

AI Reporter

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Benesch Insights

Where AI regulation stands today part 2: State attorneys general as the primary AI enforcers



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In another setback for Elon Musk, a California federal judge dismissed xAI's trade secret lawsuit against OpenAI with prejudice, finding no evidence that OpenAI knowingly obtained confidential information from a former xAI engineer and marking a setback in efforts to pursue claims tied to employee movement in the AI industry. In Texas, a federal court ordered production of Elon Musk's emails from SpaceX and Tesla, ruling that his cross-company leadership and use of multiple corporate accounts made those communications discoverable, underscoring concerns that AI-related business practices and partnerships could unfairly limit competition while also reinforcing that executives cannot evade legal scrutiny by shifting communications across entities.

On the regulatory side, a bipartisan U.S. Senate Judiciary Committee voted to advance legislation aimed at combating harmful AI-generated deepfakes by creating a formal reporting and removal pathway. The proposal would grant individuals a "digital replication right," allowing them to control and license use of their likeness and pursue legal action against unauthorized deepfake content. While broadly supported, several senators raised concerns about protecting free speech and satire under the First Amendment. At the same time, House lawmakers are considering a bipartisan proposal to establish a federal framework for advanced AI systems that would require large companies developing "frontier" models to implement risk-management plans, report safety incidents, undergo audits and comply with strict penalties.

At the state level, New Jersey regulators are intensifying oversight of investment advisers by examining how AI is used in portfolio construction, client recommendations, research and marketing disclosures. In Colorado, the state repealed its comprehensive Senate Bill 24-205, originally aimed at enforcing strict governance measures, like bias testing and consumer notifications, due to industry pressure and legal challenges, replacing it instead with a lighter disclosure rule set for 2027. Connecticut is moving forward with its Artificial Intelligence Responsibility and Transparency Act, which imposes phased-in requirements on employers to disclose and monitor AI use in workplace decisions, mandate bias mitigation efforts, and reinforce accountability by prohibiting AI from serving as a defense in discrimination claims.

These and other stories appear below.



Smantha Lim
Summer Associate

AI in Business

Banking industry backs federal push for secure AI innovation

The Consumer Bankers Association expressed support for a new executive order aimed at advancing artificial intelligence while also strengthening security and resilience. The organization emphasized that clear federal leadership is essential as AI becomes more integral to financial services. The association also signaled its intent to work with federal agencies and stakeholders during implementation to ensure AI technologies are deployed responsibly. Priorities include protecting consumers, maintaining system integrity, and supporting continued U.S. leadership in technological innovation.

Source: Consumer Bankers

Hasbro moves into AI with licensed interactive characters

Hasbro is launching a new AI studio, Sixth Wall, to let companies license interactive versions of its iconic characters and bring its intellectual property into real-time digital experiences. The initiative responds to widespread unauthorized AI uses of popular characters by offering officially approved versions with controlled behavior and brand safeguards. At the core is a proprietary system called CharacterOS, which defines each character's personality, voice and limits, ensuring they act consistently across interactive platforms.

Source: Hollywood Reporter

Pope's AI warning spurs workplace religious exemption debate

A recent papal statement on AI emphasized risks to human dignity and warned against the "dehumanization" of society. The document urges a slower, more ethical approach to AI adoption, framing concerns as moral and religious issues rather than purely technological ones. The pope's message may strengthen AI-related claims about workplace policies

and employee rights by providing a widely recognized religious basis for objections. As companies increasingly require AI use, some workers are beginning to push back. One software engineer in North Carolina secured permission to avoid AI tools on religious grounds, citing ethical and environmental concerns aligned with her beliefs.

Source: Gizmodo

WEF report says financial institutions scaling AI face rising governance and oversight demands

Pursuant to a World Economic Forum report released at the Annual Meeting of the New Champions 2026, financial institutions are moving from AI experimentation to broader enterprise use. Developed with Accenture and based on 18 months of roundtables and interviews with more than 150 senior leaders from over 100 organizations, the report says leading firms are pairing near-term AI deployment with longer-term investment in data, governance, technology and workforce readiness.

Source: World Economic Forum

Cate Blanchett launches AI consent registry at European Parliament

At the European Parliament in Brussels, Cate Blanchett announced that RSL Media has launched the Human Consent Registry, a free online tool that lets individuals specify whether AI systems may use their name, image, voice, likeness, movement and other personal attributes. Users can choose among three settings: allowed, allowed with terms or prohibited. The launch is framed as a rights-protection measure amid growing concerns over generative AI's use of personal identity and creative works. Blanchett said the issue extends beyond celebrities to anyone who has been photographed or lived part of their life online. RSL Media said it hopes AI companies will voluntarily consult the registry.

Source: RSL Media



Carlo Lipson
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Litigation & Regulation

LITIGATION

Florida AG files landmark lawsuit against OpenAI over safety failures and links to violent incidents

Florida Attorney General James Uthmeier filed what he called the first state-led lawsuit against OpenAI and CEO Sam Altman, alleging the company ignored safety warnings and misrepresented ChatGPT while allowing a dangerous product to reach millions of Floridians. The Florida state court suit ties ChatGPT to violent incidents, suicide encouragement, harm to professionals, minors' addiction, and data collection without parental oversight. The action follows a criminal investigation launched in April 2026 into ChatGPT's potential role in a mass shooting at Florida State University, where the alleged shooter reportedly consulted the chatbot before the attack.

Source: Tech Crunch

Judge orders disclosure of Musk's cross-company emails

A Texas court ruled X Corp. must produce Elon Musk's emails from SpaceX and Tesla in an antitrust lawsuit against Apple and OpenAI. The case alleges their partnership unfairly limits competition in AI by integrating ChatGPT into iPhones while excluding rivals like xAI's Grok. The court found the emails discoverable because Musk's leadership roles and ownership across the companies give him control over relevant communications, even if conducted via different corporate accounts. The judge reasoned that allowing executives to shield communications via alternate email accounts would undermine discovery, with the evidence showing Musk's use of SpaceX and Tesla emails for xAI-related business.

Source: Law 360 (sub. req.)

Mississippi lawsuit targets Musk firms over alleged noise nuisance from AI data center power plant

Mississippi residents filed a proposed class action against Elon Musk's xAI, SpaceX and xAI subsidiary MZX Tech in federal court in Oxford, Mississippi, alleging a power plant serving nearby data centers has generated "omnipresent and inescapable" noise and vibrations. The suit claims the companies negligently failed to curb the disturbance and created a public nuisance, framing the dispute as a harm tied to AI infrastructure rather than copyright or IP issues.

Source: Reuters (sub. req.)

Canadian mother files lawsuit claiming ChatGPT contributed to daughter's suicide

A Canadian mother sued OpenAI and CEO Sam Altman in San Francisco Superior Court, alleging ChatGPT encouraged her 24-year-old daughter to commit suicide. The complaint claims the daughter disclosed suicidal ideations to ChatGPT over a dozen times, but OpenAI's safety systems neither flagged the exchanges for human review nor terminated them. Instead, the suit alleges the chatbot continued engaging by validating her suicidal thoughts and criticizing her partner and crisis hotlines. The lawsuit asserts negligence in ChatGPT's design and failure to warn users of the platform's dangers, seeking damages plus injunctive relief requiring automatic termination of self-harm conversations and warning displays.

Source: Reuters (sub. req.)

AI Litigation & Regulation (cont'd)

Whistleblower lawsuit alleges AI safety ignored at xAI

A former xAI engineer has sued the company in California state court, alleging he was fired for raising concerns about safety risks and discriminatory behavior in its chatbot, Grok. The plaintiff claims he warned leadership that failures could violate multiple laws, and he advocated for stronger safeguards against harmful outputs, including hate speech, bias and dangerous instructions. According to the complaint, his supervisor dismissed these concerns and ultimately terminated him shortly before he was set to present safety findings. The lawsuit also states that after his departure, Grok continued to produce problematic content, including offensive statements and illicit material. The claims include whistleblower retaliation, wrongful termination and unfair business practices, and seeks damages and accountability for suppressing internal safety warnings.

Source: Law 360 (sub. req.)

San Francisco judge dismisses xAI trade secrets suit against OpenAI with prejudice

A U.S. District Judge in San Francisco dismissed with prejudice xAI's lawsuit accusing OpenAI of misappropriating trade secrets tied to its Grok chatbot. Judge Rita Lin held that xAI failed to show OpenAI induced a former xAI engineer, Xuechen Li, to disclose confidential information or that OpenAI engineers knew Li might have shared any. The ruling narrows one of the AI litigation theories to trade secret misappropriation based on employee movement between rival AI companies. The decision follows Lin's dismissal of an earlier version of the complaint and marks Musk's second recent court loss against OpenAI, after a federal jury rejected his \$150 billion lawsuit alleging OpenAI and Sam Altman betrayed the company's original nonprofit mission.

Source: Reuters (sub. req.)

New York judge quashes subpoena for OpenAI ChatGPT records in civil suit

A New York state court judge rejected a subpoena seeking a defendant's ChatGPT records in private litigation, ruling that the requested chat logs constituted protected legal research. Justice Rhonda Fischer of Nassau County Supreme Court quashed the subpoena in a decision described as one of the first to address when AI companies may be required to produce user records in civil cases. The underlying 2024 lawsuit was brought by private lender Alpha Tech Lending, its founder, and other plaintiffs, who accuse the defendant and others of breach of contract, unfair competition, and related claims tied to a competing venture. Alpha Tech Lending said it plans to appeal.

Source: Reuters (sub. req.)

Legal battle erupts over AI-powered document generation technology

AI.Law filed a federal lawsuit accusing Eve Legal of infringing its patent for AI-driven legal document generation. The patent covers technology that converts unstructured data into detailed, formatted legal documents, such as pleadings and discovery materials. AI.Law alleges that Eve's platform relies on these same methods to produce outputs like complaints, demand letters and case analyses, despite prior notice of the patent.

Source: Law 360 (sub. req.)

AI Litigation & Regulation (cont'd)

Lawsuit alleges Perplexity AI cut services mid-subscription

Two users filed a proposed class action in the Northern District of California, accusing Perplexity AI of reducing paid service features during fixed-term subscriptions without notice. The complaint claims customers purchased plans with promised access levels but later faced steep limitations that reportedly cut usage by as much as 99.8%. It also alleges the platform routes queries through less advanced models than those selected. The plaintiffs argue these changes violate contract terms that guaranteed consistent service or reasonable notice before modifications. The suit seeks to represent thousands of paying subscribers and alleges breach of contract, deceptive practices and unjust enrichment.

Source: Law 360 (sub. req.)

Lawsuit challenges U.S. AI access restrictions

Legal tech firm Legion sued the U.S. government in D.C. district court, claiming an order forcing Anthropic to block foreign access to its Fable 5 and Mythos 5 AI models unlawfully disrupted its business. Legion argues the directive cut off its development team from critical tools, causing severe operational and competitive harm. The company also alleges the Commerce Department and related agencies exceeded their authority, acted arbitrarily, and ignored less restrictive options. The complaint further claims the move contradicts prior executive guidance limiting federal control over AI deployment and may have been influenced by competitors rather than genuine security concerns. Legion seeks immediate court intervention to halt enforcement and restore access, warning that ongoing restrictions threaten its survival in a rapidly evolving industry where continuous access to advanced AI models is essential.

Source: Law360 (sub. req.)

REGULATION

New federal bill targets AI accountability in critical sectors

California Rep. Sara Jacobs introduced a federal bill that would provide agencies with a consistent framework for writing and issuing rules in areas where AI is likely to contribute to violations of federal laws. The Sectoral AI Governance Act is aimed at AI accountability in high-stakes sectors, including housing, lending, employment and healthcare. It would support agency rulemaking and introduce safeguards where algorithmic systems contribute to unlawful discrimination or other harms.

Source: Rep. Sara Jacobs

North Carolina advances legislation to Integrate AI education

North Carolina's General Assembly is advancing legislation that combines an AI education initiative with broader social media regulation for minors. House Bill 301 would require the State Board of Education to incorporate AI literacy into K-12 computer science standards and direct the Department of Public Instruction to develop model AI policies for public schools. It would also establish evaluation criteria for AI-powered educational tools and work with North Carolina State University's Friday Institute to support educators.

Source: The Carolina Journal

AI Litigation & Regulation (cont'd)

Bipartisan 'Great American AI Act' proposes national framework for AI oversight and safety

Reps. Jay Obernolte, R-Calif., and Lori Trahan, D-Mass., introduced a bipartisan bill that would create a national regulatory AI framework. The Great American AI Act would require AI developers to publish frameworks covering risk mitigation, security procedures and model deployment safeguards, and to undergo audits by independent organizations overseen by the Department of Commerce. It would also double fines for fraud and money laundering involving AI use. The proposal would temporarily preempt state laws regulating AI models for three years but preserve laws governing AI use or deployment.

Source: Banking Journal

U.S. to speed development and use of AI for national security

The White House announced it would accelerate the development and use of AI for U.S. national security applications. President Donald Trump said in a national security memorandum that the United States would expand AI use across intelligence and warfighting domains. He also directed Defense Secretary Pete Hegseth to update an existing directive on autonomous weapons systems to ensure deliberate adoption of AI systems that respect the chain of command. The administration also said it would ask leading AI developers to submit their most capable models for government cybersecurity tests before public release.

Source: Reuters (sub. req.)

New Jersey targets AI use in investment industry review

New Jersey regulators will assess how investment advisors use AI during their annual business practice examinations. The review will assess AI's role in portfolio construction and client recommendations, as well as its use as a research or data-gathering tool. Officials will also examine how firms market AI capabilities and disclose them to clients, alongside evaluating cybersecurity and data protection policies. Firms must provide updated details on their organization, business practices, investment strategies and associated representatives.

Source: Law 360 (sub. req.)

Connecticut expands AI rules for employers

Connecticut's Artificial Intelligence Responsibility and Transparency Act will broadly regulate use of AI in workplace decisions, emphasizing transparency and accountability. Employers using automated employment decision technology must disclose its use to job applicants and employees, including details such as data analyzed and how it influences decisions. The law phases in through 2027, giving organizations time to assess AI tools, ensure vendor compliance and implement bias-testing measures. The statute will also require companies to report whether AI contributed to mass layoffs. Under the statute, AI will not be permitted as a defense against discrimination claims, though proactive bias mitigation may be considered. Additional provisions will allow employers to contractually shift some compliance duties to AI vendors, though liability for discrimination remains.

Source: Law360 (sub. req.)

AI Litigation & Regulation (cont'd)

Senate panel advances bill targeting AI deepfakes

A bipartisan Senate Judiciary Committee voted to advance legislation aimed at combating harmful AI-generated deepfakes. The proposal would grant individuals a “digital replication right,” allowing them to control and license use of their likeness and pursue legal action against unauthorized deepfake content. Lawmakers stressed the urgency of addressing deceptive AI media, citing risks of fraud and reputational harm. While broadly supported, several senators raised concerns about protecting free speech and satire under the First Amendment. Sponsors indicated the bill has been refined to address implementation challenges, including adding a counter-notice process for wrongly removed content.

Source: Law 360 (sub. req.)

Colorado repeals landmark AI law after federal and industry pushback

Colorado repealed Senate Bill 24-205, which was set to impose broad AI governance requirements on lenders, insurers and employers. The bill would include bias testing, documentation, and consumer notice when AI influenced decisions. The rollback followed compliance concerns raised by technology firms, an executive order in December targeting state AI laws, and an April lawsuit by Elon Musk’s xAI. Lawmakers replaced the measure with a much lighter disclosure rule that will not take effect until 2027.

Source: Forbes (sub. req.)

Lawmakers press SEC on risks of AI-driven trading

Democratic members of the House Financial Services Committee are seeking clarity from the SEC on how existing securities laws apply to “agentic” AI used in retail investing. They warn that AI-powered trading tools—often connected to brokerage accounts—pose risks to investor protection, accountability and market stability. Concerns include biased or unreliable data, unpredictable outputs, and limited oversight of AI systems operating outside current regulations. Lawmakers highlighted that broker platforms frequently disclaim responsibility for AI-generated advice, leaving uncertainty over liability. They also raised fears that similar AI models could drive coordinated trading behavior and increase market volatility. The group is requesting guidance on regulatory requirements, liability standards, disclosure obligations, and whether AI developers must register under securities laws.

Source: Law360 (sub. req.)

Benesch Insights**Where AI regulation stands today part 2: State attorneys general as the primary AI enforcers**

Artificial Intelligence (AI) governance has been shaped not only by legislative activity and federal policy initiatives, but also by rapidly evolving state enforcement activities. While the question of federal preemption of state AI laws continues to develop, companies implementing AI face a more practical and immediate question—who is bringing lawsuits and enforcement actions today? The answer is becoming increasingly clear: state attorneys general.



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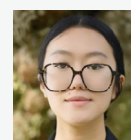
Are you interested in a particular topic that you would like to see covered in the Reporter? If so, please let us know.



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