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REPORT

THE NEW RULES OF AI

A GLOBAL LEGAL OVERVIEW

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NAVIGATING THE AI LEGAL LANDSCAPE: TRENDS, CHALLENGES, AND SOLUTIONS

FOREWORD

The rapid advancement of artificial intelligence technologies has prompted a global response in the form of evolving legal frameworks aimed at regulating their use and impact. Entering 2026, jurisdictions worldwide continue to grapple with the complexities of AI regulation, striving to balance innovation with the need for oversight.

As AI continues to transform industries, businesses must navigate a complex regulatory environment while balancing innovation with compliance. In this report we highlight current legal frameworks and offer strategic insights for companies seeking to leverage AI responsibly. By understanding the regulatory landscape and implementing robust compliance measures, organizations can harness the potential of AI while safeguarding against legal and ethical pitfalls.

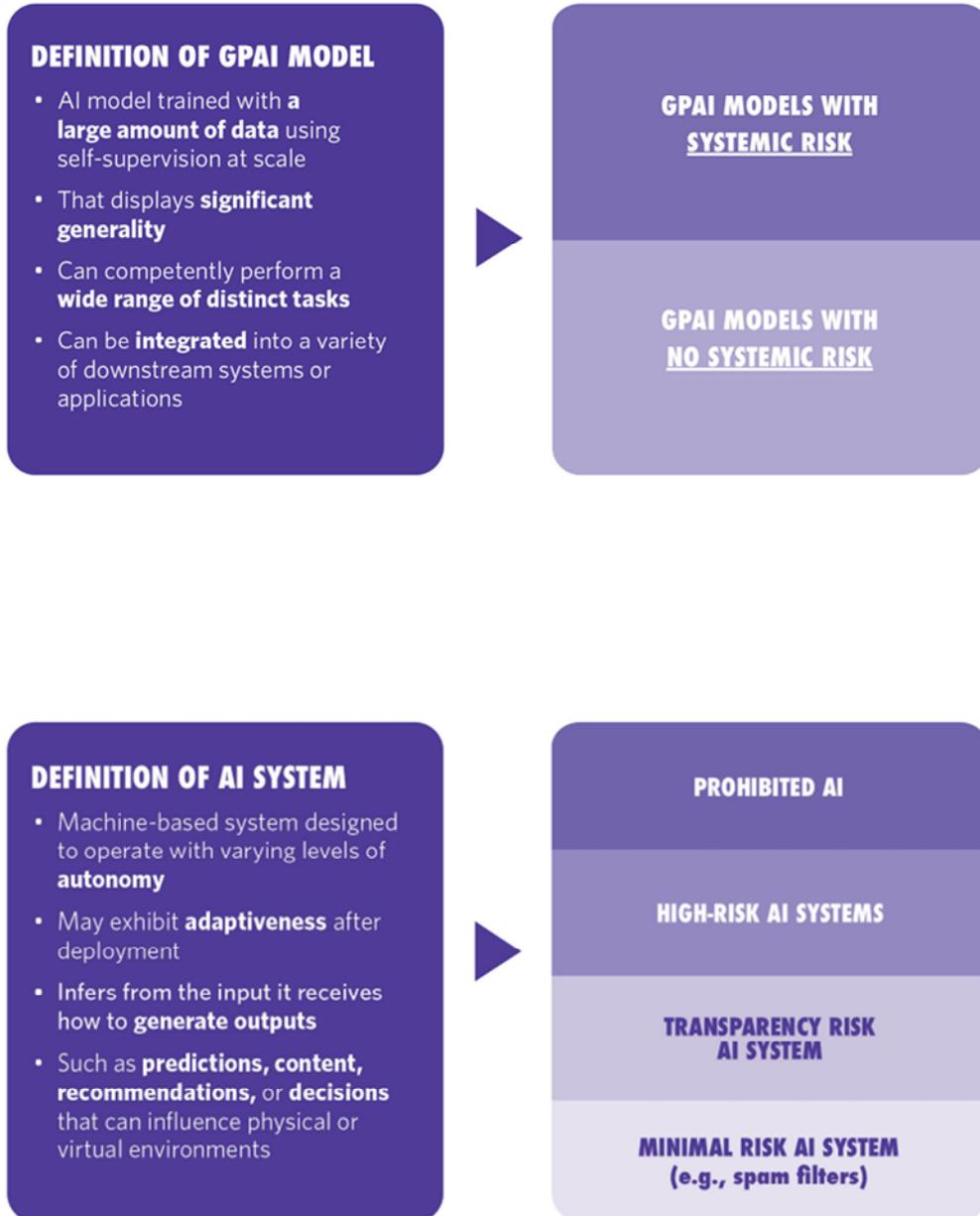
European AI Regulatory Frameworks

Globally, the European Commission has taken the lead in regulating AI through the following laws:

- **AI Regulatory:** AI Act
- **Personal Data Privacy and Protection:** EU General Data Protection Regulation (GDPR)
- **Intellectual Property:** Copyright Directive, etc.
- **Data Sharing and Cloud Services:** Data Act
- **Cybersecurity Act:** Network and Information Systems Directive
- **Online Platforms:** Digital Services Act
- **Antitrust:** Digital Markets Act
- **And much more**

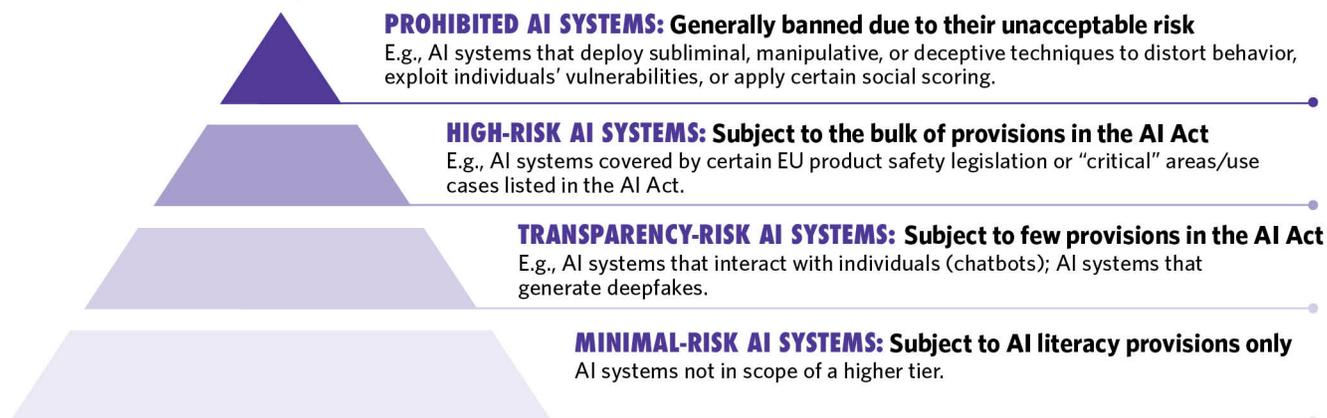
The EU AI Act has entered into force as the world's first comprehensive AI-focused law. It is intended to apply to companies with a physical presence in the European Economic Area (EEA) and notably to companies without a physical presence in the EEA in certain circumstances. The act regulates two types of AI: foundational models (general-purpose AI models, or GPAI models) and applications built on GPAI models (AI systems):

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The AI Act imposes a tiered set of obligations based on the risk associated with different GPAI models and AI systems, ranging from minimal-risk to high-risk and prohibited categories:



Importantly, the European Commission on November 19, 2025 published its "digital omnibus" legislative proposals, which seek to amend multiple major EU digital regulatory laws, notably the AI Act and the GDPR. These proposals, if enacted into law, are intended to ease AI-related compliance obligations, including by (for example):

- Deferring the date on which the AI Act's rules relating to "high-risk" AI systems come into effect
- Allowing providers of GPAI models additional time to update documentation and processes
- Narrowing the scope of what information is considered "personal data" under the GDPR
- Making it easier to train GPAI models on personal data that is subject to the GDPR

These proposals, which are welcome news for companies active in the EU, will be considered in more detail early in 2026, and there is no guarantee that these will be enacted into law.

The United Kingdom, which has for several years adopted (relative to the EU) a compliance-lite approach to AI regulation, published its AI Opportunities Action Plan. The plan seeks to position the nation as a global leader in AI technology, leveraging both private and public sector solutions to enhance public services and drive economic growth. The plan emphasizes the creation of data centers and technology hubs, with a focus on AI safety and regulation that aligns with pro-growth ambitions.

US AI Regulatory Frameworks

The United States has taken a bold step with the release of "America's AI Action Plan," which outlines a strategic framework for securing the nation's dominance in AI through innovation, infrastructure development, and international diplomacy. The plan marks a significant shift toward a deregulated environment, encouraging private sector-led innovation while emphasizing the importance of AI systems being free from ideological bias. The plan also highlights the need for rapid AI skill development and the establishment of regulatory sandboxes to accelerate AI deployment in critical sectors.

State-level initiatives in the United States, such as California's AI transparency law and Texas's Responsible AI Governance Act, reflect a growing recognition of the need for tailored AI regulations that address specific risks while fostering innovation. These efforts are complemented by the Federal Trade Commission's Operation AI Comply, which aims to address deceptive AI practices and ensure consumer

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protection. The US Securities and Exchange Commission’s focus on cybersecurity and AI underscores the importance of regulatory vigilance in safeguarding against potential risks.

The White House’s December 2025 executive order marks a major shift toward a unified national policy framework for AI, with broad implications for technology companies, state governments, and regulated industries. It aims to establish a minimally burdensome national standard for AI policy, limiting state-level regulatory divergence.

Asian AI Regulatory Frameworks

In Asia, Singapore’s Infocomm Media Development Authority launched the Model AI Governance Framework for Generative AI to address concerns and facilitate innovation in generative AI (GenAI). India is actively shaping its AI regulatory landscape with initiatives and guidelines for responsible AI development and deployment, but lacks specific AI laws. India is also considering AI-related laws to serve as a companion to its Digital Personal Data Protection Act 2023.

TABLE OF CONTENTS

- EU and UK Regulatory Updates.....6**
- US Regulatory Updates7**
- Asia Regulatory Updates10**
- AI Fundamentals.....11**
- Industry Focus14**
 - Healthcare14**
 - Life Sciences16**
 - Energy.....16**
 - Financial Services17**
 - Insurance.....17**
 - Retail17**

EU AND UK REGULATORY UPDATES

EU AI Act's First Compliance Deadline Takes Effect

As of February 2, 2025, Chapters I and II of the EU AI Act have entered into force. This includes Article 5, which prohibits some AI systems for which use may intrude upon an individual's privacy. These include certain AI systems relating to emotion recognition in the workplace, subliminal manipulation, and predictive policing. Separately, EU AI Act obligations related to AI literacy have also gone into effect.

"While this recent update describes a relatively discrete set of EU AI Act prohibitions, it is a small step forward in what is likely to be a strenuous year for AI compliance." – [Vishnu Shankar](#), [Donald G. Shelkey](#)

- For more information: [And So It Begins: An EU AI Act Update](#), *Tech & Sourcing @ Morgan Lewis*

The Future of AI in the United Kingdom

In January 2025, UK Prime Minister Sir Keir Starmer announced the [UK AI Opportunities Action Plan](#). The plan outlines the UK's intentions to become a world leader in AI technology for the benefit of private businesses and their customers as well as for all UK residents via AI-enabled public services.

"If the AI Opportunities Action Plan is successful, the UK is set to become a global AI hub, attracting significant global investors and talent. This would provide a boost for private companies to continue leveraging AI to improve their products and services to benefit both the companies and their customers and assist in revolutionizing public services with the use of AI for the benefit of all UK residents." – [Mike Pierides](#), [Oliver Bell](#)

- For more information: [The Future of Artificial Intelligence in the United Kingdom: AI Opportunities Action Plan](#), *Tech & Sourcing @ Morgan Lewis*

EU AI Act: Key Takeaways for Business and Legal Leaders

The EU AI Act, the world's first comprehensive AI and machine learning-focused law, went into effect on August 1, 2024. It has a sweeping impact on many businesses—including those operating outside of the EU—that currently design, develop, integrate, or use AI systems or models or plan to do so in the future.

"[We] are well suited to help companies navigate AI Act and related AI compliance, enforcement, and litigation matters. Our team stands ready to assist companies designing, developing, or using AI navigating this evolving and complex legal landscape." – [Vishnu Shankar](#), [Izzet Sinan](#), [Christina Renner](#), [Dion M. Bregman](#)

- For more information: [The EU AI Act Is Here: 10 Key Takeaways for Business and Legal Leaders](#), *Morgan Lewis LawFlash*

10 Key Steps for EU AI Act Compliance

The EU AI Act impacts many businesses—including those operating outside of the EU—that design, develop, or use AI systems or models. As with the EU/UK General Data Protection Regulation, violations of the act may result in significant regulatory fines (including direct liability for group parent companies) and private litigation (including collective litigation). Consider these steps to point you in the direction of compliance and consult experienced counsel for more tailored analysis and advice. – [Vishnu Shankar](#), [Izzet Sinan](#), [Christina Renner](#)

- For more information: [EU AI Act Compliance: 10 Key Steps for Providers and Deployers of AI Systems](#), *Morgan Lewis Insight*

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US REGULATORY UPDATES

Executive Order Sets Uniform National Standards for Artificial Intelligence

The White House's December 2025 executive order marks a major shift, seeking to preempt state AI laws and move toward a unified national policy framework for AI, with broad implications for technology companies, state governments, and regulated industries. The below LawFlash examines the key provisions, background, and practical impact of the order with respect to businesses and in-house counsel navigating the rapidly evolving AI regulatory landscape.

"The December 2025 order represents a deliberate step by the administration toward establishing a more coherent and harmonized federal approach to AI oversight, even though comprehensive federal legislation is still absent. At the same time, the order may raise more questions than it resolves. While many details remain to be determined through administrative rulemaking and legislative action, the order sets priorities for innovation, competitive leadership, and regulatory efficiency in AI." – [Amy M. Magnano](#), [Dion M. Bregman](#), [Nicholas M. Gess](#), [Michael J. Madderra](#), [Roshni Edalur](#)

- For more information: [White House Issues Executive Order to Establish Uniform National AI Standards](#), *Morgan Lewis LawFlash*

USPTO's Automated Search Pilot Program

The USPTO has announced the launch of its Automated Search Pilot Program, an initiative designed to evaluate the use of AI tools to enhance patent prior art searches. The program will test the use of an AI-powered search tool to identify potential prior art before a patent application is examined.

"The USPTO will use data and feedback from this pilot program to assess the effectiveness, scalability, and usefulness of the automated search process for insights into the future integration of AI tools into the broader patent examination process." – [Manita Rawat](#), [Michael S. Ryan](#), [Joaquin Hernandez](#)

- For more information: [USPTO Announces Automated Search Pilot Program](#), *Morgan Lewis LawFlash*

USPTO Issues Memorandum Reminding Examiners of Subject Matter Eligibility Evaluation

Deputy Commissioner for Patents Charles Kim issued a memorandum to three technology centers reminding examiners how subject matter eligibility should be evaluated under 35 USC § 101. These technology centers often handle inventions directed to AI and machine learning, and claims for those inventions are frequently rejected as lacking patent eligibility.

"The memo reinforces the importance of drafting a specification that supports AI/ML claims that demonstrates how the claims do not simply invoke computers or other machinery merely as a tool to perform an existing process, are not directed to automating an abstract idea, and do not simply apply generic machine learning to new data environments." – [Manita Rawat](#), [Dion M. Bregman](#), [Conor S. Ball](#), [Benjamin H. Pezzner](#), [Joaquin Hernandez](#), [Tairan Wang, Ph.D.](#), [Ka-Lo Yeh, Ph.D.](#)

- For more information: [USPTO Issues Memorandum Reminding Examiners Regarding Subject Matter Eligibility Evaluation](#), *Morgan Lewis LawFlash*

California Judicial Council Adopts Rule Governing State's GenAI Use

Following the year-long work of its Artificial Intelligence Task Force, California's Judicial Council adopted Rule 10.430 addressing the use of GenAI by the state's judicial branch. California is the largest, and one of the first, court systems in the United States to adopt such a framework. The below LawFlash covers

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the content and scope of the rule as well as its accompanying guidelines and offers advice on how to use the court's approach as a guide for what to anticipate in this area and how best to prepare.

"Given California's status as the nation's largest court system, this new judicial standard not only impacts a massive number of court personnel, practitioners, and litigants, but will likely contribute to an emerging national standard." – [Jeffrey Niemczura](#)

- For more information: [California Courts Adopt Rule Governing the State's Generative AI Use](#), *Morgan Lewis LawFlash*

White House Releases 'Winning the Race: America's AI Action Plan'

In July 2025, the White House released "Winning the Race: America's AI Action Plan," encompassing more than 90 federal policy actions and outlining the administration's comprehensive and aggressive approach to securing US "dominance in artificial intelligence." The plan is a significant departure from the previous administration's safety-first, risk-based regulatory posture in favor of a deregulated and industry-partnered environment. The plan is structured around three main pillars: innovation, infrastructure, and international diplomacy and security.

"Companies operating in AI, data infrastructure, and critical sectors should closely monitor the implementation details of this action plan and, if it materializes as suggested, anticipate both increased federal support and heightened scrutiny, particularly regarding export controls and compliance with new federal procurement 'neutrality' and 'objectivity' standards." – [Zachary W. Shine](#), [Dion M. Bregman](#)

- For more information: [US Administration Rolls Out 'America's AI Action Plan'](#), *Morgan Lewis LawFlash*
- See related: ['America's AI Action Plan' Encourages Reforms for Rapid Data Center Buildout](#), *Data Center Bytes*

Texas Responsible Artificial Intelligence Governance Act Takes Effect January 1, 2026

Governor Greg Abbott recently signed into law the Texas Responsible Artificial Intelligence Governance Act (TRAIGA), which will take effect on January 1, 2026. Texas joins California, Colorado, and Utah as one of the frontrunners in enacting comprehensive legislation governing the responsible use of AI across sectors. The below LawFlash covers provisions of note from TRAIGA and suggestions for how covered entities can prepare in advance of January 1 to ensure their AI use complies with the act.

"Before TRAIGA goes into effect, individuals, companies and state agencies can take several steps to evaluate whether they are covered under the Act and set forth a plan to comply." – [Jennifer Mott Williams](#), [Bansri Mehta McCarthy](#)

- For more information: [Texas Joins the Emerging Landscape of State-Level AI Governance](#), *Morgan Lewis LawFlash*

New York Passes Responsible AI Safety and Education Act

New York state lawmakers passed the Responsible AI Safety and Education Act (RAISE Act) in June 2025 with the aim of safeguarding against AI-driven disaster scenarios by focusing on the largest AI model developers; the bill now heads to the governor's desk for final approval. The RAISE Act is one of the latest legislative movements at the state level seeking to regulate AI, a movement that may continue to gain momentum after a 10-year moratorium on AI regulation was removed from the One Big Beautiful Bill Act.

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“From a practical perspective, requirements such as recordation of information on testing of any frontier AI model may push smaller startups and research organizations out of the market to the extent the resources necessary to maintain such information present additional and costly overhead.” – [Cooper J. Attig, A. Benjamin Klaber](#)

- For more information: [New York Seeks to RAISE the Bar on AI Regulation](#), *Tech & Sourcing @ Morgan Lewis*

SEC’s Continued Focus on Cybersecurity and AI

This article discusses how recent enforcement actions could indicate that the SEC is likely going to prioritize scrutiny in the areas of cybersecurity and AI, reminding companies and financial institutions to think ahead about how this may affect their business.

“Public companies and financial institutions should consider their regulatory risks when it comes to cybersecurity and AI, and work to reasonably address the implications for their particular business on an ongoing basis.” – [Carolyn M. Welshhans, Kelly L. Gibson](#)

- For more information: [Getting Ahead of the SEC’s Continued Focus on Cyber, AI](#), *Law360*

FTC Announces Operation AI Comply

In September 2024, the Federal Trade Commission announced Operation AI Comply, targeting what the agency has characterized as the use of AI [“to supercharge deceptive or unfair conduct that harms consumers.”](#)

“The FTC’s Operation AI Comply marks an escalation in addressing deceptive AI practices, as well as a broader effort by the FTC to proactively root out business models and incentive structures it perceives as posing competitive concerns. Businesses operating in the AI space must navigate this evolving regulatory landscape carefully. Compliance with consumer protection laws is essential to avoid enforcement actions and to contribute to a fair and open AI market. By fostering transparency, fairness, and responsible innovation, companies can help ensure that AI technologies deliver widespread benefits.” – [Alice S. Hrdy, Caitlin Zeytoonian](#)

- For more information: [FTC Moves to Expand AI Deployment Oversight with ‘Operation AI Comply’](#), *Morgan Lewis LawFlash*

California Governor Vetoes AI Safety Bill, Approves Law on GenAI Transparency

Also in September 2024, Governor Gavin Newsom vetoed a bill imposing new AI safety regulations while approving a law mandating transparency in GenAI. This update explores the implications for developers and the future of AI regulation in California.

“California’s recent legislative activity shows that one of the world’s most important technology centers is paying close attention to both the use and potential misuse of AI. The state is willing to require public disclosures regarding the use of GenAI and to regulate specific, targeted risks, such as election misinformation and deepfakes. However, whether more stringent AI safety regulation will be imposed at the development stage may depend on federal action from Congress.” – [Leigha M. Beckman, Minna Lo Naranjo, Dion M. Bregman, Andrew J. Gray IV](#)

- For more information: [California Governor Vetoes AI Safety Bill SB 1047, Signs AB 2013 Requiring Generative AI Transparency](#), *Morgan Lewis LawFlash*

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Illinois Signs New Law Addressing Employer Use of AI

Despite the rapid rise in the use of AI in the workplace, legislation regulating employers' use of AI remains sparse. Until recently, few states had passed laws governing an employer's requirements when using AI to make employment decisions, but in August 2024 Illinois joined these ranks when Governor J.B. Pritzker signed a new law into effect specifically addressing employer use of AI.

"Employers with employees in Illinois that use AI tools in their employment decision-making processes should monitor for new communications, rules, regulations, and guidelines related to the notice requirements in HB 3773 that will be promulgated by the Illinois Department of Human Rights between now and the effective date of January 1, 2026. Employers should also take the opportunity to review their use of AI in employment, including services provided by third-party vendors, to ensure compliance with the new provision and existing nondiscrimination requirements." – [Stephanie L. Sweitzer](#), [Zachary W. Shine](#)

- For more information: [Illinois Passes New Law to Address AI in the Workplace](#), *Morgan Lewis LawFlash*

ASIA REGULATORY UPDATES

Current State of AI in Investment Management in Asia

AI has become one of the most transformative forces in modern finance, reshaping how investment firms operate, analyze data, and interact with clients. AI is no longer a futuristic concept but rather a practical tool driving efficiency, innovation, and competitive advantage. However, its rapid adoption also brings potential risks and regulatory challenges, particularly in Asia where markets are embracing AI at different speeds. This Insight explores the current state of AI in investment management in Asia, its key applications, emerging threats, and the evolving regulatory landscape.

"Firms must balance technological adoption with robust governance and ensure AI is deployed responsibly and securely." – [Mike Pierides](#), [Robert Mailer](#), [Vishnu Shankar](#)

- For more information: [AI in Investment Management: Opportunities, Pitfalls, and Regulatory Developments in Asia](#), *Morgan Lewis Insight*

Singapore Launches Model AI Governance Framework for GenAI

In May 2024, Singapore's Infocomm Media Development Authority (IMDA) launched the Model AI Governance Framework for Generative AI. The framework, developed by the IMDA and its wholly owned and not-for-profit subsidiary the AI Verify Foundation, aims to establish a systematic and balanced approach to addressing GenAI concerns while continuing to facilitate innovation.

"The Generative AI Framework is expected to be further developed through, among other things, the implementation of additional guidelines and resources." – [Kristian Lee](#)

- For more information: [Singapore Expands Its AI Governance Approach to Include Generative AI](#), *Morgan Lewis LawFlash*

AI Regulation Landscape in India

While India continues to shape its AI regulatory landscape with initiatives and guidelines for responsible AI development and deployment, it lacks specific AI laws. NITI Aayog, India's policy think tank, has released strategies and principles focusing on ethical AI use, while the Ministry of Electronics and Information Technology has initiated AI innovation programs and skill development.

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India's participation in the Global Partnership on Artificial Intelligence and collaboration with international standards bodies such as the Bureau of Indian Standards aligns its efforts with global best practices. The government's pro-innovation stance encourages AI advancement while considering ethical risks, and international companies are advised to navigate the evolving regulatory environment with strategic legal entry routes into the Indian AI market. – [Rahul Kapoor](#)

- For more information: [India: AI Regulation – Current State and Future Perspectives](#), *OneTrust DataGuidance*

AI FUNDAMENTALS

Understanding Patent Protection for AI Technology

AI is transforming industries and redefining how innovation is created, deployed, and protected. As companies accelerate development of generative models and machine learning systems, questions around patent eligibility, inventorship, and enforcement have taken center stage. Regulators, courts, and the USPTO must now determine how traditional patent frameworks apply to technologies that evolve autonomously, process massive datasets, and in some cases generate their own outputs.

"Applicants must clearly document human inventorship, disclose technical detail sufficient for enablement, and show tangible technical improvements, while litigants must adapt infringement and discovery strategies to fit these dynamic and oftentimes opaque technologies." – [Manita Rawat](#), [Karon N. Fowler](#)

- For more information: [AI Patent Protection and Litigation: Key Takeaways for Innovators and Companies](#), *Morgan Lewis Insight*

Preservation of GenAI Prompts and Outputs

GenAI tools, which create text and media based on the data they were trained on, have raised legal concerns around data privacy, data security, and privilege considerations. In discovery, GenAI prompts and outputs may be considered unique information that must be preserved for litigation. Organizations must consider how to preserve this information and whether and how to incorporate changes into their standard ESI agreements.

"Legal hold policies and notices must address the new data types created by AI tools to ensure employees understand the need for preservation." – [Tara S. Lawler](#), [Matthew J. Hamilton](#), [Jeffrey Niemczura](#)

- For more information: [It's Time To Address Preservation of Generative AI Prompts and Outputs](#), *Reuters*

AI and Algorithmic Pricing

The rapid development of AI technology has led antitrust enforcers to begin actively scrutinizing potential anticompetitive practices related to the use of algorithmic pricing tools, particularly given that these tools may involve systems considered to be AI.

"As regulatory, legislative and litigation developments continue to evolve in 2025, companies leveraging algorithmic pricing, particularly those involving AI, should stay alert to emerging legal risks and shifting enforcement priorities." – [Joshua M. Goodman](#), [Minna Lo Naranjo](#), [Amir Ali](#)

- For more information: [Addressing Antitrust Scrutiny Over AI-Powered Pricing Tools](#), *Law360*

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2025 Outsourcing and Technology Transactions Considerations

The landscape for outsourcing, technology, and AI transactions continues to undergo significant transformations as businesses navigate technological advancements, regulatory changes, and data privacy concerns. With AI and cloud technologies continuing to grow in prominence, organizations must have a clear understanding of the applicable use cases and adapt to evolving contracting models, ensuring they secure valuable innovations while mitigating emerging risks.

“To succeed, businesses must embrace thoughtful and well-structured technology transactions and outsourcing agreements that account for these new challenges. By doing so, they can harness the power of AI and cloud technologies while managing risks, ensuring compliance, and safeguarding their long-term success.” – [Marina G. Aronchik](#), [Doneld G. Shelkey](#), [Mike Pierides](#)

- For more information: [Outsourcing and Technology Transaction Outlook for 2025](#), *Morgan Lewis Insight*

Strategies for Success in Integration of AI into Outsourcing

In today’s dynamic business landscape, outsourcing has become an indispensable tool for organizations seeking to streamline operations, cut costs, and access specialized expertise. Yet, as technology advances at an exponential pace, the integration of AI into outsourcing arrangements introduces a new dimension of complexity and opportunity. From predictive analytics to virtual assistants, GenAI applications are reshaping traditional outsourcing models, promising unprecedented opportunities but also raising novel legal challenges.

“The exploration of GenAI solutions has revealed both promise and peril within the legal landscape, with the consensus being that customers and providers of outsourcing services desire finding ways to implement GenAI in a compliant manner that enables the benefits while providing the appropriate level of transparency, privacy, and intellectual property protection. Business and legal teams will be tackling this lofty goal in the next year as the GenAI landscape continues to evolve.” – [Barbara M. Melby](#), [Michael R. Pfeuffer](#)

- For more information: [Unlocking AI and Outsourcing: Strategies for Success](#), *Morgan Lewis Report*

Exploring Contractual Issues in AI Transactions

It’s no surprise that AI is dominating the news cycle. One would be hard pressed to find another trend that has so quickly woven itself into the fabric of legal documents. As we continue to observe service agreement riders, diligence requests, and representations and warranties specifically related to AI appearing in all manner of transactions, we are consequently likely to see more and more AI-related issues and regulation as time goes by.

“AI products are increasingly coming to market, and in a widening array of use cases. Contract terms in most transactional areas are being specifically developed to address the issues that crop up. Directly related regulation is also being created, which will continue to make this an evolving area for the foreseeable future.” – [Mike Pierides](#), [Doneld G. Shelkey](#)

- For more information: [Exploring Contractual Issues in AI Transactions](#), *Morgan Lewis Insight*

Key Considerations When Evaluating an AI Vendor

In this blog post, we discuss some of the key questions to ask vendors that may be using AI in the provision of their services. Some of the considerations discussed—especially as they relate to an AI model’s output—may not be relevant for nongenerative AI, which are AI systems that do not involve the

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generation of new content or data, but rather are systems for analyzing, processing, and making decisions based on existing data.

“Selecting an AI vendor requires a thorough assessment of the AI solution and the vendor’s practices in conjunction with a company’s business goals.” – [Rahul Kapoor](#)

- For more information: [Key Considerations When Evaluating an AI Vendor](#), *Tech & Sourcing @ Morgan Lewis*

Key AI and Other Considerations for Emerging Companies

When focusing on getting a company off the ground and ensuring success for those involved—founders, employees, investors—there are certain key considerations regarding AI that would be wise to keep in mind.

“By keeping up with emerging trends and strategically integrating AI technologies into their business operations and understanding the applicable laws and regulatory requirements, new companies can gain a competitive edge and take full advantage of the opportunities offered by AI-driven innovation.” – [Brian P. Slough](#), [Michael S. Ryan](#), [Zachary W. Shine](#)

- For more information: [Key Takeaways: AI and Other Considerations for Emerging Companies](#), *Morgan Lewis Insight*

Key Infrastructure Components Critical to Continued Growth of AI and Cloud Computing

AI is top of mind for all businesses looking to grow. Economic researchers point to AI as a key factor to boost the economy and believe that AI could result in billions, if not trillions, of dollars in technology-related spending. However, this potential growth will not be possible in isolation; it requires massive amounts of supporting infrastructure. – [Vito Petretti](#)

- For more information: [Infrastructure of the Future: The Impact of AI and the Cloud](#), *Tech & Sourcing @ Morgan Lewis*

Content of an AI Usage Policy

One of the commonly advertised features of AI is that it is beneficial for automation and increasing productivity. When a company considers improving its productivity and employing an AI tool, it will typically go through a contracting process with the service provider, including to assess the terms of use and associated risks for the business. But what happens if an employee presses on and starts using an AI tool that was not vetted by the company?

“The short answer is that the company may be exposed to risks that it has not contemplated, such as breach of confidentiality or privilege, the company’s IP or cybersecurity being compromised, or contamination of the company’s data by AI ‘hallucination,’ among many other outcomes.” – [Donald G. Shelkey](#)

- For more information: [AI in the Workplace: It May Be Time to Update Your Employee Handbook](#), *Tech & Sourcing @ Morgan Lewis*

The New Legal Landscape Facing US Employers and Use of AI

AI is quickly transforming the employment landscape, automating tasks, streamlining processes, and enhancing decision-making. At the same time, the technology raises concerns about potential biases, accuracy, and increasingly complex legal compliance.

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“Employers are turning to AI to make time-consuming tasks more efficient, using the technology to streamline the recruiting process, find ways to eliminate human bias, and advance diversity. However, employers should be aware that using AI is not without risk.” – [Michael D. Schlemmer, Zachary W. Shine](#)

- For more information: [AI in the Workplace: The New Legal Landscape Facing US Employers](#), *Morgan Lewis Insight*

Strategies for Intelligent Management

Evaluating what intelligent management of AI means for an organization requires analysis of various intersecting factors. First, stakeholders must determine what counts as AI. That determination will help reveal what policies should be created as well as how to shape their goals, purpose, and scope. While risk mitigation in the world of AI is paramount, to fully maximize AI’s potential organizations must embrace the reality that constant technological change will demand flexible implementation, vigilant monitoring, and a commitment to regular updating.

“An AI policy is only as effective as its implementation and updates. Attention to the user is vital because such policies will not be effective unless they are user friendly. To aid end users, provide user education and training. Don’t rush a rollout. Be careful and intentional throughout implementation, which can be a lengthy phase. Institute a process for assessing the constant evolution of both technological change and relevant regulations. And remember to keep a close eye on the use of third-party tools.” – [Jennifer Mott Williams, Bansri Mehta McCarthy](#)

- For more information: [Optimizing AI: Strategies for Intelligent Management](#), *Morgan Lewis Insight*

INDUSTRY FOCUS

Healthcare

Use of AI in Group Health Plans

The use of AI in the administration of group health plans is nothing new: AI has been used for a number of years to analyze data, improve risk assessment, identify fraud, and streamline claims administration. AI can automatically review and approve or deny claims based on medical codes, reducing manual processing time with the goal of improving efficiency and accuracy in claims adjudication. In some cases, plan sponsors are crafting AI tools that provide plan participants with personalized healthcare recommendations available at enrollment, identifying, for example, which of the plan sponsor’s benefit options is the best choice for the plan participant and any dependents.

“AI is poised to revolutionize the way group health plans are administered. By embracing AI’s potential while also carefully managing the associated risks, plan fiduciaries can unlock significant benefits for both plan participants and administrators. The key is to approach AI implementation strategically, with a focus on compliance, data privacy, and ongoing oversight. As AI technology continues to evolve, staying informed on and adapting to the changing landscape will be critical for success in the ever-evolving world of group health plan administration.” – [Saghi Fattahian, Lindsay M. Goodman](#)

- For more information: [Fiduciary Considerations Raised By the Use of AI in Group Health Plans](#), *ML BeneBits*

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Potential Opportunities and Risks Associated With the Growth of AI in Healthcare

The risks associated with the growth of AI in the healthcare and life sciences industries, as well as recent federal and state activity and enforcement actions, emphasize the importance of understanding and implementing a robust AI compliance program.

“Adopting a structured approach that includes governance, training, oversight, and regular monitoring can help healthcare and life sciences organizations harness the benefits of AI while minimizing legal and regulatory exposure.” – [B. Scott McBride, Sydney Menack](#)

- For more information: [AI in Healthcare: Opportunities, Enforcement Risks and False Claims, and the Need for AI-Specific Compliance](#), *Morgan Lewis LawFlash*

FDA Announced Launch of GenAI Tool Elsa

In June 2025, FDA announced the launch of Elsa, a GenAI tool designed to “help employees—from scientific reviewers to investigators—work more efficiently.” Per FDA, the tool “modernizes agency functions and leverages AI capabilities to better serve the American people.” While Elsa may add efficiencies to FDA’s review processes, it also raises a number of questions for regulated industry.

“FDA emphasizes that AI will augment, not replace, human experts; reviewers remain responsible for directing the AI assistant and verifying its outputs. Going forward, however, sponsors should account for FDA’s use of AI during product reviews. By anticipating these changes, manufacturers can adapt their submission strategies.” – [Jacqueline R. Berman, Ariel Z. Seeley](#)

- For more information: [FDA’s AI-Assisted Review: The Next Stage of Regulated Product Evaluation, As Prescribed](#)

Health Tech Investment Act Introduced in April 2025

As AI transforms medicine, some of the most promising healthcare innovations are at risk of exclusion by Medicare’s outdated and complex reimbursement structures. The Health Tech Investment Act aims to address this by establishing a dedicated pathway for Medicare to reimburse algorithm-based healthcare services, which the legislation currently defines as a service delivered through FDA-authorized, AI-enabled medical devices that provide clinical outputs or conclusions for use by a healthcare practitioner. If enacted, the legislation would mark a major shift in how Medicare supports and pays for digital innovation in healthcare.

“The HITA, if enacted, would modernize Medicare’s reimbursement model to not only recognize the value of AI and algorithm-based services as mainstream tools for delivering timely, effective care but also help ensure that technological innovations reach patients. If enacted, the legislation could accelerate the adoption of life-changing technologies while ensuring they remain accessible, clinically valuable, and responsibly funded.” – [Ariel Z. Seeley](#)

- For more information: [How the Health Tech Investment Act Could Reshape Medicare Reimbursement for Algorithm-Based Services](#), *Morgan Lewis LawFlash*

State Bills for Healthcare Providers and Payors Seeking to Integrate AI Tools

As the regulation of AI tools in healthcare settings rapidly evolves, state medical boards and related agencies are at the forefront of development and enforcement. While some states have taken proactive steps to implement comprehensive frameworks to address ethical use, data privacy, and safety standards, others are focusing on fostering innovation and reducing regulatory burdens on healthcare providers.

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“As states continue to refine their regulatory frameworks regarding AI in clinical settings, the balance between innovation and patient protection is likely to remain a critical focus for legislators.” – [Jacob J. Harper](#), [Rachel L. Lamparelli](#)

- For more information: [\(AI\)n’t Done Yet: States Continue to Craft Rules to Manage AI Tools in Healthcare](#), *Morgan Lewis LawFlash*

New Requirements for California Healthcare Providers That Use GenAI Tools

The Artificial Intelligence in Healthcare Services Bill, signed into law by Governor Newsom, imposes new requirements on California healthcare providers that use GenAI tools to generate patient communications. The law introduces new guardrails for California healthcare providers that deploy GenAI to reach their patients and is part of a broader effort by California to regulate the rapidly growing GenAI sector.

“Developers that service the California healthcare industry may need to update or modify their GenAI tools to meet the new disclaimer and instruction requirements for AI-generated patient communications. Healthcare providers in California using or considering using GenAI tools should perform sufficient diligence to ensure compliance with these new requirements.” – [Michele L. Buenafe](#), [Jacob J. Harper](#), [Nicholas Pfeiffer](#), [Andrew J. Gray IV](#)

- For more information: [California Law Requiring Disclaimers by Healthcare Providers Using GenAI Will Affect Providers and GenAI Developers](#), *Morgan Lewis LawFlash*

Life Sciences

AI Changing the Pharmaceutical and Biotech Industries

In this article we examine how AI is rapidly changing the pharmaceutical and biotech industries, particularly in areas such as drug discovery, personalized medicine, and pharmacovigilance, and highlight the challenges AI poses for current patent laws and applicable data protection regulations. – [Tim Powell](#), [Vishnu Shankar](#), [Benjamin Rowlett](#)

- For more information: [As AI Shakes Up Pharma and Biotech, Can Patent Law Keep Up?](#), *Life Sciences Intellectual Property Review*

Energy

AI and Data Centers Drive Record High Energy Demand

Growing interest in GenAI has triggered a race to develop the technology, driving demand for high-density data centers and significantly increasing predicted electricity consumption. Research from the [US Energy Information Administration](#) and [Goldman Sachs](#) indicates that domestic and global record-high energy demand is quickly approaching.

“As we move toward an energy-intensive future driven by AI and data centers, the need for strategic investments in infrastructure will become crucial in mitigating the risks of potential shortages.” – [Jane Accomando](#), [Erin McClelland](#)

- For more information: [Artificial Intelligence and Data Centers Predicted to Drive Record High Energy Demand](#), *Data Center Bytes*

Energy and Commerce Departments Sign Pact to Evaluate AI Safety

The US Department of Energy and Department of Commerce (DOC) announced in October 2024 a memorandum of understanding signed earlier in the year to collaborate on safety research, testing, and

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standards for AI. The National Institute of Standards and Technology, a federal agency within the DOC and a leader in standards development across a range of industries, will represent the DOC under the memorandum of understanding.

“Similar coordination efforts among federal agencies are likely to continue as the White House and regulators advance a whole-of-government approach to address the responsible use of AI.” – [J. Daniel Skees](#), [Arjun Prasad Ramadevanahalli](#), [Lea M. Giotto](#)

- For more information: [Energy and Commerce Departments Sign Pact to Evaluate AI Safety, Power & Pipes](#)

The Intersection of Energy and AI

AI not only provides new technological advantages to the energy industry, but also the industry is itself responsible for providing the vast—and growing—amount of energy consumption driven by the computers powering much of AI.

“From enhancing grid resilience and optimizing energy procurement to addressing cybersecurity threats and regulatory complexities, the rapid integration of AI into the energy sector brings both opportunities for innovation and challenges that require careful navigation. As AI technologies continue to develop, stakeholders must collaborate to ensure sustainable and secure energy solutions that can support the growing demands of this transformative technology. The future of AI and energy lies in balancing technological advancement with regulatory oversight, environmental responsibility, and infrastructure development.” – [Jane Accomando](#), [Neeraj Arora](#), [Andrew J. Gray IV](#), [Mark A. Lazaroff](#), [Alex Polonsky](#), [J. Daniel Skees](#), [Arjun Prasad Ramadevanahalli](#)

- For more information: [The Intersection of Energy and Artificial Intelligence: Key Issues and Future Challenges](#), *Morgan Lewis Insight*

Financial Services

Regulatory Landscape for Global Financial Services

Regulators expect that financial entities will have in place appropriate controls, policies and procedures, and surveillance and monitoring to comply with existing regimes, including ensuring prudent operational risk management. In a similar vein, US regulators will not hold off on raising issues in examinations and investigations while their AI-specific policy approaches are evolving. Financial entities should look to leverage what they already have in place based on existing prudential requirements to document and effectively manage risks arising from their use of AI.

“Starting with governance and risk management, it is critical that AI systems incorporate measures to ensure data security and integrity, auditability, and mechanisms to address data provenance (e.g., through proper tagging of data). This is to ensure that, among other things, risks of training on incomplete, outdated, or unverified sources, as well as risks of distortion and hallucinations, can be managed.” – [Steven W. Stone](#), [Mike Pierides](#)

- For more information: [Global Financial Services: The Sector’s Current AI Regulatory Landscape](#), *Morgan Lewis Insight*

Insurance

Key Insurance Coverage Considerations for Complex Risks

The burgeoning AI industry has sparked a surge in data center projects across the United States, a trend likely to be further accelerated by measures announced by the US administration as part of its AI Action

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Plan. But these complex facilities come with equally complex risks, raising several key insurance coverage considerations for policyholders in the data center industry.

“Modern data centers raise a broad range of important insurance coverage issues. Given the increasingly complex risks associated with data center projects—including massive development, construction, management, and operational costs and related exposures—policyholders in the AI industry should carefully review and negotiate their insurance policies to ensure that coverage aligns with those risks.” – [Garrett S. Nemeroff](#), [Sergio F. Oehninger](#)

- For more information: [The AI Data Center Boom: Key Insurance Coverage Considerations for Complex Risks](#), *Morgan Lewis Insight*

Retail

Key Issues in Commercial Contract Negotiations in the Retail Industry

The intersection of technology and commerce has given rise to a myriad of trends that are reshaping the way companies approach commercial contracts. From the retail industry to the broader market, the integration of AI and digital transformation has become a focal point in negotiations. As businesses traverse through the complexities of IP rights, service levels, liability, data collection and usage, and privacy regulations, understanding the implications of these trends is crucial for successful contract negotiation.

“The convergence of AI, digital transformation, and market trends is restructuring the landscape of commercial contracts, including ownership, service levels, liability, and data privacy. Understanding market trends, complying with data privacy laws, addressing AI use, and negotiating robust contract terms are essential for success in the modern retail industry. By prioritizing these key considerations, retailers can effectively manage risks, foster trust with partners, and drive sustainable growth in the ever-evolving retail ecosystem.” – [Donald G. Shelkey](#), [Eric J. Pennesi](#), [Kristin M. Hadgis](#)

- For more information: [Key Issues in Commercial Contract Negotiations in the Retail Industry](#), *Morgan Lewis Insight*

Use of Agentic AI in the Ecommerce Space

AI tools designed to perform a specific autonomous function with limited human interaction (commonly referred to as agentic AI) are changing the operation of myriad business processes, accelerating the rate at which organizations can handle data workflows and complex decision-making. As AI agents transform into full-fledged virtual assistants, organizations are finding new ways to drive value by redesigning their enterprise’s digital landscape to accommodate and augment agentic AI. However, consumers and customers have increasingly been employing agentic AI to interact with companies of all sizes, highlighting that use of agentic AI may no longer be a one-way road from businesses to customers.

“Any retailer seeking to implement agentic AI in these ecommerce applications would likely weigh potential barriers to adoption, including those that are typical for other GenAI use cases: financial considerations, data privacy requirements, and internal approval and ongoing governance controls, as well as those that are more pronounced for agentic AI tools, such as the difficulty in implementing, or potential omission of, the ‘human in the loop’ as oversight in the decision-making processes.” – [Cooper J. Attig](#), [Eric J. Pennesi](#)

- For more information: [Agentic AI: An Agent of Change in the Ecommerce Space](#), *Tech & Sourcing @ Morgan Lewis*

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CONTACTS

If you have any general inquiries, please contact our AI Client Solutions team:

Dion M. Bregman	+1.650.843.7519	dion.bregman@morganlewis.com
Heather Egan	+1.617.341.7733	heather.egan@morganlewis.com
Elizabeth B. Herrington	+1.312.324.1445	beth.herrington@morganlewis.com
Vishnu Shankar	+44.20.3201.5558	vishnu.shankar@morganlewis.com
	+32.2.507.7500	
Doneld G. Shelkey	+1.617.341.7599	doneld.shelkey@morganlewis.com

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