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AI in Financial Markets: Moving from Hype to Infrastructure

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Executive Summary

AI is moving quickly from the margins of financial markets into their core. What began as experimentation with productivity tools is increasingly influencing operating models, risk management approaches and the functioning of market infrastructure. For many firms, AI is no longer a question of innovation strategy, but of execution and governance.

Much of the public discussion around AI remains characterised by hype and abstraction. In practice, adoption in financial markets is shaped by more grounded concerns: regulatory expectations, data quality, control frameworks and the realities of complex, document-driven processes. The challenge is not whether AI is capable, but how it can be deployed responsibly and at scale within highly regulated environments.

As this shift gathers pace, AI is best understood not as a disruptive force arriving from outside the

market, but as an emerging layer within it. Like other forms of market infrastructure, its value depends on how well it is designed, governed and integrated into existing systems. Poorly thought-through deployment risks fragmentation and new forms of operational risk; deliberate, coordinated adoption offers the potential for meaningful efficiency and insight.

This document explores AI through the practical lens of LMA Member firms – examining governance and regulation, patterns of market adoption, and the capabilities that are now beginning to take shape. Taken together, these perspectives point towards a clear conclusion: AI's long-term impact on financial markets will be determined less by technology breakthroughs, and more by the choices firms make today about how it is used.



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What does AI mean for Financial Markets

AI is increasingly shaping operating models, risk frameworks and the way market infrastructure functions under scale and complexity. As adoption accelerates, the challenge is not simply technological capability, but how AI is understood, governed and embedded into existing market structures.

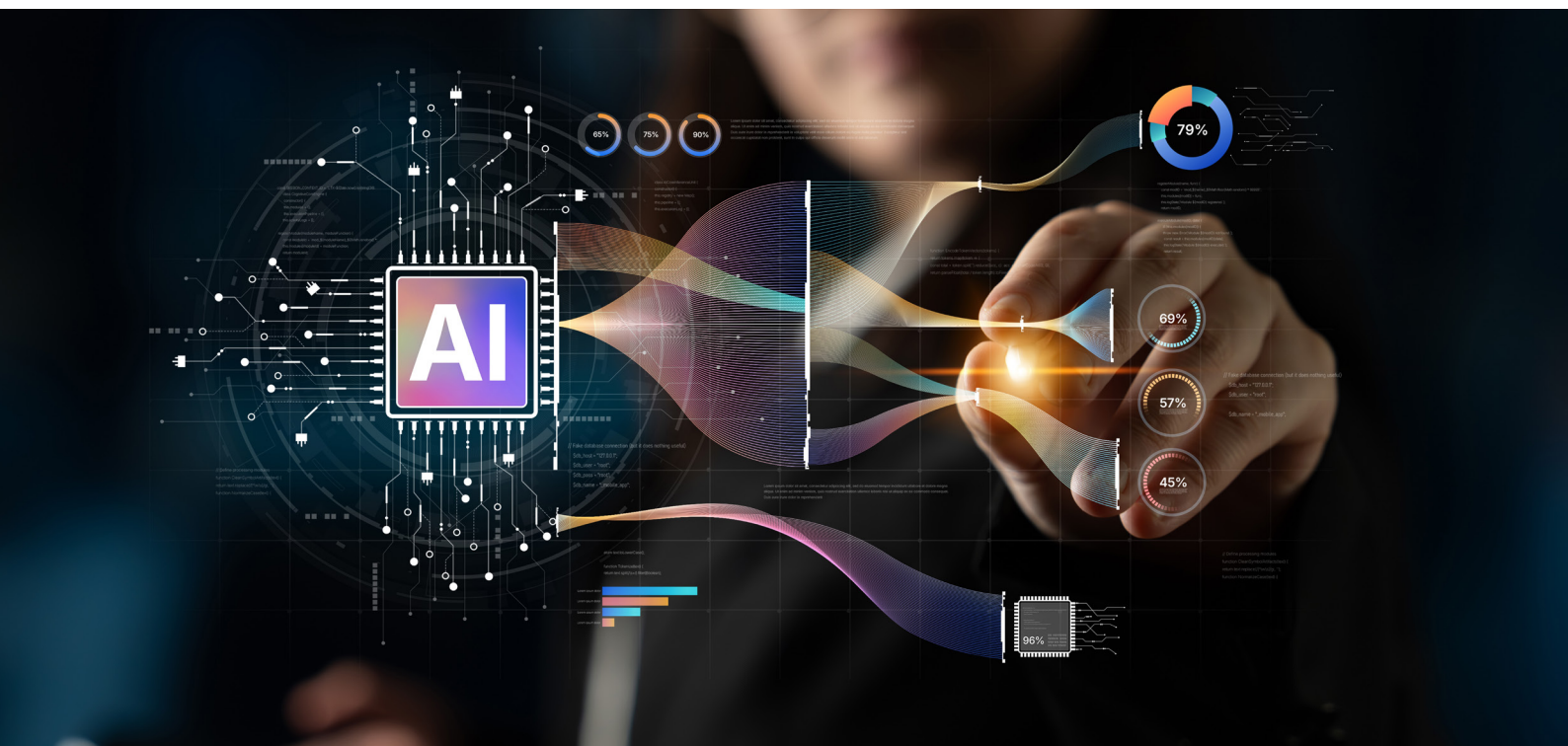
AI should be viewed not as a single technology, but as a continuum that has evolved over time—from traditional machine learning, through deep learning, to today's generative models and emerging AI agents. Precision in language matters. These systems do not understand markets, documentation or intent in a human sense; they generate outputs by identifying and

predicting patterns based on data. This has direct implications for explainability, accountability and control, particularly in regulated environments.

The next phase of adoption is less about standalone productivity tools and more about integration into workflows. Increasingly, AI is being embedded into specific operational processes—supporting document-heavy activities, managing information flows, assisting communications and helping teams operate effectively at scale. Within this context, AI agents are best understood as supervised components that sit within existing governance and control frameworks, rather than autonomous decision-makers operating independently.

For markets such as loans, where documentation is bespoke, processes are complex and regulatory expectations are high, this distinction is critical. AI adoption cannot be approached as experimentation for its own sake. It requires clarity of purpose, realistic use cases, and alignment with existing legal, risk and compliance structures.

Seen through this lens, AI is less a disruptive force arriving from outside the market and more an emerging layer of market infrastructure. How that layer is designed, governed and adopted will determine whether AI delivers sustainable value, or introduces new forms of fragmentation and risk.



AI Governance, Risk and Regulation in Financial Markets

Firms operating in financial markets are already navigating an increasingly complex regulatory landscape that is beginning to shape how AI systems can be designed, deployed and governed.

Globally, approaches differ in form but share common underlying expectations. The EU AI Act introduces a risk-based framework with extraterritorial reach, imposing obligations around transparency, oversight, documentation and lifecycle controls. In parallel, the US continues to develop a patchwork of federal and state-level measures, while the UK has opted for a principles-based approach delivered through existing regulators. For financial institutions, these regimes do not

sit in isolation—they intersect with established obligations around conduct, operational resilience, data protection, outsourcing and cyber security.

A key implication is that AI governance cannot be treated as a standalone compliance exercise. Accountability for AI outcomes, explainability of outputs, auditability of systems and control over data and models must be built into existing governance frameworks. This includes careful management of AI supply chains, clarity on the allocation of responsibility between firms and vendors, and a robust understanding of how models behave in practice, not just in design.

Regulatory focus is also shifting from narrow use-case analysis to end-to-end risk. How models are trained, how they are updated, how decisions are reviewed, and how incidents are managed are becoming central considerations. For financial services, this reinforces the need to treat AI as part of core infrastructure, subject to the same discipline as other systems.

Taken together, these developments point towards a clear conclusion: effective AI adoption in financial markets depends less on waiting for regulatory certainty, and more on embedding strong governance, controls and accountability from the outset.



How are Financial Services Firm Adopting AI

Across financial markets, focus is shifting away from broad claims about transformation and towards specific use cases where AI can deliver measurable operational value.

The most immediate progress is being seen in areas characterised by volume, complexity and repetition—particularly document-heavy processes. AI is increasingly supporting activities such as credit analysis, covenant monitoring, portfolio oversight and the extraction and comparison of complex contractual terms. In these areas, the technology's ability to process large volumes of unstructured data at speed is providing tangible benefits.

However, the limiting factors are becoming clearer. Technology maturity is no longer the primary constraint. Instead, adoption is being shaped by data quality, operating models and organisational readiness. AI tools are only as effective as the data and processes they sit within, and deploying them at scale requires alignment across technology, risk, legal and operational teams.

There is also a growing recognition that successful adoption is less about point solutions and more about integration. AI delivers the greatest impact when embedded into end-to-end workflows rather than layered on top as standalone tools. This often requires rethinking processes, clarifying ownership and investing in change management alongside technology.

Importantly, firms that are seeing the most progress tend to approach AI pragmatically. Rather than pursuing abstract innovation agendas, they focus on well-defined problems, realistic use cases and incremental deployment. This creates a clearer path from proof of concept to production, while reducing operational and regulatory risk.

Taken together, these patterns suggest that the next phase of AI adoption in financial markets will be defined less by breakthrough technology and more by execution—how effectively firms translate capability into sustainable, governed and scalable practice.



Emerging AI Capabilities in the Loan Market

Recent developments illustrate that AI capability in financial markets is making greatest impact where complexity, documentation and scale intersect – areas that have historically been resource-intensive and difficult to automate.

One clear trend is the use of AI to support document-driven workflows. Advances in natural language processing now allow systems to review, compare and extract meaning from complex loan documentation, supporting activities such as clause analysis, playbook-driven review and negotiation support. When embedded into existing legal and operational workflows, this enables

faster handling of large document volumes while maintaining consistency and auditability.

Another emerging capability is portfolio-level intelligence. Rather than analysing facilities in isolation, AI is increasingly being used to query and monitor entire portfolios—tracking amendments, identifying deviations, and surfacing risk or obligation themes across multiple agreements. The ability to interrogate portfolios using natural language represents a shift in how credit teams interact with information, moving away from static reports towards more dynamic analysis.

There is also growing momentum around rapid, controlled tool prototyping. Modern AI development approaches make

it possible for non-technical professionals to design and test internal tools tailored to specific business needs. When paired with appropriate governance, this reduces reliance on long development cycles and enables closer alignment between operational teams and technology.

Taken together, these capabilities point towards a broader shift. AI is less about individual tools and more about enabling new ways of working—integrated into workflows, supported by governance, and designed to operate at market scale. As these capabilities mature, competitive differentiation will increasingly depend on how effectively firms integrate them into their operating models rather than on access to the technology itself.



Looking Ahead to Shape the Market, Together

In 2026, it is clear that AI is steadily becoming part of the underlying fabric of financial markets. Its impact will not be defined by individual tools or moments of innovation, but by how effectively it is embedded into operating models, governed within existing control frameworks, and aligned with the realities of regulated, document-driven markets.

Across the value chain, the direction of travel is becoming clearer. AI is moving away from experimentation at the margins and towards selective, disciplined deployment in areas where scale, complexity and information intensity create genuine operational pressure. At the same time, regulatory expectations are sharpening, reinforcing the need to treat AI not as a discretionary innovation, but as part of core market infrastructure.

This creates both opportunity and responsibility. AI has the potential to materially improve efficiency, consistency and insight across the loan market. But those benefits depend on deliberate choices: clarity around use cases, realistic

assessments of risk, and strong governance that spans technology, legal, compliance and operations.

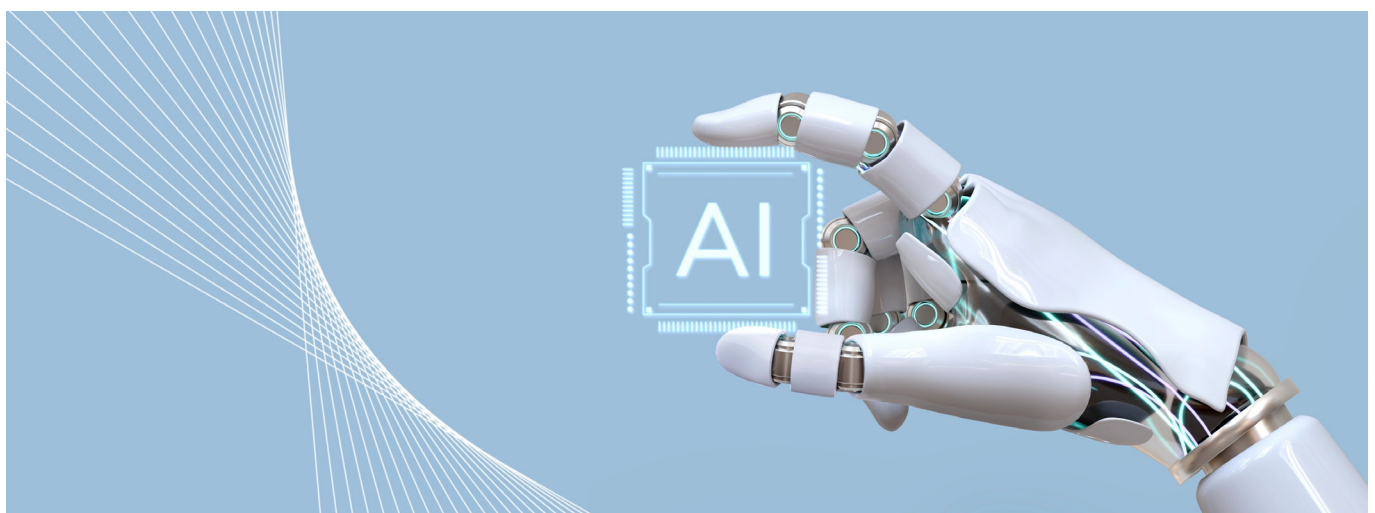
Perhaps most importantly, AI adoption in financial markets is not something that will be shaped by any single firm or technology provider. Market practice, standards and expectations will emerge collectively, through shared approaches to governance, transparency and accountability.

The choices being made by Loan Market participants now will determine whether AI becomes a source of fragmentation and new risk, or a stabilising layer that strengthens how markets function. Treating AI as infrastructure offers the clearest path to sustainable value.

If you want to help shape how emerging technologies, like AI, are adopted in the loan markets, engage with the LMA's Technology & Innovation agenda: Join our working groups, participate in upcoming events, and be part of setting the principles that will define the future on the Loan Market.



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Contact us at



Ima@lma.eu.com

Author



Aman Luther

LMA Head of Technology & Innovation



amandeep.luther@lma.eu.com



www.linkedin.com/in/aman-luther

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