

17th October 2024

**European Commission
Brussels, Belgium**

Submitted via email to: mattias.levin@ec.europa.eu

RE: European Commission targeted consultation on artificial intelligence in the financial sector

BlackRock¹ welcomes the opportunity to respond to the European Commission's ("EC") Targeted Consultation on Artificial Intelligence ("AI") in the financial sector².

As a longtime provider and user of financial technology in the asset management industry, BlackRock is a strong supporter of leveraging technological innovation to enhance the investor experience and to help people achieve financial well-being. As a fiduciary to our investment management clients, we champion robust regulatory regimes that facilitate the smooth and responsible functioning of capital markets, protect investors, increase transparency, and reduce risk.

In this context, we support the Commission's ongoing engagement with industry participants on the use of AI in the financial sector, particularly in light of the publication of the Artificial Intelligence Act ("AI Act"), which will impact the financial sector, among others. BlackRock appreciates the opportunity to offer its perspectives on how it uses AI in the pursuit of better investment outcomes for its clients and investors. Although many AI technologies are not new, their applications in asset management are expanding, and assessing both the associated opportunities and risks will prove essential.

In this letter, we share how BlackRock is currently using AI and what governance and risk management processes it has developed to ensure its responsible deployment.

We welcome any further discussion on any of the points raised.

Yours faithfully,

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¹ BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

² https://finance.ec.europa.eu/document/download/054d25f5-0065-488a-96fb-2bb628c74e6f_en?filename=2024-ai-financial-sector-consultation-document_en.pdf

Executive Summary

At BlackRock, we believe Artificial Intelligence is one of the mega forces shaping a new regime of macroeconomic activity, alongside demographic divergence, geopolitical fragmentation and economic competition, transition to a low-carbon economy and the future of finance.³ We welcome the opportunity to respond to the European Commission's Consultation on the use of AI in the financial sector. As a longtime provider and user of financial technology in the asset management industry, BlackRock supports leveraging technological innovation to enhance the investor experience and help more people achieve financial well-being. We actively support the development of prudent and tailored regulatory regimes that facilitate the fair, efficient and robust capital markets and protect investors. t.

We appreciate the Commission's ongoing engagement with industry participants on the use of AI in the financial sector. We believe this engagement is critical to ensuring the effective development and implementation of both market practices and regulatory oversight. In this response, we offer our perspectives on how BlackRock uses AI to pursue better investment outcomes for its clients and investors, how it identifies and manages the risks associated with its use of AI and how we believe regulators could support the industry in the responsible development of its AI capabilities. Although many AI technologies are not new, their applications in asset management are expanding, and therefore assessing both the opportunities and challenges is essential.

BlackRock uses AI in various areas, including supporting investment and portfolio management, trading, and cybersecurity risk management. AI tools enable investment teams to analyse data from different sources for patterns and insights that inform investment decisions. Apart from generating new insights, generative AI tools offer the potential to achieve more efficiencies in investment processes, allowing teams to focus on highest-value tasks. In trading, AI can help traders identify nuanced trading patterns, evaluate market scenarios, and assess liquidity provisioning and market impact. AI tools can also enable greater automation of basic trading tasks and augment decision-making. In cybersecurity risk management, AI improves threat detection and response capabilities, helping manage increasingly sophisticated and dynamic cyber threats.

As described in more detail below, AI risk management and governance is a fundamental aspect of BlackRock's adoption of AI capabilities. BlackRock's approach to AI risk management, therefore, – includes a robust framework rooted in existing quality controls, client and data privacy guidelines, and compliance with all applicable regulatory regimes. Core to this risk management strategy is maintaining human involvement, an approach referred to as "human in the loop" and is currently a commonly adopted method among companies for ensuring efficient and effective AI risk management. In addition, BlackRock employs its frequently used three-lines of defense model to also manage AI risks. This model places risk oversight and mitigation responsibilities on the individuals and teams deploying AI tools, the risk management groups that assess and manage risk across the firm, and the internal audit teams that provide independent oversight and ensure compliance with established risk policies and procedures.

As a fiduciary to our clients, BlackRock supports policymakers' efforts to develop a better shared understanding of AI use in the financial sector and believes that regulators have an important role to play in ensuring consistency in the safe adoption of novel technologies, including AI. We believe that using a technology-neutral approach that applies existing regulatory standards and frameworks to include the use of AI will effectively and efficiently provide adequate protections for investors and markets while also allowing the full benefits and potential of new AI technologies and use cases to be realized.

³ To learn more about BII's Megaforces, visit the page:
<https://www.blackrock.com/corporate/insights/blackrock-investment-institute/publications/mega-forces>

1. BlackRock's use of Artificial Intelligence⁴

(includes our responses to question 1, 2, 6, 8, 13, 14, 20, 21, 22, 23, 24, 26, 28 and AM-specific question 1, 2)

In its consultation request, the European Commission seeks to understand the potential opportunities and risks associated with the use of AI in financial markets. This section discusses how BlackRock has been using AI in the past and highlights several current use-cases that are relevant for the scope of the consultation request.

Since its founding 36 years ago, BlackRock has leveraged technological advancement to better serve clients' investment needs. BlackRock teams across different disciplines today use a range of AI technologies, including machine learning and natural language processing tools, to help carry out tasks and enhance existing investment processes.⁵⁶

Traditional machine learning AI tools and techniques have long played a role in improving investment and portfolio management processes. These tools enable investment teams to analyze data from a range of different sources for patterns and other insights that can help inform their investment decisions⁷. For example, AI tools can extract insights from significant volumes of data on investment factors such as economic conditions or market sentiment, thereby enabling our investment teams to accommodate a greater range of considerations into our portfolio construction process. This ability to perform large-scale data analysis augments a variety of activities across the asset management lifecycle⁸, including data and content synthesis, pattern detection and monitoring, forecasting and prediction, and process automation.⁹

Machine learning also underpins some of the models that portfolio managers use to allocate assets and assess the risk-return tradeoffs of both active and index trading strategies. For active managers, these tools and techniques can help identify asymmetries that may lead to alpha-seeking opportunities for returns, while index fund managers can use them to predict index rebalance events and maintain close tracking of a fund's benchmark index.

Generative AI is an emerging technology with unique features and capabilities. Like other firms, BlackRock recognizes its potential in advancing data analysis and pattern recognition beyond traditional machine learning capabilities. For example, we are interested, in whether these generative AI tools can further enhance efficiency in the investment processes, allowing our teams to focus more on the highest-value tasks, and drive deeper investment insights.

From what we have observed, generative AI can be successfully employed to help detect, contextualize, and summarize subtle cues and sentiments expressed during company earnings calls, which are then used to drive insights on individual issuers or broader economic conditions. Generative AI is also used at BlackRock to help investment teams enhance and scale their evaluation of index changes and activities, including the programmatic interpretation and analysis of an index provider's treatment of hundreds of corporate actions. Generative AI can yield more comprehensive and actionable insights,

⁴ This letter highlights several, but not all, uses of AI at the firm. We focus our comments on areas for which we believe that European Commission has a strong interest in understanding how AI is applied. See also BlackRock, Artificial intelligence and machine learning in asset management (Oct. 2019) ("BlackRock AI ViewPoint") (describing other uses of AI at the firm), available at <https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-artificial-intelligence-machine-learning-asset-management-october-2019.pdf>.

⁵ Question 20. Has AI changed your business model?

⁶ Question 1. Are you using or planning to use AI systems?

⁷ Question 6. Which tools are you using to develop your AI applications? Examples: machine learning, neural networks, natural language processing, large language models, etc.

⁸ Question 2. What are the positive things you encounter when using AI?

⁹ Question ASSET MANAGEMENT 1. For which use cases are you using / considering AI?

facilitating more informed and efficient investment decision making, ultimately benefiting clients and investors.¹⁰

From a productivity standpoint, generative AI tools are used by our employees to create first drafts of emails or reports and gather data efficiently to create research reports and documents. These tools allow our teams to focus time and resources on the highest-value tasks while automating more redundant and basic activities (such as summarizing text or providing translations).¹¹¹² To ensure that our teams have the training and skills to take full advantage of these capabilities, we have rolled out an internal strategy that supports employees in their use of AI systems by providing guidance, educational materials, workshops, and demos.¹³

Finally, AI systems can also automate labor-intensive regulatory tasks, such as reporting and data validation,¹⁴ as well as better enable us to address regulatory requirements by providing tools for harmonizing compliance activities.¹⁵

As outlined, we leverage AI technologies not to make autonomous decisions but as sophisticated tools that are used by humans to amplify and enhance their efficiency and capabilities. By doing so, we can optimize processes throughout our value chain, working towards ensuring that every step is executed with the utmost efficiency and precision.¹⁶ This strategic integration of AI into our operations allows us to unlock new levels of productivity and innovation, ultimately advancing our mission of serving clients and helping more people experience financial well-being.¹⁷

Below we outline three specific areas where BlackRock is using AI, in investment and portfolio management, in trading, and cybersecurity risk management.¹⁸

1.1. Use of AI In Investment and Portfolio Management

At BlackRock, traditional machine-learning AI tools and techniques have featured significantly in investment and portfolio management processes for many years. Such tools and techniques – which, for example, are used in statistical analysis – enable investment teams to analyze data from a range of sources for patterns and other insights that can help to inform their investment decisions. Machine learning also forms the basis for some of the models that portfolio managers use to allocate assets and assess the risk-return tradeoffs of both active and index trading strategies. For active managers, these tools and techniques help efforts to identify asymmetries that can lead to alpha-seeking opportunities for returns, while index fund managers can use these tools and techniques to predict index rebalance events and maintain close tracking of a fund's benchmark index.

BlackRock has recently begun incorporating generative AI tools into certain aspects of some of our investment and portfolio management processes. Some teams have begun using these tools to create first drafts of emails or reports or gather data efficiently to create

¹⁰ Question 23. Do you use general purpose AI models, including generative AI, and their respective reference architectures?

¹¹ Question 24. How do you plan to operationalise and adopt general purpose AI at scale?

¹² Question 22. Are there functions that cannot/would not be improved by AI?

¹³ Question 28. Have you developed or are you planning to develop an AI strategy or other relevant guidelines within your organisation for the use of AI systems?

¹⁴ Question 13. Can AI help to reduce the reporting burden?

¹⁵ Question 14. Do you think AI can facilitate compliance with multiple regulatory standards across the EU and thus facilitate market integration or regulatory compliance? For example, would you consider it feasible to use AI for converting accounting and financial statements developed under one standard (e.g. local GAAP) to another standard (e.g. IFRS)? Please elaborate.

¹⁶ Question 21. Which parts of the value chain are being improved with AI?

¹⁷ Question 8. What are the main benefits / advantages you see in the development of AI applications?

¹⁸ Question ASSET MANAGEMENT 2. What are the opportunities that AI brings to your use case?

research reports and documents. Generative AI models can also enable new and more sophisticated data analysis and pattern recognition on even more complex and larger data sets than is possible with traditional machine learning AI tools and techniques. For example, generative AI can be employed to help to detect, contextualize, and summarize subtle cues and sentiments expressed during company earnings calls, which are then used to drive insights on individual issuers or broader economic conditions. Generative AI is also helping some of our investment teams augment and scale their evaluation of index changes and activities, including programmatically interpreting and analyzing an index provider's treatment of hundreds of corporate actions.

We believe that these generative AI tools have multiple benefits, offering new possibilities for achieving even more efficiencies in the investment process by reducing errors and allowing our teams to devote more time and resources to the highest-value tasks, as well as helping to drive deeper investment insights. Fundamentally, they can yield more comprehensive and actionable insights and facilitate more informed and efficient investment decision making, ultimately benefiting clients and investors.

1.2. Use of AI In Trading

As a global asset manager that executes hundreds of investment strategies, BlackRock uses AI through different stages of the trading lifecycle. For example, our traders apply machine learning to diverse datasets to identify nuanced trading patterns in a scaled manner (such as explaining similarities between orders and past trades), evaluate different market scenarios in a dynamic manner, and assess liquidity provisioning and market impact of trading strategies. Our traders also use machine learning to help inform their decision making around broker selection, execution style, or type of algorithm that would produce the optimal strategy for executing a portfolio manager's order. These uses of AI support our efforts to attain best execution on behalf of our clients by enabling more efficient and effective trading, which means doing so at scale across a diverse range of asset classes and regions with minimal market impact and transaction costs. These AI tools also help to enable greater automation of basic trading tasks and augmented decision making.

As new AI technologies emerge, we continue to evaluate opportunities to apply them to further augment and introduce more efficiencies into trading workflows. This includes assessing machine learning techniques, which we believe will continue to underpin many AI applications in trading. This will also include looking at generative AI techniques, which we will evaluate based on their potential incremental utility and fit within our risk management framework. We note that industry use cases for generative AI are emerging, such as analysis and synthesis of unstructured and novel datasets for dynamic market surveillance and enhancements to market risk management. We view our interest in identifying new opportunities for using AI as a progression of BlackRock's longstanding efforts to find new ways to increase efficiency, transparency, and access for all market participants and investors trading in markets.

1.3. Use of AI in Cybersecurity Risk Management

In addition to our investment and trading use cases, BlackRock uses AI to help manage cybersecurity risk. We believe that AI tools are improving upon the legacy, signature-based, threat detection approach of many financial institutions. Enhancing cybersecurity risk management capabilities through AI has become critical in the face of more sophisticated, dynamic cyberthreats that are often difficult to detect.

AI has improved our cybersecurity risk management programs and capabilities – among the benefits, it enables us in many cases to comb through large amounts of information to

resolve events more quickly before they escalate into more significant issues. Specifically, we apply machine learning algorithms to analyze network traffic and identify patterns or aberrations in normal activity that may indicate malicious intrusions without a specific or known signature. We also use AI tools to help us respond to detected threats, such as isolating infected systems, blocking malicious IP addresses, or applying IT patches. Further, we deploy AI tools that assist our other technology systems to detect fraud and other types of illicit activity.

2. AI Risk Management and Governance

(includes our responses to questions 3, 9, 29 and AM-specific question 3)

The consultation seeks to better understand the risks associated with the use of AI in financial services. We recognize that the use of AI has yielded important benefits to both BlackRock and its clients, and new technologies can bring significant opportunities. However, fully realizing those benefits requires developers, deployers and AI systems users to carefully manage the associated risks.¹⁹

BlackRock supports the ongoing engagement of the European Commission and other policymakers with industry participants to better understand the extent to which these risks may be material to the financial sector. These conversations are particularly important as new AI tools are developed, and they increase in sophistication. Furthermore, we believe that ongoing engagement with policymakers on issues like assessing effective and sufficient explainability and transparency of outputs as well as liabilities should remain a key focus of all stakeholders.

Financial institutions operating in Europe (and elsewhere) are already subject to several prudential requirements that mandate them to develop strong governance frameworks to manage risks. These requirements aim to ensure the health of companies, investors, and the overall financial system, as well as boosting confidence in the financial markets. We believe that the existing governance framework for financial services already contemplates risks associated with AI while also allowing the industry to innovate and take advantage the opportunities and benefits it presents.

BlackRock was founded on the principle that risk management is a key tenet of asset management. As fiduciary to our investment management clients, BlackRock exercises a robust approach to risk management of AI use, including an extensive governance and control framework. For any AI tool or application, our overarching objective is to minimize the risk that its use could compromise us, our clients, and the broader financial system in which we operate. BlackRock utilizes a risk management framework rooted in our existing quality controls, client and data privacy guidelines, and compliance with the numerous regulatory regimes under which we operate. Governance and controls are in place to enable AI risk assessments across many fundamental risk areas, including information security, cybersecurity, regulatory compliance, model risk management, and intellectual property.²⁰

Our approach to risk management is based on three lines of defense. Key to this risk framework is BlackRock's "human first" approach, which is a core principle of our overall enterprise risk management program. The firm also imposes an additional layer of oversight via independent audit functions that validate that key controls and policies are in place and verify whether the risk management activities are effective or not. These 'three lines of defence' aim to provide comprehensive risk management coverage and prudent redundancy that also incorporates sufficient independent oversight and validation.

¹⁹ Question 3. What are the negative things you encounter when using AI?

²⁰ Question 29. Have you put in place or planning to put in place governance and risk management measures to ensure a responsible and trustworthy use of AI within your organization?

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As a first line of defense, the firm requires individual portfolio management, research and trading teams to take primary responsibility for identifying and managing investment risks, including liquidity risk management associated with the portfolios that they manage. They have to ensure that they are following key controls, fund mandates, and regulations. These activities are governed by policies and procedures that are responsive to AI risks and relate to documentation, validation, approval, release workflow, implementation workflow and performance monitoring of in-house models. Therefore, primary responsibility for AI risk management lies within individual teams over their own activities and/or workflows in which AI tools are being used. These can be fulfilled either locally by what we define as “AI owners” (individuals who are responsible for AI implementation in their teams) or by a centralized function, where appropriate. This approach puts users of AI at the front line of identifying and assessing risks that arise from discrete uses of AI. Among the checks that they perform, teams review the AI-generated information or output against their own human senses and expectations.

BlackRock’s second line of defense is our dedicated risk management group, called Risk and Quantitative Analysis (RQA), which monitors the risk profiles of portfolios managed on behalf of clients and regularly engages with the portfolio management teams to ensure risk positioning is deliberate, diversified, and scaled. Within RQA, a dedicated Technology Risk team works with all technology functions to help ensure technology controls are in place to protect clients and the firm, for example by monitoring system resilience and performance, or assessing software development and testing practices – aligning processes with industry and regulatory standards. In the context of AI, we have established additional dedicated oversight and governance structures, to ensure alignment and transparency on our use of AI across the whole firm, and to manage AI risks. Appropriate investment and risk professionals are closely involved in the creation and ongoing oversight of the technology.

The third line of defense is our internal audit function that independently validates investment businesses’ adherence to key controls and policies, providing impartial substantiation of control issues which are either identified by investment teams or flagged by independent risk management. Internal audit independently assesses and validates the scope and efficacy of the risk management activities described above.

The three lines of defense framework helps us mitigate the potential challenges and risks presented by the Commission in Question 9 of the consultation, which we deem to be all relevant. Due to the multidimensional nature of those risks, we believe that ranking them might lead to an oversimplification and a lack of intersectionality in their management, as well as disregarding their materiality.²¹ Each of those risks should be evaluated by firms both individually and in the context of other risks as they integrate AI in their processes.

We regularly assess the quality of our risk management processes and activities. In doing so, we have identified three categories of risk that warrant further discussion. These risks are related to data risk management, explainability and bias and third-party management.²²

²¹ Question 9. Please score the following challenges and risks from most significant to less significant: lack of access to the required data; lack of access to the data in an appropriate digital format; lack of access to appropriate data processing technology; data privacy; lack of trust in relation to performance levels, security aspects, certified solutions, and reliability of the technology; regulatory compliance with financial regulations; innovation; transparency and explainability; bias and discrimination; reputational risk from undesirable AI behavior or output; liability risks; skills gap; dependability; job displacement; cybersecurity; integration challenges; additional cost.

²² Question ASSET MANAGEMENT 3. What are the main challenges and risks that AI brings to your use case (e.g. discrimination, opacity of the AI application developed, difficult to control/supervise it, etc.)?

2.1. Data Risk Management

(includes our responses to questions 18, 19)

The basis of any well-performing AI system is the quality of the data used for its training. Poor quality data can lead to inaccurate predictions, flawed decision-making, and potential harm to users. Ensuring high data quality requires rigorous data collection, cleaning, validation, and continuous monitoring processes. Poor quality data can potentially result in a negative feedback-loop that could make activities like economic forecasting less precise and fraud detection less efficient.

Use of personal information – approach and controls

BlackRock's control and governance frameworks apply robust protections to the data it collects, stores, and uses in its AI models and tools. As mentioned, the success of our AI models and tools depends on the quality and integrity of the data they are trained on, which must be entrusted from clients who trust we are going to protect that data from loss and misuse. Thus, we apply a precise approach to mitigate these concerns.

Use of third-party data and client data – approach and controls

When BlackRock relies on AI capabilities provided by third parties –such as generative AI – we establish and maintain a secure environment that allows us to minimize data leakage and misinformation risks. We also have a strong governance process around onboarding third parties (see section 2.4).

The role of data

Data remains at the core of AI. In a time when asset management is becoming increasingly data-driven and greater investor participation in capital markets remains a priority, particularly in Europe, the ability to leverage data efficiently is critical to meeting investors' needs. As AI use cases continue to grow, it will be fundamental to ensure the sector has access to sufficient volumes of quality data. We welcome the creation of the EU Data Hub as a tool to provide access to both supervisors and companies to a safe environment to experiment with synthetic data, as we believe that any measured aimed at improving the quality and governance of data sharing practices helps the overall functioning of the financial system. However, insufficient understanding of the interdependencies between synthetic and real-world data and effectiveness of AI models could lead to distortions.²³

Regulators play a role in promoting the benefits of AI by focusing on developing a more cohesive data ecosystem. Without a unified approach, differing formats, standards, and data granularity among participants can result in a fragmented data ecosystem, lacking a single authoritative source. Achieving greater unity, however, requires significant effort and commitment—for example, consolidated tape systems for financial transactions—designed to aggregate and standardize market data—highlight the challenges posed by dispersed data and the risks of creating data silos. This fragmentation hampers AI's ability to extract meaningful insights, forcing companies to spend time reconciling disparate data sources rather than driving innovation. Additionally, inconsistencies in data localization can lead to regulatory arbitrage, undermining fair competition and reducing the overall competitiveness of jurisdictions that apply them.²⁴

²³ Question 18. Are you familiar with the EU Data Hub, a data sharing tool for supervisors and financial companies?

²⁴ Question 19. Should public policy measures (e.g. legislative or non-legislative) encourage the exchange of data between market participants, which can be used to train AI systems for use cases in finance?

2.2. Explainability and Bias

(includes our responses to questions 4 and AM-specific question 6)

'Explainability' is often described as one of the primary risks posed by more complex AI systems - not only in the financial services sector - due to the less transparent nature of more advanced models and the complex reasoning behind answers provided by Large Language Models ('LLMs') relative to simpler AI systems. However, these attributes are not inherently problematic, but only become so if the professionals using the technology lack a sufficient understanding of the models' capabilities and overall logic, including the nature of its inputs and outputs, and firms do not take the appropriate steps to back-test the technologies they deploy. In fact, professionals inadequately informed about the functioning of AI systems can misplace trust in the AI's decisions, potentially leading to erroneous outcomes, biased results, or non-compliance with regulatory standards.

BlackRock maintains strong rigorous control and governance frameworks to ensure a thorough understanding of the mechanics of its AI models and tools. In many cases, we develop our own internal AI tools and models for use, which enables us to have more control over testing. When we develop our in-house AI models, we test their rigor using several methodologies such as model back testing and continuous output monitoring. Additionally, we are working towards increasing their transparency, for example through audit trails of a model's decision making. These tools are intended to help identify and mitigate incorrect or misleading results from AI models, or even potential misuse of the model itself.

As we explore further opportunities to use generative AI,²⁵ we are conforming our control frameworks to keep pace with the risks associated with such activities.²⁶ For example, BlackRock has established an internal cross-disciplinary review body that is responsible for evaluating new AI tools for onboarding. This function also provides guidance on those tools' use, including imposing restrictions as necessary to address identified risks.

We believe there are some industry best practices that can increase transparency and trust, notably: using simpler and more task-specific models where possible and maintaining detailed documentation relating to AI systems and training data.

Where a use-case can be performed efficiently by a task-specific and simpler AI model, it is industry best practice to favor their use. Simpler models - based on linear relationships, decision rules, or probabilistic assumptions - allow for more interpretability, which helps stakeholders and regulators understand how AI outputs are generated. Most AI use-cases in the financial services sector currently fall into this category because they offer balance accuracy, interpretability and ease of use.

In addition, it is important to pay attention to the data used for training and fine-tuning models. Maintaining comprehensive documentation of AI models, including their development cycle and the training data used, can help establish clear auditing trails as well as showcase compliance with existing regulatory requirements as needed.

2.3. Third-party management

(includes our responses to questions 5, 8, 23 and AM-specific questions 7 and 8)

At BlackRock, we develop certain technology solutions in-house where we believe it can create a competitive advantage and where we want more customization for specific

²⁵ Question 4. Will you be deploying AI for new or additional processes within your organisation?

²⁶ Question ASSET MANAGEMENT 6. Has general purpose AI opened new possibilities or risks in your use case?

business goals.²⁷²⁸Where appropriate, we complement our own proprietary AI models and tools with third-party technology solutions.

Currently, our generative AI capabilities do not involve in-house Large Language Models (LLMs).²⁹ In the future, we may consider developing our own LLMs for specific applications, but at present, we rely on third-party LLMs. For example, we have established a partnership with Microsoft to deploy “Copilot” across the firm. We do, however, adapt these third-party LLMs to make them suitable for our firm specific use-cases. To customize these LLM, we use methods such as RAG (retrieve-augment-generate). This approach allows us to quickly implement and innovate while also maintaining the flexibility we need in order to provide the most effective solutions to our clients.³⁰

BlackRock has a robust internal framework for evaluating and overseeing third-party AI tools and the vendors that provide them. We have a dedicated team that conducts due diligence on new vendors and assesses the viability and safety of their offerings. Among other things, we evaluate the appropriateness and effectiveness of a potential vendor’s controls for its AI offerings, and whether the third-party vendor itself utilizes AI tools in delivering its services to us.³¹ In addition to an initial risk and suitability assessment of new vendors and their AI tools, we continue to monitor the vendor and product throughout the course of the contractual relationship. BlackRock’s ongoing monitoring process involves, among other things, identifying changes to the risk profile of the AI tools or services provided and assessing the vendor’s performance of its own maintenance and oversight obligations of its AI tools.

3. Considerations for Effective AI Governance

(includes our responses to questions 41 and 42 and questions relating to the AI Act)

BlackRock expects the potential use-cases for AI continue to grow and evolve and, as such, we anticipate the associated opportunities and risks to evolve in concert. We therefore encourage the continued exchange of information and ideas between market participants, academia, policymakers and other stakeholders about how to best facilitate innovation and manage potential risks with regards to AI.

BlackRock appreciates the European Commission’s engagement with industry participants on AI, viewing it as an opportunity to explore common approaches towards effective AI governance. While many use cases for AI have long existed in financial services, and specifically, in asset management, AI models and tools continue to evolve. Maintaining constructive exchanges and discussions between industry and regulators will prove fundamental to ensure the overall well-functioning of the financial system, as well as to promote the benefits of AI, such as making better investment decisions for clients and acting as a driver of growth of employee productivity, which is an element recently discussed by Mario Draghi in his report on the future of European competitiveness.

The European Union published the AI Act in July 2024. Our own risk management structures take into account many of the AI Act’s themes, and we continue to assess our AI capabilities to ensure compliance and full integration of the Act’s considerations in our use of AI systems. We would welcome informal guidance around the integration of AI Act’s considerations into the existing regulatory ecosystem of financial services, specifically with reference to the interaction with existing regulations like MiFID II and the UCITS directive.

²⁷ Question 5. Are you developing or planning to develop in-house AI applications?

²⁸ Question 8. What are the main benefits / advantages you see in the development of your AI applications

²⁹ Question ASSET MANAGEMENT 7. On whom do you rely for the development of your AI solutions?

³⁰ Question 23. Do you use general purpose AI models, including generative Ai, and their respective reference architecture?

³¹ Question ASSET MANAGEMENT 8. When delegating functions to third parties, do you check the extent to which the provisions of services will entail the use of AI?

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In general, we would caution against overregulation in nascent spaces like AI, especially when geographically defined, risks creating competitive disadvantages, and eroding investor protection³².

We recognize that regulators can play a key role in ensuring the responsible adoption of AI. However, regulations that are not tailored to meet clear policy objectives, and that do not evenly recognize and contemplate both the risks *and* benefits of the activities they seek to regulate, could jeopardize the very markets and investors they seek to protect. This could manifest in stifling AI innovation and adoption that have the potential to unlock yet unknown benefits to companies, markets, investors and wide array of other interconnected stakeholders. For investors, the adverse results could include inferior investment performance (such as suboptimal portfolio allocation), unnecessary exposure to operating risks (such as failure to detect anomalies that AI can detect in a timelier manner) and market inefficiencies (for example, if relevant information is not incorporated into investment decision-making on a timely and proportionate basis).

Technology neutral (tech-agnostic) regulatory frameworks that focus on the industry's activities rather than on the specific technologies employed to carry them out tend to be more resilient and responsive to policy objectives. We acknowledge that unlocking the new and promised benefits of AI may also introduce new associated risks, but we believe that policymakers should engage in the delicate weighting of these two considerations with a complete understanding of the available facts and with the benefit of a diverse range of perspectives from stakeholders.

Therefore, we encourage the European Commission to continue performing its inquiry to identify and understand how new AI technologies are used at present while also considering how established regulatory frameworks are faring in their incorporation and handling of AI.

BlackRock remains committed to the responsible and prudent use of AI and we look forward to continued engagement with the European Commission.

³² The Draghi report on European competitiveness also highlights potential risks associated with the compounding effect that rising regulatory weight can have on innovation.