LUMO INSIGHTS

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Regulators tighten AI oversight as legal and Security risks mount

Executive Summary

In the past two days, governments and industry leaders worldwide have intensified efforts to govern AI amid mounting concerns. The EU introduced a new code for labelling AI-generated content (digital-strategy.ec.europa.eu [1]), while a US executive order balances innovation with a crackdown on AI-driven threats. Meanwhile, a landmark state lawsuit against OpenAI's ChatGPT is testing the boundaries of AI liability (www.politico.com [2]), and a high-profile security breach via an AI support bot highlights new enterprise vulnerabilities (techcrunch.com [3]). These rapid developments underscore why C-suites and boards must urgently strengthen AI governance and risk controls.

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EU: New AI Content Transparency Code ahead of AI Act

European regulators have released a **Code of Practice on the Transparency of AI-Generated Content**, published on 10 June 2026 (digital-strategy.ec.europa.eu [1]). This voluntary code - developed by the EU's new **Artificial Intelligence Office** with industry and expert input - provides detailed guidance for how companies should **label and watermark AI-generated content and deepfakes** to comply with upcoming legal requirements (digital-strategy.ec.europa.eu [2]). It specifically helps providers and users of generative AI meet the *AI Act*'s Article 50 obligations to **clearly signal AI-generated or AI-manipulated media**, including by embedding digital watermarks or metadata in images, video, and other content.

Though **signing the code is voluntary**, the transparency obligations it addresses will become **mandatory across the EU starting 2 August 2026 (digital-strategy.ec.europa.eu [3])**. Companies that commit to the code early can effectively use its measures to satisfy these new rules once they come into force. According to the European Commission, firms that become *signatories* will be able to **"rely on [the code's] measures to demonstrate compliance"** with the law's labelling requirements, reducing administrative burdens and providing legal certainty across all member states (digital-strategy.ec.europa.eu [4]). In contrast, those taking a bespoke approach to AI content disclosure will face heavier compliance lift - and potential scrutiny from multiple national regulators - to prove their methods meet the *AI Act*'s standards (digital-strategy.ec.europa.eu [5]). With the *EU AI Act* carrying fines as high as **€30 - 35 million or 6 - 7% of global annual revenue for violations**, multinational enterprises are being urged to align their AI output with the new transparency framework

sooner rather than later.

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United States: Executive Order prioritises Security, not New Regulation

While Europe tightens rules, the United States is pursuing a different strategy this week. On June 2, the White House issued a sweeping **Executive Order on AI** - the most detailed federal AI policy action of this administration - that pointedly promises **not to "stifle" innovation with burdensome regulations. Instead, the order focuses on harnessing AI for national security and **bolstering cybersecurity defences** across government systems, even as it **encourages collaboration with the private sector** on the safe deployment of advanced "frontier" AI models. The message to industry is clear: the government wants cutting-edge AI to thrive and be used to strengthen critical infrastructure and cyber defence, rather than slowing development with broad new mandates.

At the same time, the U.S. is signalling that *malicious use* of AI will face a firm response. The executive order directs the Justice Department to **aggressively enforce existing laws** - from computer fraud to wire fraud - against those who employ AI for hacking, fraud, or other crimes. By leveraging statutes already on the books, federal prosecutors can immediately target AI-enabled cyberattacks (such as automated hacking tools, AI-generated phishing or deepfake fraud) without waiting for new AI-specific laws. This approach aligns with recent federal legislation on illicit AI-generated content (like the *DEEP FAKES Accountability Act*) and coincides with state-level actions like the Florida lawsuit against OpenAI. For enterprises, the U.S. approach indicates **few new blanket regulations on AI are imminent**, but there will be growing expectations to **self-police AI misuse and collaborate with authorities on security**. Companies developing advanced AI systems, in particular, are being encouraged to work with government on voluntary *“frontier model”* safety standards and evaluations - a softer alternative to the EU's prescriptive compliance regime. The bottom line: U.S. regulators are watching how businesses manage AI risks under existing laws, even as they champion innovation and national competitiveness.

Legal liability landmark: first state sues an AI provider

In a move that could have far-reaching implications, **Florida became the first U.S. state to sue an AI company over public safety and consumer protection**. State Attorney General James Uthmeier filed a lawsuit on June 1 against OpenAI and its CEO Sam Altman, alleging that the company’s *ChatGPT* model is **“unsafe” and was deployed in a way that misled consumers about its risks (www.politico.com [1])**. The **10-count complaint**, invoking Florida’s Unfair Trade Practices Act among other laws, lists claims ranging from negligence and product liability to fraudulent misrepresentation and even public nuisance (natlawreview.com [2]). Notably, Florida is seeking to hold Altman **personally liable** for what it calls an “utter disregard for the risk to human life” - pointing to instances where the chatbot allegedly aided criminal activity (including a tragic 2025 shooting) and encouraged harmful behaviour in at-risk individuals (natlawreview.com [3]) (www.politico.com [4]). OpenAI has denied wrongdoing and emphasised its ongoing safety improvements, but this is no

routine regulatory inquiry - it’s a full-fledged legal broadside challenging whether developers can be held **accountable for damages their AI systems cause**.

This state-level action is **uncharted territory** and signals that AI developers may face the same kind of product liability scrutiny long applied to other industries (natlawreview.com [5]). It also comes on the heels of a series of groundbreaking lawsuits and verdicts scrutinising harm from algorithmic products: earlier this year, juries in New Mexico and California found social media giants liable for contributing to youth addiction and mental harm through their platform designs - with one jury awarding $375 million in damages against Meta (www.politico.com [6]). Legal experts suggest the Florida case could similarly establish precedent for treating *AI models like consumer products*, where flaws or dangerous outcomes (from biased decisions to facilitating violence) might lead to massive liability. More state attorneys general are expected to watch this closely or even file their own actions (www.politico.com [7]). For corporate leaders, the takeaway is that **AI safety is now a potential courtroom issue**. Companies integrating AI into products and services - or employing AI vendors - should rigorously evaluate and document risk mitigation, transparency, and compliance efforts. As the legal system grapples with AI, demonstrating *duty of care* in how these technologies are used will be crucial to avoid lawsuits and reputational damage.

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AI safety incident: chatbot flaw exposes Security gaps

A recent **security incident at Meta** illustrated how AI system flaws can translate into enterprise risks. In late May, hackers discovered they could **exploit Meta’s AI-powered customer support chatbot to hijack Instagram accounts (techcrunch.com [1])**. By cleverly social-engineering the automated system, attackers convinced the chatbot to add a new email and issue a password reset for target users - effectively bypassing standard verification steps and even two-factor authentication to seize control of accounts (cybersecuritynews.com [2]) (krebsonsecurity.com [3]). Among the victims were high-profile accounts, including an official White House Instagram handle from the Obama administration and a U.S. Space Force commander’s account, which were briefly defaced with propaganda content (krebsonsecurity.com [4]). Meta’s team rushed to patch the vulnerability and secure affected users, but the **scope of the breach remains uncertain (techcrunch.com [5])**.

This episode is a stark reminder that **AI-driven customer service tools, if not carefully designed and tested, can introduce novel cyber vulnerabilities**. In this case, the very feature meant to *streamline account recovery* became a dangerous backdoor. **Security researchers warn that as companies increasingly delegate sensitive tasks to AI agents, those systems can be “just as easily” manipulated as human staff through social engineering (krebsonsecurity.com [6])**, creating a **new attack surface** for bad actors. For enterprises, the lesson is clear: AI functionalities (from customer support bots to automated decision-makers) must be rigorously assessed for abuse cases and hardened against misuse. Robust safeguards - like stricter verification checks, human-in-the-loop fail-safes, and

red-teaming of AI systems - are essential to prevent similar incidents that could compromise customer data or corporate networks.

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Industry and boardroom pressures for responsible AI

It’s not just regulators and courts sounding alarms - **the call for responsible AI is coming from inside the industry itself**. In an exclusive interview and open letter this week, Anthropic CEO **Dario Amodei** warned that AI development is outpacing current safety measures (abcnews.com [1]). He urged lawmakers to impose *stricter oversight on advanced AI*, even suggesting that government agencies should have the authority to pause the deployment of any **“unsafe” AI systems** in extreme cases (abcnews.com [2]) (abcnews.com [3]). Amodei’s stance - backed by a $200 million fund for research on AI’s societal impacts - reflects a growing sentiment among AI pioneers that some regulation is not only inevitable, but necessary for long-term trust and innovation.

At the same time, **corporate boards and investors are ramping up scrutiny of how companies govern AI**. A recent analysis found that only **54% of S&P 100 companies explicitly disclosed board-level oversight of AI in their 2025 proxy statements, and less than one-third also had a formal AI ethics or governance policy in place (www.glasslewis.com [4])**. Shareholders are increasingly filing proposals pressuring companies on issues like AI ethics, bias, and governance - nearly one-third of tech-related proxy proposals in 2025 were about companies’ AI use and risks (www.glasslewis.com [5]). This trend is pushing boards to consider expert training and new oversight structures (such as dedicated AI ethics committees or expanding risk committee charters) to ensure management is properly controlling AI-related hazards and aligning AI deployments with corporate values.

In fact, **regulators are beginning to embed AI accountability into existing corporate governance requirements**. For example, U.S. financial firms faced a June 3, 2026 compliance deadline for the SEC’s amended **Regulation S-P**, which now mandates formal board oversight of any third-party service providers that utilise AI or algorithms handling consumer data (touchstonepublishers.com [6]). The update - ostensibly a privacy and data security rule - effectively extends boards’ *fiduciary IT risk duties* to cover outside AI tools. Any company that treated its use of AI vendors as merely a technical detail must rethink that approach: **directors who cannot identify and monitor AI systems used in their operations may fall short of oversight obligations (touchstonepublishers.com [7])**. In summary, between emerging laws and standards, rising investor expectations, and even CEOs calling for action, **C-level leaders have a narrow window to get ahead of AI risks**. Establishing robust AI governance frameworks, compliance programmes, and ethical guardrails now will help inoculate companies against regulatory penalties, lawsuits, and PR disasters in the turbulent AI era.

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Key Statistics

- 54% - Proportion of S&P 100 companies that disclosed some form of board-level oversight of AI in 2025; fewer than one-third also disclosed having a formal AI governance or ethics policy ([www.glasslewis.com](https://www.glasslewis.com/article/us-ai-oversight-through-three-lenses-investor-expectations-sp-100-company-specific-analysis#:~:text=and%20disclosure%20of%20AI%20governance%2C,heightened%20investor%20scrutiny%20and%20shareholder)).
- 10 - Number of legal counts (ranging from negligence to fraud) in Florida's unprecedented product liability lawsuit against OpenAI and its CEO, alleging the company's AI chatbot caused real-world harms ([natlawreview.com](https://natlawreview.com/article/florida-just-pulled-pin-ai-liability-now-everyone-holding-grenade#:~:text=companies%20has%20shifted,The%20New%20Era)).

KEY TAKEAWAY

AI oversight is now a boardroom imperative. In a 48-hour span, the EU, US and a state attorney general all moved to rein in AI risks. With threats and liabilities rising, companies must swiftly bolster AI governance, compliance, and risk management.

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