Sound Practices for Responsible Adoption of Artificial Intelligence (AI)

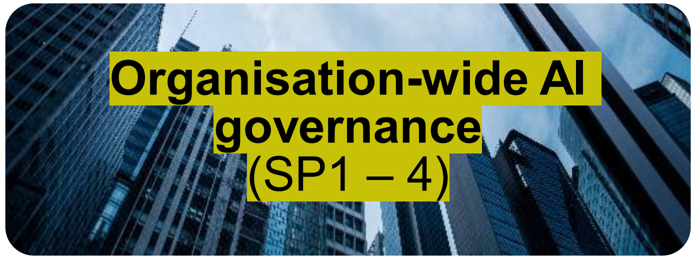
FSB Virtual Outreach Event
7 July 2026

FSB FINANCIAL STABILITY BOARD

Introduction

- Financial institutions (FIs) are rapidly adopting, using, and innovating with AI.
- Responsible AI adoption allows FIs to harness opportunities and benefits, while minimising risks to FIs and reduces risks to financial stability.
- The 12 FSB sound practices support FIs in navigating benefits and risks as they adopt AI responsibly.
  - Reference for FIs, primarily Board and Senior Management of FIs, and **not** intended to establish an international standard or impose a prescriptive approach.

Overview of FSB Sound Practices (SP) for responsible AI adoption



- SP1: Strategic direction and oversight
- SP2: Governance and accountability
- SP3: AI risk management framework and effective documentation
- SP4: Organisational adaptability

- SP5: Materiality and risk assessment
- SP6: Selection
- SP7: Data governance
- SP8: Explainability and transparency
- SP9: Performance management
- SP10: Human oversight
- SP11: Cyber and ICT risk management
- SP12 Third-party risk management

Considerations when applying Sound Practices (SP)

- **Applicable to all types of AI** but some SPs more relevant to specific AI
- **Subject to change** as AI technologies evolve
- **Proportionality to be considered** when referring to or applying SPs, based on:
    - FI’s business model, complexity, role in the financial system, structure, size, and the extent to which AI is used or deployed in its critical/material functions
    - Materiality and risk of a specific AI use case, impact and outcomes of the use case, and the type of AI being adopted
- Case studies drawn from actual AI implementation by financial institutions

AI is transforming the Financial System: Key benefits

AI adoption varies across entities, sectors and jurisdictions. However, internationally active banks, large/sophisticated trading firms and asset managers, and payment providers show more advanced use.

1. **Credit scoring and underwriting**
   - Improved accuracy using advanced analytics and alternative data sources.
   - Faster processing with GenAI tools for document extraction and credit decisions.
2. **Trading and portfolio management**
   - Automated portfolio reporting, sentiment analysis, and market surveillance.
   - Agentic AI enabling streamlined workflows with reduced manual intervention.
3. **Fraud detection and regulatory compliance**
   - AI models enhancing anomaly detection and combating financial crime.
   - Biometric verification and AI-driven AML/KYC processes improving security.
4. **Customer engagement**
   - AI-powered robo-advisors for investment planning and portfolio rebalancing.
   - Chatbots and virtual assistants enhancing customer service and satisfaction.

Key risks and challenges of AI adoption

1. **Inadequate governance and strategic execution** can lead to fragmented AI implementation and misalignment with risk appetite
2. **Ineffective data governance and poor data quality** can lead to biased or unreliable outputs
3. **Explainability challenges** can undermine trust in AI decision-making
4. **Inadequate or degrading AI performance** can lead to poor decisions and errors
5. **Inadequate or inappropriate human oversight** can lead to over-reliance in AI outputs and insufficient intervention mechanisms
6. **Cyberattacks and ICT risks** can compromise system availability and data integrity
7. **Third-Party dependencies and concentration risks** can amplify operational risks
8. **Consumer protection and market conduct risks** can result from unfair or discriminatory AI outputs
9. **Autonomous agentic AI** can amplify certain risks such as unauthorised actions and data breaches at speed

Sound practices: Organisation-wide AI governance (1)

SP 1 (STRATEGIC DIRECTION AND OVERSIGHT): Board and senior management align AI adoption and governance with the FI’s business model, risk appetite, and strategy.

- Oversee AI adoption
- Consider AI risks when setting risk appetite and tolerance
- Appropriately resource the FI to support AI adoption

SP 2 (GOVERNANCE AND ACCOUNTABILITY): FIs define clear roles and responsibilities, and maintain an appropriate governance framework to enable responsible AI adoption.

- Define clear roles and responsibilities
- Maintain an appropriate operating model for responsible AI adoption
- Establish cross-functional coordination mechanisms

Sound practices: Organisation-wide AI governance (2)

SP3 (INCORPORATION OF AI RISKS INTO RISK MANAGEMENT FRAMEWORK): FIs adopt risk management frameworks that effectively address AI risks, and include processes for AI identification, documentation, as well as materiality and risk assessment.

- Consider relevant risks from AI in risk management frameworks
- Maintain accurate documentation of AI use cases

SP4 (ORGANISATIONAL ADAPTABILITY): FIs learn, adapt and adjust their oversight, governance, risk management practices, and capabilities as AI evolves.

- Sustain AI expertise and risk-aware culture
- Maintain external awareness
- Evolve with insight

Sound practices: AI lifecycle management (1)

- There is no standard, one-size-fits-all AI lifecycle.
- Different AI use cases may involve different stages of development and deployment of varying length.
- The FSB report uses the following illustrative AI lifecycle with seven distinct stages:
  1. Inception
  2. Design and development
  3. Verification and validation
  4. Deployment
  5. Operation and monitoring
  6. Re-evaluation
  7. Retirement
- FIs may choose to develop their own AI lifecycle.

Sound practices: AI lifecycle management (2)

SP5 (MATERIALITY AND RISK ASSESSMENT): FIs implement an effective and systematic approach to assess the materiality and risk of AI use cases at the inception stage and thereafter.

- Assess materiality and risks of AI use cases at the inception stage and thereafter
- Consider relevant aspects of materiality and risks

SP6 (SELECTION): When selecting AI models or systems, FIs consider business objectives, operational and technical needs, as well as the materiality and risks of AI use cases.

- Decide among in-house or vendor (third-party AI provider) or hybrid approach
- Consider key factors such as materiality and risks, customer impact, costs, complexity, data needs & availability, and legal & regulatory requirements – among others

Sound practices: AI lifecycle management (3)

SP7 (DATA GOVERNANCE): FIs establish appropriate data governance to maintain data that is fit-for purpose for training, testing, and using AI (i.e. accurate, complete, consistent, reliable, secure).

- Establish effective data governance frameworks
- Effectively manage different stages of AI data use

SP8 (EXPLAINABILITY AND TRANSPARENCY): FIs understand differences in the explainability of various types of AI. If appropriate and feasible, FIs adopt more explainable AI, or consider compensating controls. FIs also provide appropriate transparency tailored to different stakeholders.

- Build explainability into model development
- Apply explainability methods
- Deploy compensating controls
- Consider transparency to customers and end-users

Sound practices: AI lifecycle management (4)

SP9 (PERFORMANCE MANAGEMENT): FIs evaluate the performance of AI use cases proportionately to their materiality and risk, including through performance assessments, testing, and ongoing monitoring**.**

- Assess dimensions of AI performance
- Carry out developmental testing
- Conduct ongoing monitoring and testing

SP10 (HUMAN OVERSIGHT): FIs implement appropriate and effective human oversight relevant to the materiality, risk, autonomy, complexity, and explainability of different AI use cases.

- Design and develop appropriate and meaningful human oversight of AI
- Select appropriate forms of human oversight
- Set clear responsibility for human oversight throughout the AI lifecycle
- Additional considerations for GenAI and agentic AI

Sound practices: AI lifecycle management (5)

SP11 (CYBER AND ICT RISK MANAGEMENT): FIs manage AI-related cyber and ICT risks, including, where appropriate, by incorporating AI cyber and ICT risk scenarios into tests and exercises, sharing relevant information, and using AI tools in cyber and ICT risk management.

- Understand, and monitor AI cyber and ICT risks
- Enhance cyber and ICT risk management to address evolving AI risks

SP12 (THIRD-PARTY AI RISK MANAGEMENT): FIs appropriately manage risks from AI third-party use with a focus on performance, transparency, data quality, supply chain and concentration risks, and business continuity.

- Leverage and adapt existing regulation and guidance on third-party risk management
- Use AI transparency and assurance tools
- Consider compensating controls
- Monitor and manage concentration risks

Public consultation process

The FSB is inviting feedback on the report by 22 July 2026 via its secure online form:

1. Do you agree with the benefits and risks of AI adoption by Fis described in this report? Are there any substantive benefits or risks not covered?
2. Are the SPs sufficiently comprehensive and clear to enable financial institutions' responsible AI adoption?
3. Do the SPs 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 SPs 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 FIs 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 FIs in their responsible AI adoption?
7. Are the definitions in the glossary clear and aligned with industry sound practices, including recent developments in AI?

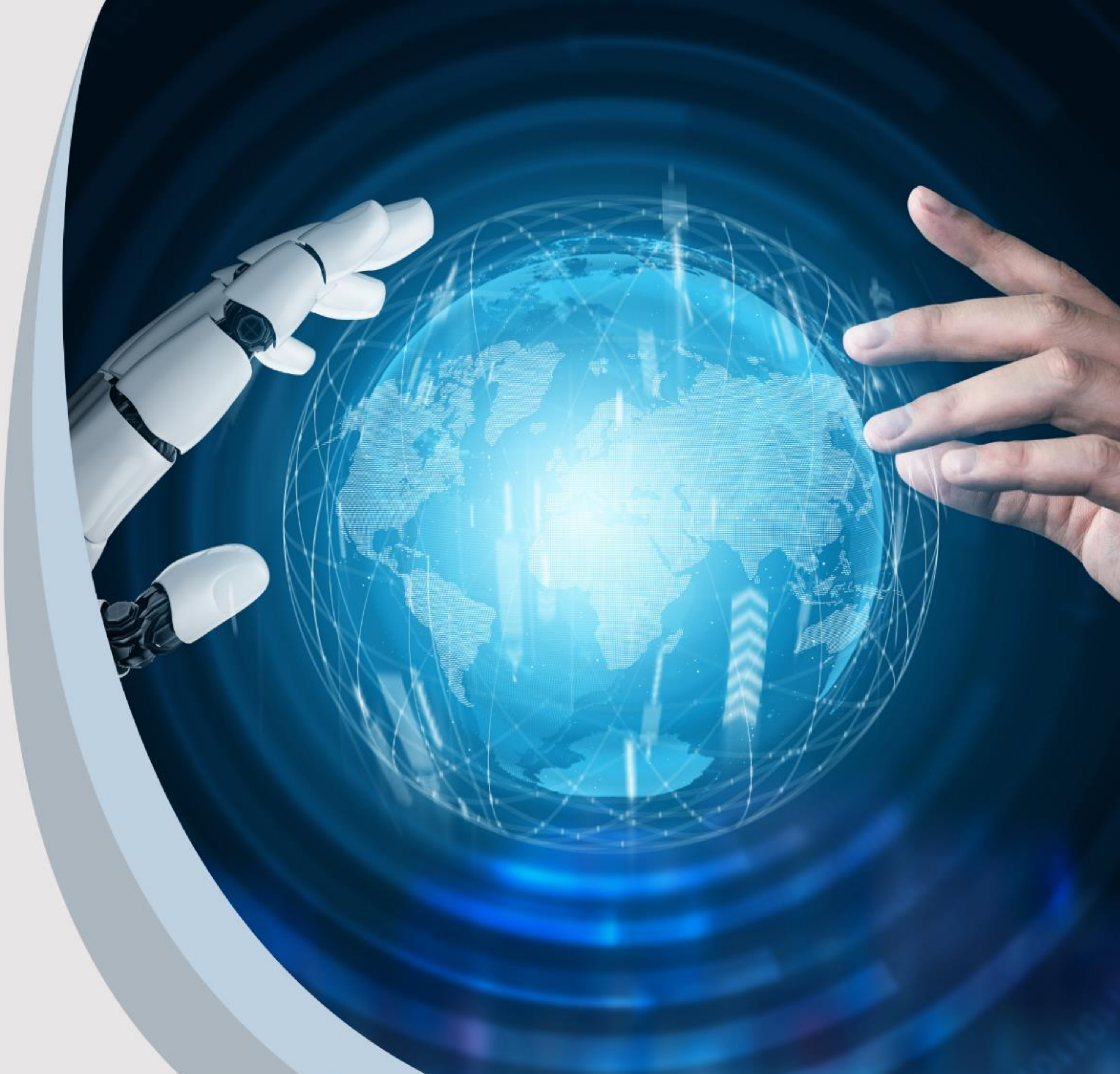
Public Consultaion

Sound Practices for Responsible Adoption of Artificial Intelligence (AI)

We want to hear your views

Submit feedback by 22 July

FSB FINANCIAL STABILITY BOARD



Thank you

+41 61 280 8844
fsb@fsb.org
www.fsb.org/contact

Financial Stability Board
@FinStbBoard
FinancialStabilityBoard

The Financial Stability Board (FSB) coordinates at the international level the work of national financial authorities and international standard-setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies. Its mandate is set out in the FSB Charter, which governs the policymaking and related activities of the FSB. These activities, including any decisions reached in their context, shall not be binding or give rise to any legal rights or obligations.

FSB FINANCIAL STABILITY BOARD