

# AI GOVERNANCE: THE NEXT FINANCIALLY MATERIAL RISK INVESTORS AND BOARDS CAN'T IGNORE

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Artificial intelligence (AI) is no longer just a technology story. It is a governance story, and it is moving faster than most anticipated, with far-reaching implications already being felt across industries and markets.

AI has moved from emerging technology to the mainstream. According to Gartner, more than 80% of enterprises are expected to have deployed generative AI applications by the end of 2026<sup>1</sup>, a pace that is already outpacing most organizations' ability to govern what they are adopting. What's more, its effects are not limited to those actively deploying it. AI is reshaping competitive dynamics, risk exposure, and decision-making across entire markets, with consequences that reach well beyond individual companies into investor expectations and broader financial stability.

With over 18 years in sustainable finance, Millani's position at the intersection of investors and corporates gives us a distinct vantage point on what is unfolding. As AI has become a systemic issue, investor and stakeholder expectations are rising accordingly, and the gap between those expectations and what most organizations are currently prepared to demonstrate is widening. We have developed a framework for exactly this kind of inflection point: one built on understanding what investors and stakeholders are looking for, and on helping organizations be ready when it matters.

The acceleration is reshaping how business gets done

**“People who leverage technology will have an advantage over those who don't.”**

- Satya Nadella, CEO, Microsoft

Artificial intelligence adoption is accelerating at a pace few anticipated. While 23% of businesses employ agentic AI today, that figure is expected to reach 75% within two years, a near tripling that signals not a gradual adoption, but a structural transformation<sup>2</sup>. The investment community is moving in parallel, with our [most recent Canadian Institutional Investor Sentiment Study](#) finding that 94% of investors are already using AI in some form, from sentiment analysis and data extraction in engagement processes to the development of tools for financial forecasting and decision-making<sup>3</sup>. Across both corporates and investors, AI is moving beyond experimentation and into the core of how value is created and risk is managed.

AI risk extends beyond adoption

The pace of AI adoption has brought a new category of risk. At the systemic level, the emergence of increasingly capable AI models such as Anthropic's Claude Mythos represents a cybersecurity challenge with the potential to disrupt every sector of the economy, drawing the attention of governments, regulators, and financial institutions alike. Immediately following the model's announcement in April 2026, both US and Canadian regulators, bank executives and business leaders convened to discuss the risks it raised, a signal that frontier AI is no longer about technology, but also about financial stability<sup>4</sup>.

At the business level, the disruption is equally broad. We are seeing the reshaping of business models, labour and skills requirements, intellectual property frameworks, and competitive positioning in ways that move faster than most governance structures can currently accommodate. In an article published in April 2026 by the Globe and Mail, Telus offers a concrete illustration of this phenomenon, with the company flagging that increased automation raises reputational risks tied to workforce displacement, while new regulatory requirements around AI may introduce operating restrictions and additional compliance costs<sup>5</sup>.

It is clear that AI is not just an IT issue. With its implementation and deployment, there are elements that span legal, human resources, finance, communications, sustainability and operations teams, among others.

### AI regulation is accelerating – faster than most anticipate

While the EU has already enacted binding AI legislation, Canada is signalling growing national interest through parallel tracks: the federal government launched an AI Strategy Task Force to shape its next national AI Strategy, while AIGS (Artificial Intelligence Governance & Safety), a civil society organization focused on the responsible development of AI, has called AI development a national security emergency before the House of Commons<sup>6</sup>.

The finance sector finds itself at the front of the regulatory queue, with OSFI's Guideline E-23 establishing enterprise-wide governance expectations for AI and machine learning models across financial institutions with binding requirements expected by May 2027<sup>7</sup>. In addition, the Canadian Securities Administrators (CSA) and the Autorité des marchés financiers (AMF) have expanded their oversight of AI within securities markets with a focus on transparency, accountability, and investor protection<sup>8-9</sup>.

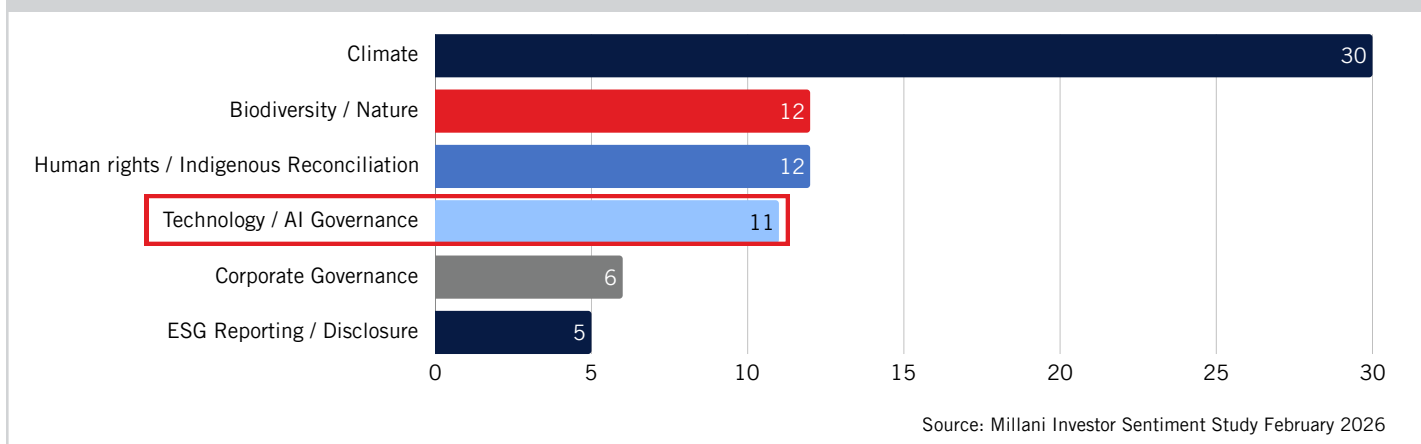
Millani has observed this trajectory before. The regulatory landscape around AI is following a path that mirrors the institutionalization of ESG and climate risk, moving from voluntary guidelines toward binding obligations at a pace that is compressing what took climate risk nearly two decades to achieve.

### AI governance is moving to the top of the investor agenda

As was the case with climate, institutional investors are moving swiftly from awareness to assessments of the financial materiality of AI in the entities in their portfolios. Our latest investor sentiment study identified AI governance as one of the fastest rising ESG-related concerns among Canadian institutional investors (Figure 1), and expectations are becoming more concrete.

**Figure 1**

Top 6 ESG concerns cited by investors as current priorities (# of times mentioned)



Investors are increasingly looking for evidence of sound AI governance, including the existence of responsible AI policies, board-level expertise on AI, and clear accountability structures<sup>10</sup>. The question is whether current governance structures are adequately informed and equipped to oversee the risks and opportunities related to AI.

Through a review of AI governance disclosures among Canada's largest issuers, conducted in partnership with Manifest Climate, Millani found that only 10% of S&P/TSX 60 companies disclose having a board member with AI expertise, while 56% of boards have received some form of AI training<sup>11</sup>. The gap between the two figures points to how much work

remains for organizations to prepare for this growing risk and to meet anticipated regulatory requirements.

At the same time, organisations like JP Morgan and ISS STOXX are moving to the use of AI in their proxy voting <sup>12,13</sup>. This leads to a fundamental shift for boards as it is expected to drive a significant increase in shareholder activism and may lead to the possibility of narrative loss with shareholders. In this new environment, organizations that remain ahead will not be those who are most defensive, but those who are most strategically prepared and transparent – and this starts with understanding investors and stakeholders' expectations.

To learn more about Millani's AI governance framework and how we can support your organization, contact us at [info@millani.ca](mailto:info@millani.ca) or visit [www.millani.ca](http://www.millani.ca).

#### Footnotes

1. Gartner, *More Than 80% of Enterprises Will Have Used Generative AI API's or Deployed Generative AI-Enabled Applications by 2026*, October 2023.
2. Deloitte, *State of AI in the Enterprise: the untapped edge*, January 2026.
3. Millani, *The Backlash is Backfiring: Moving Towards the Institutionalization of ESG*, February 2026.
4. Globe and Mail, *Canadian bank execs, regulators meet to discuss risks raised by Anthropic's new AI model*, April 2026.
5. Globe and Mail, *How analytics and investors are weighting the impact of AI – beyond the scare trade*, April 2026.
6. AIGS Canada, *"A national security emergency" AIGS testimony to INDU goes viral, reaches 1M views on IG*, March 2026.
7. OSFI, *Guideline E-23 – Model Risk Management (2027)*, September 2025.
8. OSC, *CSA Staff Notice and Consultation 11-348 – Applicability of Canadian Securities Laws and the use of Artificial Intelligence Systems in Capital Markets*, December 2024.
9. AMF, *Guideline for the Use of Artificial Intelligence*, June 2025.
10. Millani, *The backlash is backfiring : The institutionalization of ESG*, February 2026.
11. Manifest Climate, *as of February 9, 2026*.
12. Yahoo Finance, *JPMorgan Ends Ties With Proxy Advisers and Turns to AI*, January 2026.
13. ISS STOXX, *ISS STOXX Governance Announces Planned AI-Enabled Solutions*, April 2026.

## About Millani

Millani provides sustainable investing and corporate sustainability advisory services, including ESG integration and impact, to both investors and companies.

For the past 18 years, Millani has become the partner of choice for institutional investors and corporations alike. By providing advisory services on integrating material ESG issues into investment strategies and decision-making processes, Millani helps reduce risks, increase returns and create value. Millani also regularly develops leading thought leadership on investor and disclosure trends. The firm leverages this expertise and experience to help corporations, both public and private, create strategies, engage with stakeholders and strengthen their strategies and disclosures, supporting the organizations in their access to capital and optimization of market value.

Millani's success is founded on a bespoke, client-centric approach that focuses on material issues, practical implementation, and independent advice. Our extensive capital market experience and unparalleled expertise in ESG and sustainable finance, and its connection to value creation, position Millani at the nexus between investors and companies – making us unique in the Canadian market.

For more information, contact us at [info@millani.ca](mailto:info@millani.ca) or visit our website: [www.millani.ca](http://www.millani.ca)