LUMO INSIGHTS

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Regulators crack down as AI missteps mount

Executive Summary

In the past 48 hours, we've seen a rapid escalation in AI governance efforts around the globe. The EU's landmark AI Act has officially entered its enforcement phase, compelling companies to meet stringent transparency and risk-management requirements or face heavy fines (www.cooley.com [1]). Meanwhile, the U.S. government is pursuing voluntary oversight in the absence of new legislation (www.aiandnews.com [2]), the UK's first AI law is nearing approval, and Chinese authorities have issued their first fines under tough new AI rules. A high-profile retail facial recognition failure and urgent warnings about AI-driven fraud (aigovernance.com [3]) underscore the immediate need for strong, responsible AI governance at the highest levels of enterprise.

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European Union: AI Act Enforcement begins

The European Union's far-reaching Artificial Intelligence Act (AI Act) is no longer just a proposal on paper - its first major requirements are now in force. As of August 2, 2026, providers and users of high-risk AI systems in the EU must comply with binding new obligations, ending a two-year grace period since the law's adoption. This milestone, described as the most significant shift in tech regulation since GDPR, requires companies to implement extensive transparency and risk management measures whenever AI is used in sensitive contexts like employment, credit, education, public services, and law enforcement. For example, AI-generated content (such as deepfakes or chatbot interactions) must now be clearly identified to users under the Act's transparency rules (commission.europa.eu [1]).

EU regulators have shown they are serious about enforcement. Within days of the deadline, France's data protection authority (CNIL) sent compliance orders to 14 financial institutions operating AI-driven credit scoring algorithms, demanding the technical documentation required for their high-risk systems. When several banks requested more time to respond, CNIL refused, citing the two-year preparation window companies had since the Act passed in 2024. This swift action signals that authorities across Europe are ready to investigate AI deployments and impose penalties without delay.

The AI Act's penalties are stiff: violators can face fines of up to €15 million or 3% of global annual revenue, whichever is higher (www.cooley.com [2]). Yet a recent industry survey indicated that 78% of organisations were still not fully prepared for the AI Act's requirements as of the enforcement date, suggesting significant compliance gaps. The new law also effectively mandates corporate oversight of AI; companies deploying high-risk AI in Europe must establish documented governance, risk

management, and human oversight programmes to comply. In short, EU policymakers have signalled that the era of theoretical AI compliance is over - boards and executives must ensure their AI systems meet these rigorous standards or face serious legal and financial consequences.

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United States: voluntary oversight amid legislative gridlock

The United States has taken a markedly different path, as efforts to pass a comprehensive federal AI law have stalled. The proposed Great American AI Act - a 269-page bipartisan bill aimed at establishing national AI rules - passed the Senate in late June but remains stuck in the House of Representatives due to disputes over a controversial provision that would override state-level AI regulations. This legislative gridlock means there is still no single, overarching U.S. AI law. In its absence, a patchwork of state-level policies and sector-specific rules continues to expand, leaving companies to navigate a maze of different AI requirements across jurisdictions (swrconsult.com [1]).

In the face of congressional deadlock, the White House has stepped in to set guardrails through executive action. A new voluntary AI oversight framework, established by a June 2026 executive order, asks developers of cutting-edge AI models (often referred to as “frontier” models) to submit their systems for government-conducted safety and security tests up to 30 days before wider release (www.aiandnews.com [2]) (www.aiandnews.com [3]). This unprecedented early-review programme - part of a broader federal initiative to promote AI innovation while ensuring security - is intended to catch flaws in powerful AI systems (such as advanced generative AI) before they reach the public. It represents a proactive, collaborative approach to AI governance, signalling to industry that even in the absence of new laws, there will be oversight of high-impact AI.

Meanwhile, state governments and regulators are actively asserting their authority. California, Colorado, New York and at least a dozen other states have introduced or enacted their own AI governance measures, covering issues from automated hiring bias and consumer data protection to limits on facial recognition. By August 2026, companies operating nationally face roughly 14 different state AI regulatory frameworks, dramatically increasing compliance complexity. At the same time, federal agencies are not standing idle: the Federal Trade Commission, for instance, has pursued multiple enforcement actions against deceptive or harmful AI deployments using its existing powers under consumer protection laws (www.aipolicydesk.com [4]). And just this month, the Cybersecurity and Infrastructure Security Agency (CISA) updated its guidelines to tighten requirements for AI in critical infrastructure sectors like energy, water, and healthcare.

For U.S. businesses, this fragmented regulatory landscape heightens both compliance costs and risks. Without a unified federal standard, companies must monitor and adapt to accelerating state-level changes and heed the guidance of regulators. Many firms are looking to voluntary best practices - such as the NIST AI Risk Management Framework - to create internal governance structures that pre-emptively address AI bias, privacy, and safety risks. In the current environment, proactive self-regulation and flexibility are key for enterprises to remain innovative with AI while avoiding legal pitfalls and maintaining public trust.

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United kingdom: first AI law on the horizon

The UK is on the cusp of enacting its first dedicated AI legislation. The proposed AI Regulation and Safety Bill advanced through the House of Commons in mid-August, marking a decisive shift from the country's earlier "light-touch" approach of relying on existing regulators and voluntary guidance. The bill is on track to receive Royal Assent by October, at which point its measures would become law. This development aligns the UK with other major jurisdictions that have elevated AI governance to a national policy priority, underscoring that hands-off oversight is giving way to formal regulation.

While final provisions are still being debated, the legislation is expected to impose new legal duties on organisations building or deploying AI within the UK. For example, the bill will require developers of high-impact foundation models (the large-scale AI systems underlying many generative AI services) to share their safety testing data and risk mitigation plans with a designated regulator. Other anticipated measures include stricter transparency obligations and monitoring requirements for AI used in sensitive sectors. For businesses operating in or selling into the UK, this means that "ethical AI" principles will soon carry the force of law. UK regulators and policymakers are seeking to balance innovation with accountability, but the clear message to enterprises is that robust AI risk management and governance can no longer be optional.

China's AI crackdown and global implications

China has moved swiftly from drafting AI rules to enforcing them. On July 15, 2026, the Cyberspace Administration of China (CAC) put into effect new regulations governing certain AI services, including generative and "companion" AI systems for consumers. Within the first three weeks of enforcement, the CAC issued fines to 12 companies - totaling ¥4.2 million (roughly $580,000) - for violating these rules. Key violations included a failure to properly label AI-generated emotional responses and not verifying users' ages in interactive AI companion applications. By acting quickly against non-compliance, Chinese authorities have signalled that AI firms must prioritise safety and user protections from day one.

Unlike the EU's broad-based AI Act, China's regulatory approach is precise and use-case specific. Instead of one umbrella law, Chinese regulators have rolled out distinct rules for different AI domains - from deepfake media and recommendation algorithms to chatbots that serve as virtual companions. Each category of AI in China is subject to its own approval processes, real-name registration mandates, security assessments, and content moderation requirements before deployment to the public. This means companies operating in China or utilising Chinese AI technology abroad must tailor their compliance efforts to each specific type of AI system they touch.

These developments carry global implications. Multinational companies that leverage China's AI technology or do business in the country face complex new compliance and geopolitical challenges. One example is a recent partnership in which a U.S. financial firm teamed with a Hong Kong-based provider offering AI models from major Chinese tech companies - including Alibaba and Baidu, both of which are on U.S. trade restriction lists (www.aiandnews.com [1]). The alliance has drawn national security and data privacy scrutiny from regulators, underscoring the risks when western firms rely on AI technologies linked to jurisdictions with differing legal requirements (www.aiandnews.com [2]). Going forward, businesses need to rigorously vet cross-border AI partnerships and ensure that AI systems and vendors meet the highest applicable standards, or risk entanglement in regulatory

conflicts.

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AI incidents spark corporate & regulatory action

Recent real-world AI failures are driving home the need for immediate accountability. In one case, Sainsbury's - one of Britain's largest supermarket chains - paused its use of AI-driven facial recognition cameras after the system wrongly identified a loyal customer as a suspected shoplifter (www.retailgazette.co.uk [1]). The shopper was escorted from a London store in error, prompting an apology and a £150 voucher from Sainsbury's, which blamed the incident on human error in reviewing the system's alert rather than a flaw in the AI itself (www.retailgazette.co.uk [2]). The company temporarily suspended the technology at that location and retrained its staff on proper use. Notably, Sainsbury's has indicated the trial will continue in other stores after this review period, reflecting how retailers remain eager to adopt AI for security and efficiency despite the risks (www.aiandnews.com [3]).

Meanwhile, in Australia, the financial regulator is sounding the alarm as AI-enabled fraud surges. The Australian Securities and Investments Commission (ASIC) reports it removed 19,400 online scams in the past year - a 182% increase over the previous year - with criminals exploiting AI-generated voices and images to defraud victims (www.abc.net.au [4]). ASIC has deemed the wave of deepfake voice and video "impersonation scams" an emergency for the financial sector, which are putting consumers and banks at risk (aigovernance.com [5]). In response, the regulator launched a large-scale crackdown to remove fraudulent content and urged banks to strengthen their identity verification and anti-impersonation controls. Officials note that weak customer authentication processes have been a key enabler of these AI-driven scams at scale (aigovernance.com [6]).

These incidents serve as stark reminders that poorly governed AI can lead to serious real-time consequences. From retail to finance, companies employing AI in ways that directly impact the public must thoroughly vet these systems for accuracy, bias, and security vulnerabilities. Mistakes - whether from human oversight failures or AI deficiencies - can result in immediate reputational damage, legal liabilities, and regulatory intervention. The swift reactions by Sainsbury's and ASIC show that both industry leaders and regulators will act decisively when AI tools misfire. To avoid similar crises and maintain trust, boards should ensure rigorous AI governance and risk management practices are in place before deploying AI solutions that interact with customers or sensitive data.

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Key Statistics

- €15 million or 3% of global revenue - maximum potential fine under the EU AI Act for violating new transparency rules ([www.cooley.com](https://www.cooley.com/news/insight/2026/2026-08-03-eu-ai-act-transparency-obligations-take-effect-2-august-2026#:~:text=July%202026,What%20the)).
- 19,400 - online scams removed by Australia's ASIC in FY2026, a 182% rise over the previous year due to AI-driven fraud ([www.abc.net.au](https://www.abc.net.au/news/2026-08-17/asic-ai-powered-impersonation-scams-warning-alan-kohler/107038256#:~:text=in%20an%20AI%20deepfake%20scam,growing%20calls%20for%20social%20media)).

KEY TAKEAWAY

Global regulators are moving from plans to enforcement on AI, and companies face real legal and reputational consequences. New laws, penalties, and public AI failures make robust, board-level AI governance a non-negotiable business priority.

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