

AI Live Testing

Revised Terms of Reference



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Purpose

FCA AI Live Testing, as part of the AI Lab, explores the challenges that firms face before and during live AI deployment in UK financial markets. It aims to foster industry-regulator collaboration, develop shared understanding of risks and challenges when it comes to the design and deployment of AI, and explores potential evaluation methods. It also explores potential frameworks that may facilitate safe and responsible AI use throughout its lifecycle, from input quality control to outcomes measurement.

As part of AI Live Testing, we provide participants with access to appropriate AI technical expertise in addition to regulatory expertise. We also seek to understand the nature of any emerging regulatory challenges firms may face. The goal is to support firms to deploy AI systems in real world UK financial environments. AI Live Testing is designed to be exploratory in nature and does not seek to cover AI auditing, technical certification, or regulatory compliance with other frameworks.

AI Live Testing and the Supercharged Sandbox

AI Live Testing complements the Supercharged Sandbox service, which gives firms access to advanced compute, synthetic data and technical support to speed up innovation. The Supercharged Sandbox helps firms who are in the discovery and experiment phase of their AI product's development.

AI Live Testing, by contrast, is about deployment of AI systems in controlled live market environments and involves engaging with real customers. In other words, it is designed as a service to help those further along in the process of developing an AI system and who are ready to begin using AI in real-world contexts through roll-out of mature proofs of concept (POCs).

What

Approach

We are interested in AI systems which have, or will have, a direct impact on consumers and markets. The goal of AI Live Testing is to understand how the risks of AI deployment to consumers or markets can be effectively understood and mitigated.

We consider the AI system to be comprised of the following: the actual AI model, information on the deployment context and core risks (as relevant to the deployment context), governance and human in-the-loop considerations, evaluation techniques, and input and output controls.

We broadly cover the following aspects in our AI Live Testing engagement with participating firms. The list below is indicative only and is provided to illustrate the type of questions we seek engagement on. The structure of AI Live Testing depends on the individual circumstances of each AI use case.

- Discussion of potential regulatory compliance challenges
- Discussion of governance arrangements and accountability (including human-in-the-loop)
- Threat modelling as well as cyber and operational resilience (where relevant)
- Review of pre-deployment tests
- Description of inputs and outputs
- Discussion of deployment context
- Identification of risks with the AI system (including discussion of how these can be mitigated and tested for)
- Design and implementation of the right tests and evaluation approaches, including consideration of consumer outcomes
- Implementing effective outcome monitoring

Regulatory Challenges

As part of AI Live Testing, we are keen to understand from applicants any challenges they face or other considerations around compliance with FCA requirements. We will consider how best to support participating firms in their specific circumstances, including through the provision of appropriate regulatory steers and support. As part of this we may consider providing individual guidance, waivers or modifications to requirements where appropriate. Where market- or sector-wide issues are identified, the insights gathered may help inform our regulatory approach more generally, including whether any further clarifications or guidance might be helpful.

How

AI Live Testing – Phases

As part of AI Live Testing participating firms receive AI technical and regulatory support. The FCA is working with the external consultancy Advai¹ to provide technical support. Each participating firm works with subject matter experts in the relevant area of financial services regulation and with domain knowledge of AI systems testing and validation approaches.

Participation in AILT includes three different phases:

- Discovery
- Framework validation
- AI system testing (including shared evaluation)

1. Discovery

The discovery phase involves a holistic discussion of the AI system, covering:

- AI use case, including the intended outcome of deployment
- AI governance and oversight

¹ Advai is a UK-based AI company specialising in automated testing, evaluation and assurance of AI systems, providing independent technical evidence so organisations can deploy AI safely and confidently at scale.

- Technical system architecture and the approach taken to AI testing and evaluation
- Operational resilience, security and outsourcing, and
- Market, consumer and systemic impact (where relevant).

A core part of the discovery phase is to identify and discuss key risks associated with the AI system within scope of AILT, including what this may mean from a regulatory perspective.

2. Framework Validation

The framework validation phase involves evaluating participating firms' approaches to pre- and post-deployment testing, including identification of key AI system risks, application and evaluation of relevant testing methodologies, AI governance considerations, guardrails, monitoring approaches (including data) as well as overall testing feasibility and timelines. Validation will largely be provided in terms of how well the firm's approach addresses the risks identified.

3. AI System Testing and Evaluation

The participating firm carries out the testing of the AI system. This involves monitoring the AI system in live market deployment against the risks and metrics identified in the framework validation phase. The findings from the live testing will be jointly evaluated and assessed. The FCA may ask for firms to share monitoring information.

AI Risk Mitigation and AI Governance

AI governance and AI risk identification are core components of safe and responsible AI deployment. We expect firms to ensure the right levels of oversight and AI governance for their AI system are in place.

On-going Participation

The FCA will determine who is accepted for participation in AI Live Testing in line with the application process, eligibility and selection criteria set out in these Terms of Reference.

On-going participation in AI Live Testing is at the absolute discretion of the FCA. The FCA reserves the right to suspend or terminate AI Live Testing or a firm's participation at any time. Without limitation of this discretion, a firm's participation is linked to a particular AI use case. Should for instance the AI use case materially change, be determined to be immature, or the engagement fail to adequately progress, this would need to be discussed with the FCA and may impact the on-going firm participation in AI Live Testing.

Eligibility Criteria

To be eligible, applications must demonstrate:

- **Financial services relevance:** the firm produces and distributes financial products and services, or provides AI models that are material to financial services and markets
- **Technology specificity:** the firm actively uses AI within their specific use case
- **Use case materiality:** the firm has a material AI use case that is relevant to financial services and markets, i.e. non-financial service use cases (e.g. IT, operations, sales, marketing, human resources, legal) may be ineligible
- **A strong proof of concept:** the firm has a well-developed AI solution at POC stage and has started considering its testing to ensure readiness for market roll-out
- **Support for FCA objectives:** the firm has a use case that is likely to further one or more of the FCA's operational objectives and has the potential to positively contribute to UK economic growth.

Given the limited number of spaces available for participation in AI Live Testing, meeting the above criteria does not guarantee acceptance.

Where relevant, we would expect participants to already be authorised and to hold the required permissions to conduct regulated activities within the scope of the use case.

POC Maturity

The FCA is interested in supporting firms that are ready to roll out mature AI POC into live market deployment. This POC maturity is defined as the firm having:

- already developed an AI solution POC
- plans to deploy their AI solution in the next few months
- identified AI-specific risks relevant to their solution
- carried out some pre-deployment testing
- the ability to demonstrate how the model would be tested live in markets relative to clearly defined risks
- the ability to demonstrate that AI governance principles have influenced the development of the AI solution, and
- the willingness to work openly and collaboratively with the FCA and their technical partner Advai to share their findings during live testing.

We will also need to consider technical maturity, feasibility of the testing, resource availability, and any competition considerations as part of the selection process with participants admitted to AI Live Testing (and remind applicants of their obligation to always ensure their own compliance with competition law).

Selection Process

The decision on which applicants to admit is carried out by a cross-functional FCA panel. The panel considers the eligibility of the application against the criteria set out above.

The panel considers the need for the participating cohorts to be broadly representative of financial markets and to be made up of both smaller and larger sized firms. The panel also considers how innovative the proposed AI use case is relative to current market practices and its potential impact and benefits for UK

consumers and markets. We may ask firms for additional information as part of the selection process.

Data Sharing

The FCA is working with the external consultancy Advai to support the FCA with AI Live Testing. Advai provides expertise in AI use case evaluation as well as technical support.

All information provided to the FCA by firms (including during the application process and throughout the AI Live Testing engagement), will be shared with Advai, who will be working alongside the FCA in delivering AI Live Testing.

Advai staff involved in AI Live Testing have signed confidentiality agreements and work from FCA laptops using FCA email addresses and systems.

Any confidential information shared with the FCA and Advai as part of firms' engagements with AI Live Testing is treated as confidential and handled accordingly, in line with our legal obligations.

Risk Mitigation

A core part of the discovery phase involves coming to a shared understanding of the AI system key risks and relevant controls, including risk mitigation strategies and safeguards, for the duration of the live market testing period. The details will depend on each AI use case. We will work with firms to make sure they have appropriate risk identification and safeguards for AI Live Testing in place, including an approach to addressing any potential harms.

AI Live Testing – Pilot and Transparency

AI Live Testing is currently designed as a pilot, at the end of which we will publish an evaluation report. Given that the actual model testing and evaluation phase can take months, the duration of the pilot has been extended to Q4 2026. We expect to publish the evaluation report towards the end of Q4 2026. Insights from AI Live Testing may also inform other FCA work, for example our international

engagement and FCA publications. We will of course seek appropriate approvals before sharing any confidential information externally.

Who

We are particularly interested in working with: Chief Information Officers, Chief AI Officers, Chief Data Officers, AI Risk and Governance Officers and AI solution providers.

When

Application Window

Applications for the second cohort will open on the [Digital Sandbox portal](#) from 19 January 2026 until 2 March 2026.

Length of Testing

The AI Live Testing initiative is expected to run for approximately 12 to 15 months, with each live testing cohort running for approximately 6 months (depending on the individual circumstances of the AI use case). We will publish an evaluation report towards the end of 2026 to assess whether the initiative has met its stated objectives. Depending on industry feedback and overall evaluation, AI Live Testing could become a permanent FCA initiative.

The duration of each AI Live Testing engagement will be use case-specific, depending on when sufficient monitoring data is available to come to a comprehensive view of the risks and benefits of the AI system. All live use cases need to be completed on time for the evaluation report to be drafted.

Number of Cohorts

We are aiming for AI Live Testing to have two cohorts, each made up of approximately 5-10 participating firms. The first cohort was selected in September 2025. The application window for the second cohort opened in January 2026. We may accept a higher number of firms depending on the range of use cases submitted and their representativeness of the UK financial services sector.

FCA Privacy Notice

The privacy notice in our AI Live Testing application form sets out how personal data will be processed as part of your application. [Please see our application form for details.](#)

Otherwise, for further information please see: <https://www.fca.org.uk/privacy>.

Contact: FCA, 12 Endeavour Square, London, E20 1JN

Email: AILiveTesting@fca.org.uk

Applying to AI Live Testing

Applications open on 19 January 2026 and close on 2 March 2026.
Application results will be communicated in late March 2026.

Applications can be submitted on the [Digital Sandbox portal](#).

Contact us at: AILiveTesting@fca.org.uk

Learn more at: www.fca.org.uk/firms/innovation/ai-lab

