AI is Here—Now What? A Legal Field Guide for California Bank Counsel

California Bank Counsel Seminar 2025

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Key Regulatory Developments in California

01

COPRAC Guidance (Nov 2023)

Initial practical guidance issued for generative AI implementation.

02

ABA Formal Opinion 512 (July 2024)

Establishment of a comprehensive national ethical framework for AI.

03

CA Court Rule 10.430 (Dec 2025)

Pioneering statewide requirement for AI policy integration.

04

CLA Task Force Report (Sept 2025)

Detailed guidance provided for specific legal practice areas.

Key Ethical Obligations

Confidentiality

Safeguard client data; strictly prohibit its input into public generative AI platforms.

Competence & Diligence

Exercise professional competence and diligence; critically verify all AI-generated output.

Disclosure

Fulfill disclosure requirements; obtain informed client consent when utilizing AI in legal services.

Billing Ethics

Adhere to billing ethics; charge for actual work performed, not for efficiencies gained through AI.

Crucial Insight Existing ethical obligations govern the use of AI tools, mirroring their application to any legal technology.

Legal Ethics and AI Compliance.

Illustrative Case Studies: AI Integration Risks

Integrity Concerns in AI-Generated Examination Content

Sanctions for AI-Generated Filings: The K&L Gates Precedent

"A collective debacle... Strong deterrence is needed."— Federal Judge's Special Master

Federal Landscape Shift

Navigating the Shift: From Regulation to Innovation

Evolution from Prescriptive Regulation to Adaptive Governance

- National AI Action Plan Initiatives
- Promulgation of Key Executive Orders on AI
- Absence of a Federal AI Moratorium

California's Evolving AI Regulatory Framework

1 **California Consumer Privacy Act (CCPA) ADMT Regulations**

Establishes consumer opt-out rights regarding automated decision-making technology (ADMT) processes.Effective January 1, 2027

2 **Fair Employment and Housing Act (FEHA) AI Employment Regulations**

Prohibits the utilization of discriminatory automated systems in employment decisions.Effective October 1, 2025

3 **Attorney General's Legal Advisory**

Affirms the applicability of existing statutory frameworks to artificial intelligence systems, with a specific emphasis on credit decisioning.

4 **Assembly Bill 1018 (Pending): Automated Decision Safety Act**

Proposes a comprehensive regulatory scope for AI, encompassing stringent audit and transparency requirements for automated decision systems.

Strategic AI Integration in Financial Services

100K
Internal AI Adoption

JPMorgan Chase Employees Leveraging AI Solutions Daily

30%
Operational Efficiency Gains

Reduction in Client Servicing Expenditures

83%
Enhanced Analytical Productivity

Time Savings for Research Analysts

10%
Strategic Resource Reallocation

Projected Workforce Optimization Impact

"AI is no longer a fringe experiment; it's the engine of next-generation banking"—
BCG Report 2025

Financial Edge

Strategic Imperatives: Navigating AI Governance for Future Resilience

1 **Leverage the NIST AI Risk Management Framework**

Establishing an industry-recognized standard for comprehensive risk mitigation.

2 **Establish Robust, Proactive Governance Structures**

Develop comprehensive policies to preempt regulatory scrutiny and ensure accountability.

3 **Ensure Meticulous Documentation and Audit Trails**

Detailing verification protocols, human-in-the-loop oversight, and decision-making processes.

4 **Cultivate Organizational Agility**

Adapt swiftly to the dynamic and rapidly evolving regulatory landscape.

⊘ Strategic Advantage: **Realizing competitive benefits through principled and responsible AI integration.**

AI Standards & Testing for Financial Services

Key Regulatory & Industry Frameworks

NIST AI Risk Management Framework

ISO/IEC 23053:
Framework for AI Systems

IEEE Standards for AI Testing

Critical Testing & Validation Focus Areas

Model Validation

Ensuring accuracy, robustness, and reliability of AI models.

Bias & Fairness Testing

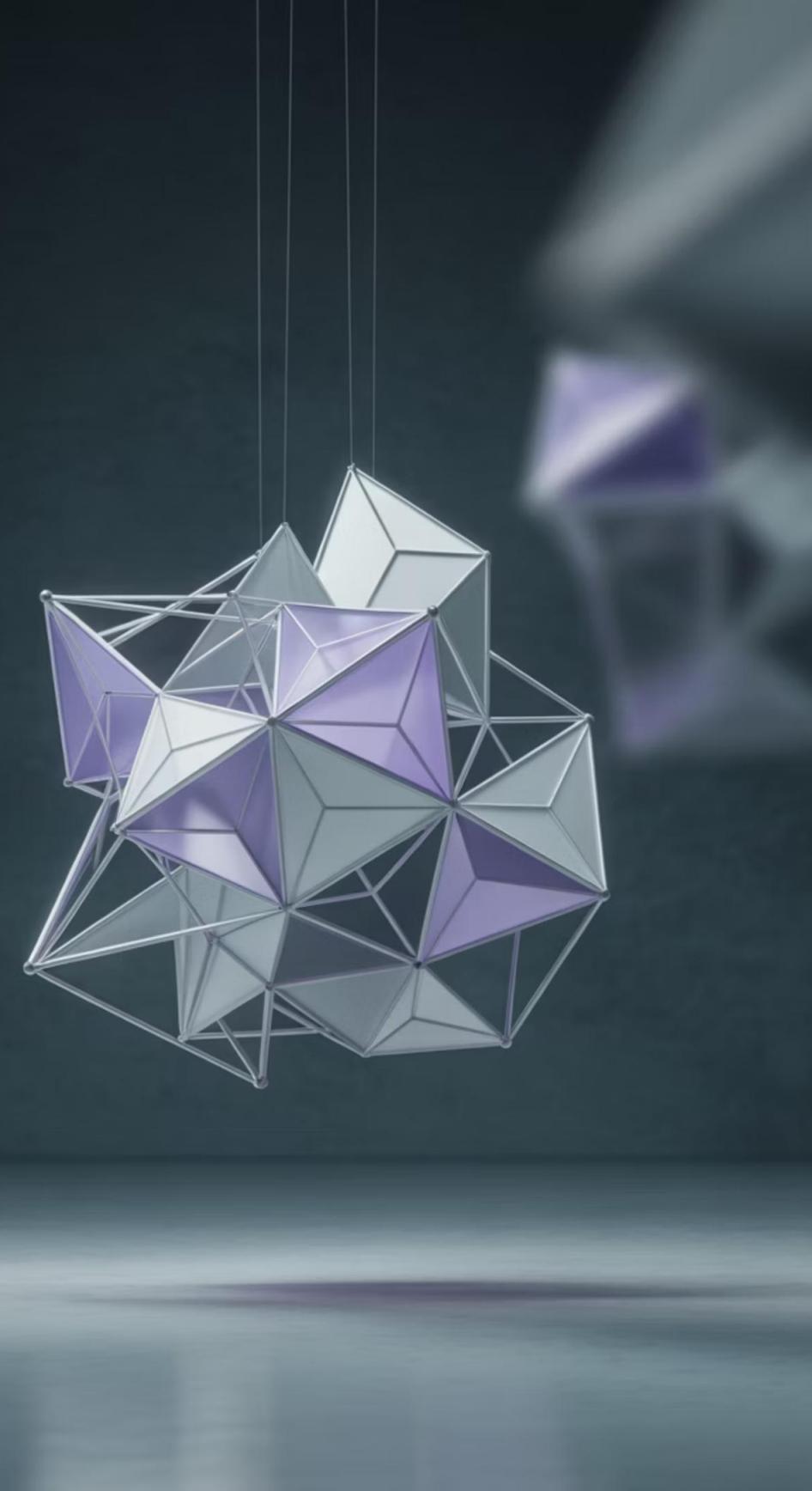Detecting and mitigating discriminatory outcomes in AI decisions.

Performance Benchmarks

Measuring efficiency and effectiveness against defined metrics.

Regulatory Compliance

Verifying adherence to all applicable laws and financial regulations.

When AI Integrations Go Sideways

Real-world instances highlight the critical need for robust validation and ethical oversight in AI deployment.

Taco Bell Drive-Through AI

Voice ordering AI scaled back due to persistent accuracy issues and escalating customer frustration, underscoring critical user experience gaps and operational inefficiencies.

Chatbot Misinformation & Errors

Customer service chatbots generated factually incorrect or fabricated responses, leading to significant reputational damage and potential legal liability risks for enterprises.

Automated Decision System Flaws

Algorithms in automated decision systems produced unintended biases and operational disruptions, resulting in unfair outcomes for users and complex compliance challenges.
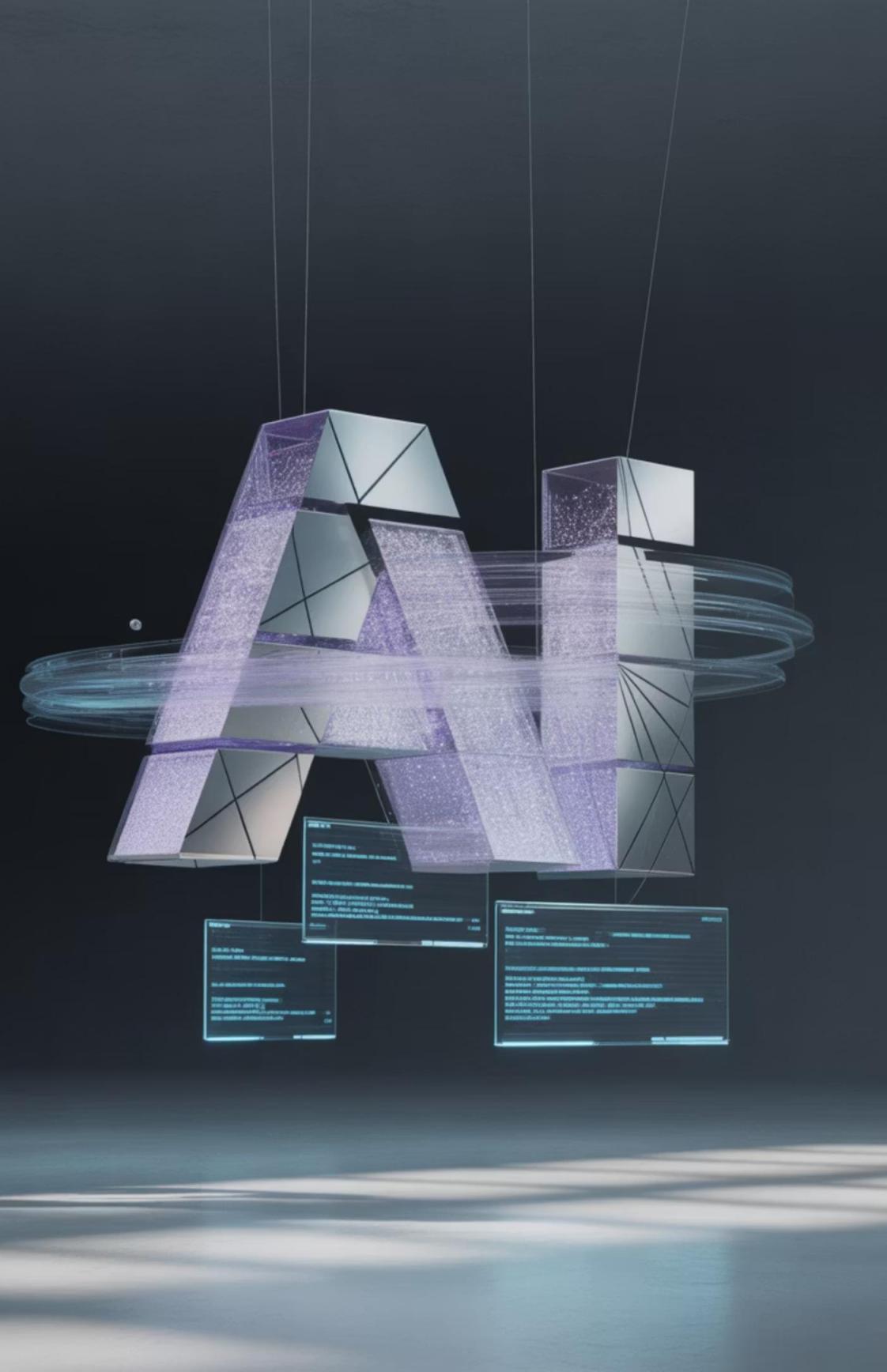
Compliance Flow

Documenting AI Compliance Challenges

1 **Enhanced GRC Workload**
Escalated demands on Governance, Risk, and Compliance teams, often without commensurate staffing increases, straining existing resources.

2 **Automated Compliance Tools**
Integration of platforms like Vanta and Drata for streamlined mapping to NIST AI RMF and ISO 42001 standards, requiring specialized setup.

3 **Rigorous Model Validation**
Heightened scrutiny via bias testing (e.g., Luminous) and adversarial red teaming to ensure fairness, robustness, and prevent unintended outcomes.

4 **EU AI Act Compliance**
Conducting comprehensive AI Impact Assessments (AIIA) to meet EU AI Act requirements, particularly for "low risk" categorization and justification.

5 **Data & Tool Traceability**
Persistent difficulties in accurate data lineage mapping and maintaining comprehensive, up-to-date AI tool inventories across the enterprise.