulnerabilities in the Financial Sector", the FSB has encouraged standard-setting bodies to "to continue monitoring AI developments and addressing data gaps as appropriate, working towards a comprehensive approach to understanding AI adoption in the financial sector and related vulnerabilities".

   It is essential that the FSB work extends beyond elaborating on sound industry practices and risk monitoring work. The FSB should work with its members (national financial authorities) towards adoption of regulatory and supervisory standards, which should then be implemented into legislation by the member jurisdictions.

   For the risks related to consumer protection and financial inclusion, Finance Watch has developed policy recommendations specifically for the EU legislation. These recommendations are applicable more broadly and could be used to elaborate on corresponding international standards. Please refer to the report "Protecting EU consumers in the age of AI-driven retail finance" (https://www.finance-watch.org/policy-portal/digital-finance/protecting-eu-consumers-in-the-age-of-ai-driven-retail-finance/).