



The Cost of Compliance Report Update

Q1 2026

From Alert to Action on
Regulatory Developments in AI

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Foreword from the Founder and CEO

Since the launch of our Cost of Compliance Report 2025 last October, the regulatory environment has continued to evolve at pace. While the findings of our global survey of more than 2,000 senior risk and compliance practitioners remain highly relevant, artificial intelligence (AI) developments since late 2025 justify this focused update, as regulatory approaches move decisively from policy discussion into supervision and enforcement.

The rise of AI and automation were identified as among the most significant compliance challenges facing firms in 2026. This update examines how supervisory expectations for AI are taking shape across jurisdictions and what this means for firms operating in an increasingly complex and, at times, fragmented global regulatory landscape. More broadly, it reflects a shift we are seeing in compliance and risk: from static models and linear processes to dynamic, data-driven systems that operate in near real time.

Importantly, the growing regulatory focus on AI does not replace the data governance challenge identified in our Cost of Compliance Report 2025; it intensifies it. The safe and effective use of AI-enabled tools fundamentally depends on the quality, integrity and governance of the data that underpins them. Regulators are increasingly clear that accountability, transparency and control frameworks must evolve in step with emerging technologies, particularly where AI systems are used to support regulatory interpretation, control design and decision making.

The regulatory debate on AI has rapidly moved from theoretical into practical supervision and enforcement, with clear implications for boards, senior managers and compliance and risk professionals across the globe. Firms are being asked to balance innovation with resilience and require technology that not only scales with regulatory change, but is explainable, auditable and aligned to defined risk appetite.

This update reinforces data governance as a strategic enabler. When compliance and risk data is structured, connected and trusted, it becomes possible to move from intuition to information-based decision making. This shifts firms from reactive compliance to proactive foresight.

I hope you find this update a useful complement to our annual Cost of Compliance Report and a practical guide to the regulatory direction of travel in the complex and ever-evolving area of global compliance and risk.

Ben Richmond
CUBE Founder and CEO



Data governance as enabling control framework

The CUBE Cost of Compliance Report 2025 highlighted artificial intelligence (AI), automation and data governance as among the greatest compliance challenges for the year ahead. This interim update examines key changes in the regulatory approach to AI since the report was finalised in Q3 2025.

The effective deployment of AI in financial services is inseparable from robust data governance. While AI and automation continue to reshape compliance operating models, the reliability, transparency and trustworthiness of AI outputs depend on the quality and governance of the underlying data.

Data governance covers how firms collect, process, secure and manage data across its lifecycle. It defines approaches to data quality and accountability, encompassing policies, standards, controls and oversight arrangements, as well as where, how and on what basis data is stored. Far from being a purely technical exercise, it is a core organisational capability that supports regulatory compliance, risk management and the responsible use of advanced technology.

Recent regulatory developments reinforce this focus. Supervisory authorities are increasingly concerned about whether firms

can demonstrate clear data ownership, effective control over data quality and lineage and appropriate governance of data used in AI-enabled systems. As AI adoption accelerates, weaknesses in data governance are more likely to translate directly into compliance, conduct and operational risk.

For firms seeking to realise the benefits of AI while meeting rising regulatory expectations, strengthening data governance is no longer optional. **It is a strategic prerequisite for safe, scalable and compliant innovation, validating the expression “garbage in, garbage out.”**

“The question now is no longer whether AI will transform finance – but how we can ensure that transformation serves the public good, strengthens our economy and is built on bedrock principles of security, transparency and trust. In this spirit, our forthcoming AI strategy will unite banks, tech innovators and academia to embed AI deeply into the sector’s infrastructure in a way that is safe, scalable and future-proof.”

Source: [Keynote address at Hong Kong FinTech Week 2025, Eddie Yue, Chief Executive, Hong Kong Monetary Authority, November 2025](#)

What is the greatest compliance challenge that firms expect to face in the next 12 months?

CUBE's 2025 survey of more than 2,000 risk and compliance leaders confirms that AI, automation and data governance are viewed as the most significant near-term compliance challenges.



Source: [CUBE Cost of Compliance Report 2025](#)

Data governance frameworks are unique to each firm and can assume many forms. They must cover the entire data lifecycle, including creation, use, communication, retention of unmodified originals, retrieval and destruction.

“Entities should have in place systems for responsible data governance, ethical sourcing of data and privacy-by-design in every model. They should develop common standards, toolkits and disclosure mechanisms so that model design, training data and decision logic can be explained to regulators and customers. Safeguards such as digital watermarking of synthetic content should be explored to deter misuse. Internal policies and processes must be revised to embed AI risk assessment into the product lifecycle. Continuous monitoring, stress scenarios and independent audits should be institutionalised.”

Source: [Keynote address by T Rabi Sankar, Deputy Governor of the Reserve Bank of India, at the Global Fintech Festival, Mumbai, October 2025](#)

As a first step in reaping the potentially significant benefits of AI and data analytics, firms and their compliance teams should begin planning how to build, resource and execute their strategic approaches to data governance.

“The proliferation of customer data across digital channels amplifies privacy, consent and data management issues. We find many organisations struggle to guide data management, maintain consistent data quality, ensure traceability of data, understand and leverage metadata and comply with evolving privacy regulations and international regulations.”

Source: [Speech, “A time-tested approach for a new world of technological risks,” by Suzanne Smith, member of the Australian Prudential Regulation Authority, at the Financial Services and ASX Sector Assurance Forum 2025, October 2025](#)

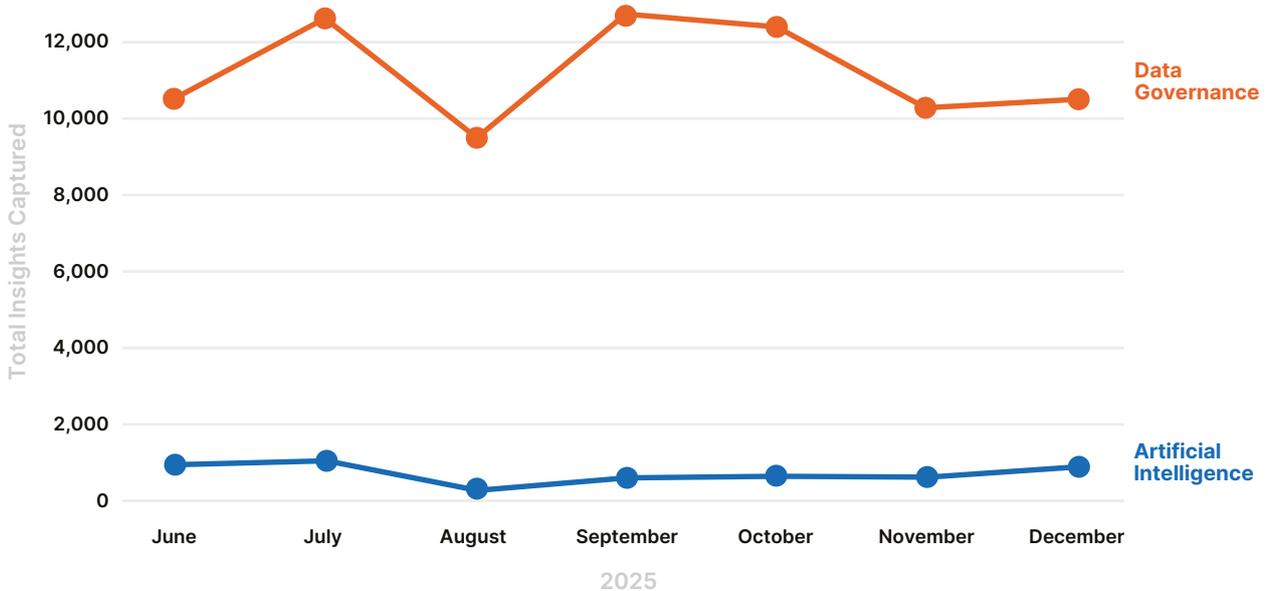


Evolving regulatory approaches to AI

Supranational policymakers and domestic supervisory authorities alike are considering their approaches to AI oversight. Some regulators, such as the UK Financial Conduct Authority (FCA), have concluded that the use of AI does not require a specific new approach to risk management and that existing requirements are sufficient, particularly given the diversity of AI use cases and technology-neutral policy postures. That said, the Treasury Select Committee has, in a January 2026 [report](#) on AI in financial services, urged the FCA to “provide the financial services sector with greater clarity on the application of existing rules to the use of AI” by the end of the year.

The evolving regulatory landscape is reflected in the steady volumes of regulatory intelligence captured and published by CUBE, as shown below.

Volume of regulatory insight captured by CUBE in the last six months of 2025:



“That additional flexibility is an example of what we need to do, and it is also why we have very deliberately taken the decision not to make new rules for AI, but to rely on the Consumer Duty, Senior Managers Regime [and] market integrity regime. The frontier of this technology is moving every three or six months. The legislative cycle simply cannot match that.”

Source: [Nikhil Rathi, Chief Executive, FCA, oral comments to the Treasury Select Committee, December 2025](#)

“AI’s evolution makes hard global rules impractical. A coherent international approach should focus on interoperable expectations with shared principles, aligned taxonomies and indicators and compatible supervisory tools, applied through existing regulatory frameworks.”

Source: “AI in financial services: emerging global norms” report by the International Regulatory Strategy Group, January 2026

United States

The United States has chosen an innovation-first approach. President Donald Trump signed an executive order in December 2025 to establish a federal regulatory framework for AI and to prevent states from regulating the technology inconsistently. The order has drawn criticism from some states and consumer advocates, who have called it unconstitutional. Legal challenges are likely.

Administration officials have said U.S. AI companies need the freedom to innovate so they can maximise national benefits, including economic growth, job creation, security and technology leadership.

Until such a national standard exists, however, the administration will intervene when it considers state laws to be onerous and excessive enough to stymie innovation, the executive order said.

Europe

The European Union has taken a contrasting approach by mandating compliance with detailed, prescriptive requirements under the EU AI Act, which has drawn international political scrutiny and criticism for its extraterritorial reach.

The EU AI Act began taking effect in August 2024, with plans for phased implementation running to 2027, but it is already subject to change. While providers of general purpose AI (GPAI) models had to begin complying with new obligations when placing new GPAI models on the EU market from August 2, 2025, within three months the European Commission announced amendments proposing a simplification package aiming to “facilitate the smooth and effective application of the rules for safe and trustworthy development and use of AI.”

Among other things, the Commission has proposed linking the applicability of rules governing high-risk AI systems to the availability of support tools and practice standards. Specifically, the timeline for applying the high-risk AI rules was adjusted to a maximum of 16 months, and they will start applying once the Commission confirms the availability of standards and support tools.

“When people ask for legislation on AI, look what has happened in the EU. They legislated, and just when it was about to become effective, they had to pause elements of it because it was out of date.”

Source: [Nikhil Rathi, Chief Executive, FCA, oral comments to the Treasury Select Committee, December 2025](#)

“Finally, regulation needs to remain flexible. While addressing important data protection, ethical and safety concerns related to AI, regulation will need to be dynamically calibrated to navigate the trade-offs between addressing risks and enabling growth through AI adoption. Otherwise, even some of the moderate productivity dividends from AI adoption over the next few years could be lost.”

Source: [IMF blog, “How Europe can capture the AI growth dividend,” November 2025](#)

Asia

In November, the Monetary Authority of Singapore (MAS) started consultations on AI risk management guidelines for financial institutions. It outlined MAS's expectations for AI oversight, risk management systems, policies and procedures, lifecycle controls and the capabilities and capacity required for effective AI deployment.

“Generative AI also introduces risks that are less well understood and harder to mitigate, such as hallucinations that produce convincing but false information, unpredictable behaviours that emerge from using more complex methods and fundamental challenges in explaining decision-making processes. Other risks include security vulnerabilities, such as prompt injection attacks, privacy risks from potential data leakage when using third-party services, intellectual property violations from training on copyrighted content or generating outputs that may infringe existing copyrights, concentration risks from over-reliance on a few dominant generative AI providers and human factor risks arising from over-reliance on generative AI.”

Source: [MAS consultation paper on proposed guidelines on AI risk management, November 2025](#)

“The most effective near-term path is to leverage and align existing frameworks, not to create AI-specific global rulebooks. Coherence can be promoted through shared principles and interoperable supervision, while the main drivers of fragmentation (data localisation, competition, security and extraterritorial reach) should be managed through collaborative, principle-based solutions.”

Source: “AI in financial services: emerging global norms” report by the International Regulatory Strategy Group, January 2026

As part of continuing regulatory change, firms will need to stay up to date while navigating the geographically disparate, occasionally extraterritorial and evolving regulatory approaches to AI.

Control frameworks

Alongside the need to track regulatory change, firms need to ensure their control infrastructure keeps pace with AI-enabled activities. In particular, based on insights derived from CUBE’s automated control quality rewrite work across its international customer base, the following trends are evident:

1. **Existing processes and controls** are becoming more complex, now needing to expressly cover the use of AI in data governance, third-party risk management, reputational risk and model governance.
2. **New controls** are required where existing processes have been updated to include AI-enabled functionality. Specifically, new controls are likely required to manage the associated risk arising from surveillance, payments and marketing activities.



Supranational

The Bank for International Settlements (BIS) is influencing supervisory thinking on explainability, model risk management and the development of international AI standards, with the aim of supporting safe AI adoption and more coherent approaches to risk identification and mitigation across jurisdictions.

In September 2025, the BIS Financial Stability Institute examined AI explainability in Occasional [Paper No.24](#), “Managing Explanations: How Regulators Can Address AI Explainability.” While explainability is widely recognised as essential, the paper notes that there is no commonly accepted definition and that some AI model outputs cannot be fully understood, explained or reproduced by humans.

As supervisors are unlikely to rely on outputs they cannot interpret, the BIS advised regulators to review model-use guidance to reflect the explainability challenges posed by increasingly complex models. It highlighted the need to balance AI’s efficiency and innovation benefits against the risks of opaque “black-box” systems and to recognise trade-offs between explainability and model performance where risks are appropriately managed.

The paper also emphasised the importance of upskilling supervisory staff to assess firms’ explainability submissions, noting that even interpretable models can be difficult to evaluate, let alone complex black-box techniques.

In September 2025, BIS published a [paper](#) outlining the results of an AI-enabled, two-stage tool that not only forecasts market stress but also explains the reasons behind the forecast. Harnessing AI to monitor financial markets requires advances in both modelling and machine learning to manage the inherently large datasets and to surface nonlinear patterns missed by standard early-warning tools.

Accurately forecasting stress remains difficult for supervisors, and AI shows promise in detecting risk and explaining it in accessible terms, helping authorities focus their surveillance efforts and prepare responses.

What this means now: a practical playbook

Regulatory expectations on AI are moving decisively from policy intent to supervisory scrutiny. Based on supervisory signals, global policy developments and insights from CUBE's 2025 survey, **firms should prioritise the following five actions.**

1. Data governance uplift

Owner: **Chief Data Officer**

Timing: **by Q2 2026**

- Clear ownership, lineage and accountability for AI-relevant data.
- Retention, localisation and cross-border controls reviewed.
- Data governance positioned as the enabling control framework for AI.

2. AI model-risk governance

Owner: **Chief Risk Officer**

Timing: **by Q3 2026**

- Inventory of AI use cases (decision-support vs decision-making).
- Human-in-the-loop oversight aligned to Senior Managers and Certification Regime (UK).
- Testing, drift monitoring and proportionate explainability standards.

3. Third-party and concentration risk

Owner: **Chief Operating Officer**

Timing: **by Q3 2026**

- Dependencies on foundation models and cloud providers identified.
- Concentration and substitutability assessed.
- AI-specific third-party risks embedded in risk assessments.

4. Regulatory change to control mapping

Owner: **Head of Compliance**

Timing: **by Q4 2026**

- AI requirements mapped to policies, controls and testing.
- No standalone "AI rulebooks"; leverage existing frameworks.
- Clear audit trail from regulation to implementation.

5. Board reporting and accountability

Owner: **Company Secretary**

Timing: **ongoing**

- Forward-looking pipeline of AI initiatives and decisions.
- Documented risk acceptances and accountabilities.
- Evidence of active board oversight of AI risk.

At-a-glance regulatory timeline

Q4
2025 → 2026



United Kingdom

2025-26

FCA emphasises reliance on existing regimes.

By end-2026

Treasury Select Committee expects clearer FCA guidance on AI.



Singapore

Nov 2025

MAS consults on AI risk-management guidelines.

2026

Final guidance expected to inform supervision.

European Union



Aug 2025

GPAI obligations apply for new models.

Nov 2025

Commission proposes AI Act simplification.

2026-27

High-risk AI obligations linked to standards availability, with up to 16-month delays.

United States



Dec 2025

Executive Order establishes a federal AI framework.

2026

Litigation and pre-emption challenges likely.

Final thoughts

Firms and their compliance officers continue to face myriad pressures on their time, attention and resources. Engagement with regulators about their evolving expectations and approaches to AI and data governance is essential.

Firms must consider and respond to regulatory consultations and calls for evidence. Investment in up-to-date AI skills and knowledge would be an immediate, low- or no-regret action for firms. The technology is moving swiftly, and to stay competitive, firms must keep pace with the revolution already underway.

About CUBE

CUBE is a global market leader in Automated Regulatory Intelligence (ARI) and regulatory change management, supporting financial institutions in meeting complex and evolving compliance and data governance obligations. Operating across Europe, North America, Asia and Australia, CUBE serves more than 1,000 customers across every major jurisdiction.

CUBE's AI-powered RegPlatform™ continuously ingests, classifies and monitors regulatory developments across global regulatory bodies and published languages, providing firms with an up-to-date regulatory footprint. This enables organisations to manage horizon scanning, regulatory change, data governance and compliance risk with speed, scale and confidence.

Backed by Hg, CUBE has expanded its capabilities through a combination of organic innovation and strategic acquisitions, including the Thomson Reuters Regulatory Intelligence and Oden businesses, Reg-Room and Acin. **Together, these capabilities enable CUBE to deliver an integrated solution for regulatory compliance and operational risk, providing firms with enhanced visibility, control and assurance across their regulatory and data environments, purpose-built for the challenges they face today and in the future.**

Find out more:

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