

Federal Regulations & Agency Actions

SEC: AI-Related Disclosures (2025)

- The SEC requires companies to disclose AI usage in **10-K filings**, detailing:
 - AI's impact on strategy, operations, and risks.
 - AI-driven competitive positioning and regulatory compliance.
 - Cybersecurity and governance measures tied to AI.

Department of the Treasury: AI in Financial Services Report (2024)

- Financial institutions must **review and reassess AI models** for compliance with fair lending and consumer protection laws.
- Institutions should align AI governance with the **NIST AI Risk Management Framework** and international standards.
- The report suggests **"nutritional labels" for AI transparency** and clearer supervisory expectations for AI use in financial products.

OCC: AI & Banking Oversight

- Acting Comptroller **Michael J. Hsu** emphasized that AI adoption in banks should be **jointly explored with regulators** to ensure risks are well understood before granting flexibility for AI integration.

Consumer Financial Protection Bureau (CFPB) Actions on AI

1. AI in Credit & Lending

- **Adverse Action Notices (September 2023)**
 - AI-based lending decisions **must provide clear, accurate reasons** for denials. Generic reasons are **not** compliant with the **Equal Credit Opportunity Act (ECOA)**.
- **Algorithmic Home Valuations Rule (June 2024)**
 - AI-driven property appraisals must have **bias safeguards, conflict-of-interest prevention, and transparency** to comply with fair lending laws.
- **Open Banking Rule (October 2024)**
 - Financial institutions must create **secure data-sharing systems** for AI-driven services while ensuring consumer control over personal financial data.

2. Third-Party AI Risk Management

- **Institutions remain liable for AI services used from third-party vendors.**
- **Interagency Guidance (2023)** established a **risk management framework** for financial institutions using AI vendors.
- Firms must:
 - Perform **ongoing due diligence & monitoring** of AI-based services.
 - Ensure **third-party AI tools comply with fair lending laws** to prevent discrimination risks.

3. AI & Fair Credit Reporting Act (FCRA)

- **FCRA applies to AI-powered decision-making** in credit scoring, employment, and data brokerage.
- Employers using **AI-driven hiring tools** must obtain **explicit consumer consent** and disclose AI-driven decision outcomes.
- **CFPB's Data Broker Proposal (December 2024)**
 - Limits the sale of consumer data (e.g., **Social Security numbers, credit history**) without consent.
 - Certain data brokers will now be classified as **Consumer Reporting Agencies (CRAs)** under FCRA.

State-Level AI Regulations in Financial Services

New York: AI & Cybersecurity (2025)

- **NYDFS issued guidance** requiring financial firms to:
 - Assess AI-driven **cyber risks, including social engineering and fraud**.
 - Implement **layered security controls & vendor risk assessments** for AI-powered financial applications.

California: AI & Discrimination Laws (2024)

- New laws regulate **AI-driven hiring, financial services, and consumer credit risk assessments** to prevent **bias and discrimination**.
- AI-based financial services must be **transparent, auditable, and explainable** to consumers.

Current Federal Policy Stance on AI (2025)

- **Tech Deregulation Under Trump Administration**
 - The administration has **rolled back regulations** on AI and cryptocurrency sectors.
 - Major lawsuits against tech firms have been dropped, emphasizing **market-driven AI innovation**.
 - AI-related federal spending cuts have shifted oversight priorities.

Key Takeaways

- **Federal agencies require AI transparency & consumer protection.**
 - Financial institutions must **explain AI-driven credit decisions, prevent bias, and ensure fair lending practices**.
- **Third-party AI risk is a major concern.**
 - Banks & financial firms **remain responsible** for AI vendors' compliance with **fair lending and data privacy laws**.
- **AI-related consumer data use is increasingly regulated.**
 - **CFPB's push against data brokers** aims to curb unauthorized sales of consumer financial information.
- **State-level AI regulations are expanding.**
 - **New York & California** have introduced laws targeting **AI-driven lending, employment, and financial cybersecurity risks**.

Sources & Further Reading

- [CFPB Adverse Action Notices on AI](#)
- [CFPB AI & Third-Party Risk Management](#)
- [CFPB Data Broker Regulations](#)
- [SEC AI Disclosure Guidelines](#)
- [Treasury's AI in Financial Services](#)