



AI, Machine Learning & Big Data 2026

Eighth Edition

Contributing Editor:

Charles Kerrigan

CMS LLP

glg Global Legal Group

TABLE OF CONTENTS

Preface

Charles Kerrigan
CMS LLP

Expert Analysis Chapters

- 1** **The regulation of AI in financial services: a review of the UK and EU position for firms developing AI products**
Lisa McClory
CMS LLP
- 9** **Practical guidelines for the use of generative AI**
David V. Sanker
SankerIP
- 20** **AI M&A: Current trends and unique legal and regulatory considerations**
F. Dario de Martino, Alex Touma, Anna Rudawski & Noah Brumfield
A&O Shearman
- 34** **AI procurement**
Roch Glowacki, James Gill & Paul Caddy
Lewis Silkin LLP

Jurisdiction Chapters

- 47** **Argentina**
Diego Fernández
Marval O'Farrell Mairal
- 57** **Cyprus**
Christiana Aristidou & Evdokia Marcou
The Hybrid LawTech Firm, empowered by Christiana Aristidou LLC
- 67** **Finland**
Erkko Korhonen, Noora Wallenius, Taneli Lehtipuu & Joonas Ylä-Rautio
Borenius Attorneys Ltd
- 81** **France**
Boriana Guimberteau & Elise Dufour
Stephenson Harwood
- 96** **Greece**
Marios D. Sioufas
Sioufas & Associates Law Firm
- 114** **Hungary**
Endre Várady, János Tamás Varga & Andrea Belényi
VJT & Partners

- 124 India**
Divjyot Singh, Riddhi Rahi, Shrishti Sharma & Tushar Todt
Alaya Legal
- 136 Indonesia**
Abadi Abi Tisnadisastra, Prayoga Mokoginta & Aloysius Andrew Jonathan
ATD Law in association with Mori Hamada
- 147 Ireland**
Victor Timon & Georgina Parkinson
Byrne Wallace Shields LLP
- 160 Japan**
Akira Matsuda & Ryohei Kudo
Iwata Godo
- 172 Kazakhstan**
Zafar F. Vakhidov & Zhanibek Nurgali
Vakhidov & Partners LLP
- 184 Lithuania**
Asta Macijauskienė, Renata Jankauskytė & Viktorija Stančikė
WIDEN
- 191 Malta**
Ron Galea Cavallazzi, Alexia Valenzia & Veronica Campbell
Camilleri Preziosi
- 202 North Macedonia**
Veton Goku, Ljupka Noveska Andonova, Martina Anđelković Apostoloska & Anisija Stojkowska
Goku & Partners in cooperation with Karanovic & Partners
- 210 Poland**
Monika Maćkowska-Morytz, Robert Brodzik, Jarosław Fejdasz & Wiktoria Ostrowidzka
Kochański & Partners
- 221 Singapore**
Lim Chong Kin, Anastasia Su-Anne Chen & Cheryl Seah
Drew & Napier LLC
- 235 Switzerland**
Jürg Schneider, David Vasella & Yannick Caballero Cuevas
Walder Wyss Ltd.
- 246 Taiwan**
Robin Chang & Eddie Hsiung
Lee and Li, Attorneys-at-Law

257 Thailand

John Formichella, Naytiwut Jamallsawat & Onnicha Khongthon

Formichella & Sritawat Attorneys at Law Co., Ltd.

262 Ukraine

Yaroslav Baienko, Oleksandr Melnyk & Ivan Komar

GOLAW

280 United Kingdom

Charles Kerrigan, Erica Stanford, Lisa McClory & Ben Hitchens

CMS LLP

294 USA

Jon Polenberg, Alyssa Weiss, Gabrielle O. Sliwka & Rayaan A. Hossain

Becker & Poliakoff

Practical guidelines for the use of generative AI

David V. Sanker

SankerIP

Historically, “creativity” has been the realm of humans. There are many tools to assist a creative process, but one or more actual people control both the tools and the overall process. As a result, existing laws have evolved based on the assumption that inventors and authors are people. But generative AI is stretching existing laws, creating new legal issues.

In 2024, this chapter provided initial guidance and pointed out that AI is changing rapidly. The 2025 edition provided some updates, and this 2026 edition provides substantial updates, including a new major section 4 on “Business risks when using generative AI”. Generative AI has become an essential part of our lives, outpacing our recognition of the risks. The goal of this chapter is to understand how to utilise AI while minimising risks.

Risk #1: Possible loss of confidential information or corporate trade secrets

Where does your information go when you converse with an AI system? In many cases, any text entered into a generative AI system is treated as public. This may seem counter-intuitive because it looks like a private conversation on the computer. Whether the conversation is private or not depends on the AI tool and the contractual arrangement (if any) between the user and the provider of the AI tool. In particular, when using a free public version of any generative AI tool, it is best to assume that the information will become public.

When the data is not private, the AI system may use your information to train future versions of the model, and subsequently provide others free access to your valuable information.

Even when a platform provider guarantees that your prompts will not be used for future training of their models, your prompts may be retained for some period of time and used for other purposes, such as “trust and safety review”. This is true even for some paid platform versions, so it is critical to review licence terms carefully. Any retention and use for other purposes should be considered a public disclosure.

For IP protection, any public disclosure has important consequences. If the disclosed information is a corporate trade secret, that protection is now lost. If the disclosed information relates to a patentable invention that is not yet filed with a patent office, the disclosure commences a one-year grace period for patent filing in the United States and precludes patent filing in most other countries.

Although most people would not intentionally consider disclosing protected information, accidental disclosure is more likely than it might appear. Use of generative AI is becoming habitual, and therefore lacks cognitive oversight. For example, consider a new invention that has three inventors. The inventors

use generative AI regularly in their work (e.g., generating software code) and they have come up with a new idea that could be novel. One of the inventors queries a generative AI system, asking the system if there is anyone else developing a medical device using a combination of three specified components. That alone could be enough to create an unintentional public disclosure of the invention, and alert others to copy the invention.

In purely human-to-human interactions, parties frequently use non-disclosure agreements to limit dissemination of the disclosure. A contract with the provider of a generative AI system may include similar language, but this should not be assumed.

The simple rule: do not enter any information into a generative AI system that you want to keep secret.

Create, monitor and review a workable corporate policy

First, creating a workable corporate policy for the usage of generative AI is essential. To make sure the policy is workable, it is important to involve the people to whom the policy will apply. That is, find out how workers are already using generative AI and learn how generative AI is making them more productive. It would be both difficult and undesirable to impose a blanket prohibition against using valuable AI tools.

Second, you need to monitor the gap between the policy objectives for generative AI and what workers are actually doing. As an analogy, consider the difference between speed limits in the United States and the speed people actually drive. Without enforcement, the disparity can be quite large. In the context of generative AI policy, the mechanism to monitor and enforce compliance will determine whether the policy is successful. For small organisations, human-based monitoring may be adequate, but for larger organisations, having IT monitor network traffic is probably needed. The need for monitoring and enforcement is also proportional to the limits specified in the policy; the more draconian the policy, the greater the need to monitor and enforce.

Third, it is important to review and update the policy regularly. Generative AI tools and algorithms are evolving quickly and many new tools are being released, so even a well-designed generative AI policy could become obsolete quickly. The rapid evolution of generative AI also imposes a practical limit for the complexity of a policy. A policy that focuses on the big issues and is concise enough to encourage workers to read it has a better chance of success. It is also helpful for the policy to explain the reasoning.

Review the provisions in your contract with each AI system provider

In the absence of a specific contract with an AI system provider, any use of the AI system should be treated as a public disclosure. The public disclosure extinguishes any trade secret protection and precludes most patent protection outside the United States for any information that is entered. In the United States and a few other countries, the public disclosure starts a one-year (or six-month) patent filing grace period if that period has not already started.

Even when there is a contract with an AI system provider, there are many issues to consider.

Security for data logged by an AI system provider

Interactions with generative AI systems are generally logged in a database. One issue is finding out how much data is stored (e.g., the entire prompt) and evaluating how trustworthy the provider is. In this context, there are several facets to trustworthiness. First, is the provider being truthful about what information is stored? Because the data is stored in a location users cannot access, it is useful to have either a reasonable level of trust in the company and/or certification by an independent third party. Second, is the provider being truthful about who has access to the data and how it is used? Again, it comes down to trust or third-party certification. Third, even if a provider is completely truthful about the data it stores and how the data is used, how good is the provider's IT infrastructure at preventing hackers and other

bad actors from accessing and stealing data? In particular, is the security of the provider as good as the security provided by your own IT infrastructure?

Public cloud/private cloud infrastructure

If an organisation has a private cloud, and the AI system can run inside the private cloud without communicating to the outside, the configuration mitigates many of the risks. In this case, the data is usually as secure as any other data the organisation stores in the private cloud.

Consider indemnification

With the known and unknown risks of using any AI system, some AI systems include varying degrees of indemnification. If there is an indemnification clause in a contract, look at what it protects. It may not cover everything you want (e.g., it may not cover monetary damages in case of lost patent or other IP rights). The value of indemnification also depends on the financial resources of the entity providing it. For example, a Fortune 100 company providing indemnification will have the resources to back up its promise if the need arises.

Cybersecurity

If an AI system is running locally (e.g., on a user's laptop) or within a corporate firewall, existing security may be adequate. However, if critical data is transmitted outside of a secure firewall, the data may be intercepted. Data should be encrypted both *in motion* and *when stored*. And because quantum computing is coming soon, encryption should use a post-quantum algorithm (i.e., an algorithm that will not be easily broken as soon as quantum computers are available). Bad actors are currently intercepting encrypted data and plan to decrypt it later when quantum computing becomes available. It is better to employ post-quantum encryption sooner rather than later.

Bad actors are leveraging AI to exploit all cybersecurity weaknesses, including the biggest weakness: people. According to current studies (see, e.g., Verizon 2025 DBIR, IBM 2025 Cost of a Data Breach Report, and FBI IC3 2024 Report), 68% of breaches involve humans. With high-quality AI-generated text, images, video, and synthesised speech, people are more easily deceived. The best antidotes include critical questioning of all communications, using your own AI platform to validate anything at all suspicious, and use of cybersecurity tools that use AI.

Use of your data for training the AI system

There is an important distinction to make about training. If you are using a shared instance of an AI system, you should generally not permit the AI system to use your data for training. If you allow it to do so, your proprietary data could be used to directly benefit others and potentially compete with your own research and development. Even in a purely academic or non-profit setting, allowing training based on your own work is undesirable because it lacks attribution to you as the author or inventor.

On the other hand, if you have a private instance of an AI system, then it *is* beneficial to you for the AI system to be fine-tuned using your data. Training an AI system based on your own data can increase efficiency and potentially lead to faster innovation. For example, if you have multiple engineering teams, and you train the AI system based on all of their work, the integrated training may be mutually beneficial or lead to synergistic innovation that might not occur otherwise.

When using a private instance of an AI system, you need to be aware of potential issues when the core system is upgraded. If the AI system is designed well, upgrading the core system should include retraining based on your data so that you continue to have the benefit of your fine tuning (and the upgraded core system may use your data even more effectively than the earlier version). However, because some AI system providers are building systems quickly, the upgrade path may not be properly designed, and the

fine tuning from your data may be lost. When evaluating whether to use a private instance of a particular AI system, it is wise to confirm how the system handles core upgrades.

Note that a supposedly private instance of an AI system might not necessarily be running in a private cloud, meaning that your instance could be “co-mingling” with any other instances. And, even when an instance of an AI system is running in a private cloud, it is important to understand what happens during an upgrade (e.g., is any data copied outside of the firewall?).

A few emerging best practices include:

- use enterprise AI only (e.g., certified under ISO 27001 and/or SOC 2);
- tools must guarantee no training on your data;
- even with guarantees, do not enter critical confidential data into any AI platform; and
- create a process that imposes meaningful human review and oversight.

Summary

Know how your information can be used and accessed by an AI system and determine whether you can entrust your data with the AI provider. If in doubt, it is better not to input anything confidential. Make sure your team understands the imposed limits.

Risk #2: Lawsuits for copyright infringement

Human content creators generally have copyrights for their work. These copyrights provide protection against the creation of “derivative works”. A derivative work is “a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed or adapted”. See Chapter 1 of U.S. Copyright Law.

Generative AI systems are trained on a substantial *corpus* of existing content (e.g., scraped from the Internet), and much of that content is subject to copyright. Therefore, when anyone uses the output of a generative AI system, there is an argument that the output is a “derivative work” under copyright law. Some content creators have already filed lawsuits to enforce their rights.

An important countervailing argument is “fair use”, which is a complex legal doctrine that “promotes freedom of expression by permitting the unlicensed use of copyright-protected works” in certain circumstances. See Section 107 of the U.S. Copyright Act. There are four primary factors for fair use analysis, including:

- the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- the effect of the use upon the potential market for or value of the copyrighted work.

These two factors are intuitively reasonable. If someone copies an entire work, it clearly constitutes copyright infringement. If nothing is copied, then there is no infringement. As long as the amount copied is a small portion of a work, it would favour classification as “fair use”; however, if the amount copied exceeds a certain threshold, it looks more like copyright infringement. The second factor here calls for looking at markets. Whenever a portion of an original work is copied, and that copied portion reduces the market for the original work, a court would most likely rule that the copy was not fair use. On the other hand, if a copied portion of an original work has no effect on the market for the original work, then it is likely to be considered fair use.

In general, training an AI system uses millions or even billions of training inputs, so any connection between a specific input and a specific output is tenuous. Because of the tenuous connection between the training inputs and the generated output, each of the factors discussed above support the fair use argument. Generated output uses very little from any one specific input, so it is unlikely to have any

effect on the market for any of the inputs. However, if a specific output is close enough to a specific input that was used for training, the fair use argument is weaker. Courts in the United States are currently handling this. Of course, any analysis of fair use is highly fact-dependent, so subsequent decisions could render opposite results.

Some plaintiffs have argued that a trained AI model itself constitutes copyright infringement. The two fair use factors discussed above lean in opposite directions. For the first factor, the training may use the entirety of individual works instead of small portions. But, for the second factor, a trained AI model does not typically compete with any of the original works.

The case *Thompson Reuters v. Ross Intelligence*, No. 1:20-cv-613-SB (D. Del., February 11, 2025) is instructive. In this case, Ross Intelligence used training data from Thompson Reuters, including the Headnotes, and built a system that directly competes with the Westlaw system of Thompson Reuters. The judge ruled that it was *not* fair use, reversing his own earlier ruling after he learned more. In particular, because Ross built a competing product, the fair use factor for the “market” weighed in favour of Thompson Reuters. This case had an atypical set of facts; a ruling may be different in cases where a trained model has no effect on the market for the original works.

In 2025, at least two court decisions concluded that training AI models using copyrighted material is fair use. See *Bartz v. Anthropic*, No. 3:24-cv-05417 (N.D. Cal., June 23, 2025) and *Kadrey v. Meta*, No. 3:23-cv-03417 (N.D. Cal., June 25, 2025). This outcome was expected according to the fair use factors, as indicated in the author’s 2024 chapter. More cases are still pending.

Courts may also consider general equitable principles. Specifically, is it okay for AI system builders to extract value from the creative work of others without compensation? The law regarding what constitutes Fair Use could evolve to address this scenario that was not previously contemplated.

Because the issue of copyright infringement for AI-generated works is in flux, how can users of generative AI minimise their risk of lawsuits from human content creators? Consider:

- For small, generated works, the risk is rather low, particularly if distribution of the generated work is limited and/or internal to an organisation.
- Use existing tools to compare the generated output to known content. For example, use a generative AI system and ask if the generated output is similar to any other work. That is, use a second generative AI tool to evaluate the output of the first generative AI tool. There are also software systems specifically designed to identify plagiarism (e.g., in academia). These tools can quickly provide reasonable assurance that the generated work is not too similar to any other specific work.
- If in doubt, have one or more people modify the output created by generative AI and document the modifications. If arguments of copyright infringement arise later, the documented changes can bolster a fair use argument.

Risk #3: Possible inability to secure copyright or patent protection

Both the U.S. Copyright Office and the U.S. Patent Office have ruled that works created solely by AI are not eligible for IP protection. For works partially created by an AI system, the Copyright Office has held that the AI-generated portions are not eligible for protection. The USPTO announced its initial guidance for AI on February 12, 2024, and it bypassed the issue of AI inventors by focusing on the inventive contributions of human inventors. The USPTO updated its guidance on November 28, 2025.

Copyright protection for AI-generated content

Under current U.S. copyright law, there is no protection for AI-generated content. When an AI system generates an entire work, there is no protection at all; when an AI system generates portions of a work,

the overall work and the portions not generated by AI can be protected by copyright, but the AI-generated portions are not protectable. See “Zarya of the Dawn” and the decision by the U.S. Copyright Office on February 21, 2023. In this example, the human author wrote the text and used an AI system to generate most of the images. Based on the Copyright Office decision, there is no protection for the individual images, so anyone can freely copy them.

An AI system does not spontaneously generate content out of thin air. Such systems generate content (e.g., text or images) in response to user prompts (e.g., text). This process is almost always iterative, particularly for generated images. In each iteration, the user updates the prompt to generate output that is closer to what is desired. The U.S. Copyright Office currently does not consider the construction of the prompt to add to the creativity of the work, even when there are many iterations and many changes to the prompt by the user.

The decision to ignore any creativity in the input prompt is illustrated by the work “Théâtre D’opéra Spatial”, which won an art contest at a Colorado fair. According to the artist, Jason Allen, he envisioned the artwork beforehand, and it took “at least 624” iterations to get the final generated image. Despite the extent of human input required to tweak the output over 624 iterations, the U.S. Copyright Office focused solely on the fact that the final image was generated based on one final prompt.

In contrast to the U.S. Copyright Office, the Beijing Internet Court held on November 27, 2023, that the human artist, Mr. Li, “made a certain degree of intellectual investment in selecting prompt texts, setting up parameters, and designing the presentation”. According to the Court, Mr. Li “continuously added prompts and repeatedly adjusted the parameters to come up with a picture that reflected his aesthetic choice and personalized judgment”. The Court also noted that “to encourage creation is the essential purpose of the copyright system”.

Although the ruling by the Beijing Internet Court seems to better align with the objective of copyright law (“to promote the Progress of Science and useful Arts” according to the U.S. Constitution), it is important for now to work within the existing copyright framework: content generated by an AI system is not protectable by copyright.

Edit AI-generated content to get a copyright

What can you do to get copyright protection for AI-generated work? Because the Copyright Office does not account for human creativity *before* the AI-generation step, the best current solution is to apply human creativity *after* the AI-generation step to modify the output. This is what Kent Keirseay did with an image called “A Single Piece of American Cheese”. A copyright was originally denied, but finally granted on January 30, 2025, after he provided more details about how he had modified the AI-generated image. See <https://www.cnet.com/tech/services-and-software/this-company-got-a-copyright-for-an-image-made-entirely-with-ai-heres-how> Having clear supporting evidence of the human edits is essential.

There is also an important legal analogy that may be pursued to change the way copyright law is applied to AI-generated works. Section 101 of the United States Copyright Act already provides for “Works Made for Hire”, enabling people or corporations with zero creative input to be considered the author for works created by others. This exception to core copyright law was created to account for the reality of how some works are created. By analogy, there is a plausible argument that a user of an AI system is entitled to a “work made for hire” under a similar exception. In fact, because the user of an AI system provides an appropriate prompt to the AI system (as in the examples above), there is arguably greater reason to grant copyright protection. Courts or Congress will need to address this argument.

Software generated by “vibe coding”

There has been a sea-change in the way developers write software. Rather than having programmers write all of the code (as the author did as a software engineer for 12 years), people now use natural language to

explain the general goal of a program. The AI system generates the actual code. In some organisations, the AI-generated code is the vast majority of what is written.

There is no doubt that vibe coding is substantially faster than human-generated code. However, it is important to recognise and mitigate the risks:

- AI-generated code cannot be protected by copyrights;
- AI-generated code may include code that is inaccurate, inefficient, or performs unexpected operations (e.g., creating or opening cybersecurity breaches); and
- overuse of vibe coding can degrade the skill of the programmers; *see*, e.g., Nataliya Kosmyna *et al.*, “Your Brain on ChatGPT: Accumulation of Cognitive Debt when Using an AI Assistant for Essay Writing Task”, available at <https://arxiv.org/pdf/2506.08872>

At a minimum, organisations that use AI-generated code need processes to ensure meaningful human oversight. For mission-critical processes, the oversight required is substantial, and it may be more efficient to have good human developers write the code rather than inspecting AI-generated code.

Patent protection for AI-generated inventions

Courts throughout the world have held that inventions created entirely by AI systems are not patentable. *See*, e.g., *Thaler v. Vidal*, 43 F.4th 1207 (Fed. Cir. 2022). According to the filed patent application in the *Thaler* case, the sole inventor was the AI system called “DABUS”. But the *Thaler* case is not typical, because most inventions involve some human input. Therefore, the bigger question is whether an invention is eligible for patent protection when there are both human and AI inventors.

Prior to the release of AI guidance by the USPTO on February 12, 2024, the USPTO sought input on a variety of specific questions about AI inventors. The present author drew attention to the importance of addressing hybrid (human and AI) inventorship, pointed out three distinct ways to address this issue, and explained why the third of the three options best aligns with the goals of promoting innovation. *See* <https://www.regulations.gov/comment/PTO-P-2022-0045-0060> It is useful to understand the USPTO AI guidance in the context of the possible options.

The USPTO guidance for AI on February 12, 2024 addressed hybrid inventorship

The USPTO guidance from February 12, 2024 focused on the human inventors, and bypassed the question of whether any AI system might qualify as an inventor. (According to Guidance at Section II: “The *Thaler* decisions around “inventorship” are not a recognition of any limits on the current or future state of AI, but rather are an acknowledgment that the statutory language clearly limits inventorship on U.S. patents and patent applications to natural persons.”)

With AI-assisted inventions, it is possible to have human contributors whose contributions are insufficient to classify the contributors as inventors. For example, if a user asks an AI system to “build a better mousetrap” and it does build a better mousetrap, that user has not contributed enough to be an inventor. In fact, there may be no human “inventor” if the substantive inventive work is performed by an AI system. Therefore, an essential part of the AI guidance involves reviewing the caselaw that defines what constitutes a sufficiently significant contribution for a person to be named as an inventor. *See* February 12, 2024 Guidance at Section IV, subsection A.

In *Pannu v. Iolab Corp.*, the Federal Circuit provided three factors to evaluate what constitutes a significant contribution; *Pannu v. Iolab Corp.* 155 F.3d 1344 (Fed. Cir. 1998). The three factors are:

- significant contribution to the conception of the invention;
- the contribution is significant as a portion of the full invention; and
- the contribution is more than explaining well-known concepts or current state of the art.

Although the word “significant” left open some grey area, it established a reasonable framework with details to be worked out.

Updated USPTO guidance for AI on November 28, 2025 creates uncertainty

The new guidance released on November 28, 2025 rescinds the previous guidance (i.e., a significant contribution is not required) and asserts that AI is just a tool “analogous to laboratory equipment, computer software, research databases, or any other tool that assists in the inventive process”.

Having rescinded the requirement of a human making a significant contribution, and declaring that AI is “just a tool”, the new guidance seems to promote having people assert that they conceived of inventive features that are AI-generated.

For at least the following reasons, it is better to rely on the earlier guidance:

- 1) The USPTO is bound by statutes and court decisions. Any guidance that is inconsistent with patent statutes or court decisions is not binding. Reliance on the new guidance could lead to issued patents being invalidated in court later.
- 2) As the new guidance points out, the USPTO presumes the named inventors are correct. Evaluating inventorship will likely occur *only* in court proceedings (e.g., patent litigation), so the USPTO guidance will have no weight.
- 3) To the extent the new guidance suggests that a person can claim inventorship rights for features the person did not conceive himself/herself, it is contrary to law. Each inventor must sign a declaration that he/she is the actual inventor.
- 4) The new guidance is inconsistent with copyright law. The copyright office has explicitly stated that AI output cannot be copyrighted, even if it required substantial work by a person to create the desired prompt.

Key takeaways for AI-assisted inventions

As a practical matter, applicants should continue with inventive processes where humans make significant contributions. By keeping the people in the inventive process and creating internal documents to memorialise the human contributions, applicants will be prepared if inventorship is questioned later in litigation.

Second, when there is any doubt, document the contributions of the human inventors. It is useful to imagine future litigation in which an opposing party argues that the human contributions are insignificant. It could be very valuable to have documents or emails contemporaneous with the invention that describe the human contributions and describe how the human inventors used AI tools to assist in the inventive process.

Third, monitor internal hype about the role of AI in inventions. For example, because AI is a leading buzzword, a sales or marketing team might want to overstate the role of AI in a product. Such overstatements could be utilised by opposing parties in future litigation to invalidate patents.

AI-assisted patent drafting

Inventors are now using general-purpose AI systems as well as patent-specific platforms to draft patent applications. The quality is improving, and may help patent practitioners save some time. The main issues are:

- inaccurate or misleading content; and
- insufficient technical detail (i.e., not enabling).

To address these issues requires substantial oversight; otherwise, an AI-drafted patent application is likely to end up abandoned or else at risk of invalidation if ever litigated. For further information about

risks of AI patent drafting, *see, e.g.,* Lisa Larrimore Ouellette *et al.*, “How will AI affect patent disclosures?” *Nature Biotechnology* 43, 26–28 (2025).

Risk #4: Business risks when using generative AI

As AI has an increasing role in business operations, businesses need to be aware of some important ramifications. This final section briefly discusses four topics.

Possible loss of attorney–client privilege

A recent federal court decision illustrates how usage of an AI system can lead to loss of privilege. The judge ruled that documents generated by an AI tool were not protected by attorney–client privilege or the work-product doctrine, even though the content was later shared with attorneys. *See United States v. Heppner*, No. 25-cr-00503-JSR (S.D.N.Y. February 10, 2026).

The court reasoned that the communication with an AI platform was not communication between a party and counsel and there was no reasonable expectation of confidentiality. In addition, the work-product doctrine did not apply because the generated content was not created at the direction of counsel.

Although this is only one court decision, this is likely to be the outcome in future cases. Therefore, do not expect to assert attorney–client privilege for AI-generated content.

Strategic business decisions based on AI-generated misinformation

AI systems are very fast, write very well, and convey confidence. Unfortunately, this creates a huge risk of making invalid business decisions. The statistics show the extent of the problem, even at this early stage. Research by Deloitte indicates that 47% of enterprise AI users report having made a major business decision based on incorrect information generated by AI systems. *See* Deloitte (2024), “Enterprise AI Survey on Decision-Making Based on AI Content”. Research by McKinsey indicates that AI hallucinations were responsible for approximately \$67.4 billion in global losses in 2024 alone (*see* MINT <https://www.mint.ai/blog/when-ai-gets-it-wrong-why-marketers-cant-afford-hallucinations>).

Perhaps the most often cited examples have been attorneys who have filed papers in court with phony court citations. This has resulted in many courts requiring attorneys to certify that either AI was not used or the content has been fully reviewed by the attorney making the filing.

When using AI, the oversight and review required is proportional to the importance, significance or inherent risk of the task. For the non-trivial tasks, the work process has to build in sufficient time to review and edit (and potentially to completely re-do the work when necessary). In some cases, an AI system provides factual information that cannot be verified. If so, it should be treated as an unverified statement, not the basis for a business decision. It is also useful to understand the strengths and weaknesses of generative AI systems. Generative AI systems are very good at recognising patterns, but not so good at mathematics and logical inference. Until the AI platforms build a computational model to work jointly with LLM systems, mathematical calculations need high scrutiny. An AI system is extremely unlikely to misspell a word, but may fail at addition or identifying the day of the week.

AI agents can take actions that have direct consequences

An AI agent goes a step beyond generating output: an AI agent can take action. The ability to take autonomous action is both the advantage and disadvantage of AI agents.

An example of the damage caused by an AI agent occurred in July 2025, when an AI agent deleted a production database, ignored instructions, and fabricated data in an attempt to cover up what it had done. *See* <https://nhimg.org/replit-ai-tool-deletes-live-database-and-creates-4000-fake-users>, “Replit AI Tool Deletes Live Database and Creates 4,000 Fake Users”. In an instant, the AI agent caused harm that was immediate, concrete and irreversible.

Over time, better safeguards will be implemented to reduce the risks of rogue AI agents, but for now, businesses should exercise substantial caution. The example here is particularly instructive, because the rogue AI agent ignored explicit instructions. It is not clear how to plan for a rogue AI agent that may ignore any instructions provided.

**David V. Sanker**

Tel: +1 510 714 5196 / Email: david@sankerip.com

David's path to becoming a patent attorney was atypical, but each step informed the next one. He earned a Ph.D. in Mathematics from UC Berkeley in 1989 and then spent three years as an associate professor of mathematics and 12 years in production software development before law school. His experience as a software engineer was also unusual, as he took on several roles, including creating detailed technical requirements, writing and quality testing code, providing technical support to users, and designing and implementing an SQL database schema with nearly 500 highly interrelated tables.

David's career as a patent attorney began after he returned to Berkeley for a degree in law, graduating in 2007. An associate and partner at Morgan Lewis for almost 20 years, David began in patent litigation, representing clients at the US Trade Commission, the US Federal Court and in federal district courts. He moved on to patent prosecution in a wide variety of technology areas, including software, AI, cybersecurity, semiconductor devices, database architecture, data visualisation, medical devices, artificial reality, virtual reality and identify verification. Being a patent litigator for five years turned out to be useful: when you see firsthand how patent claims are torn apart in litigation, you learn how to draft better patent claims.


In February 2024, David founded SankerIP, specialising in intellectual property and AI and backed by a team of scientists and engineers with advanced degrees and practical experience working in science and technology. David works with client companies, inventors, the US Patent Office and associates throughout the world to build strong IP portfolios, informed by his years of real experience as a software developer and database architect. David is also a thought leader in AI. In the past few years, he has frequently written and spoken publicly on the use of generative AI and how AI influences IP protection. In May 2023, he was asked to speak before the US Patent Office on the topic of AI.

Very early in life, David liked the number π , an irrational number with an infinite number of non-repeating digits. In the early 1970s, the Guinness Book of World Records started tracking a record for the most digits of π memorised. In 1978, while in junior high school, he twice broke the record: first at 6,350 digits and then at 10,000 digits after a summer family vacation gave him plenty of free time for study.

SankerIP

Silicon Valley, CA, USA

Tel: +1 510 714 5196 / URL: www.sankerip.com



Global Legal Insights – AI, Machine Learning & Big Data provides analysis, insight and intelligence across 22 jurisdictions, covering:

- Trends
- Ownership/protection
- Antitrust/competition laws
- Board of directors/governance
- Regulations/government intervention
- Generative AI/foundation models
- AI in the workplace
- Implementation of AI/big data/machine learning into businesses
- Civil liability
- Criminal issues
- Discrimination and bias
- National security and military

globallegalinsights.com