

**Baker
McKenzie.**

uniphore 

 Association of
Corporate Counsel
— SAN FRANCISCO BAY AREA —

Looking for Perfect Harmony

Legal Issues Associated with Acquiring and Selling AI Assets

November 2, 2023



Speakers



Megha Sharma
Uniphore
General Counsel

megha.sharma@uniphore.com



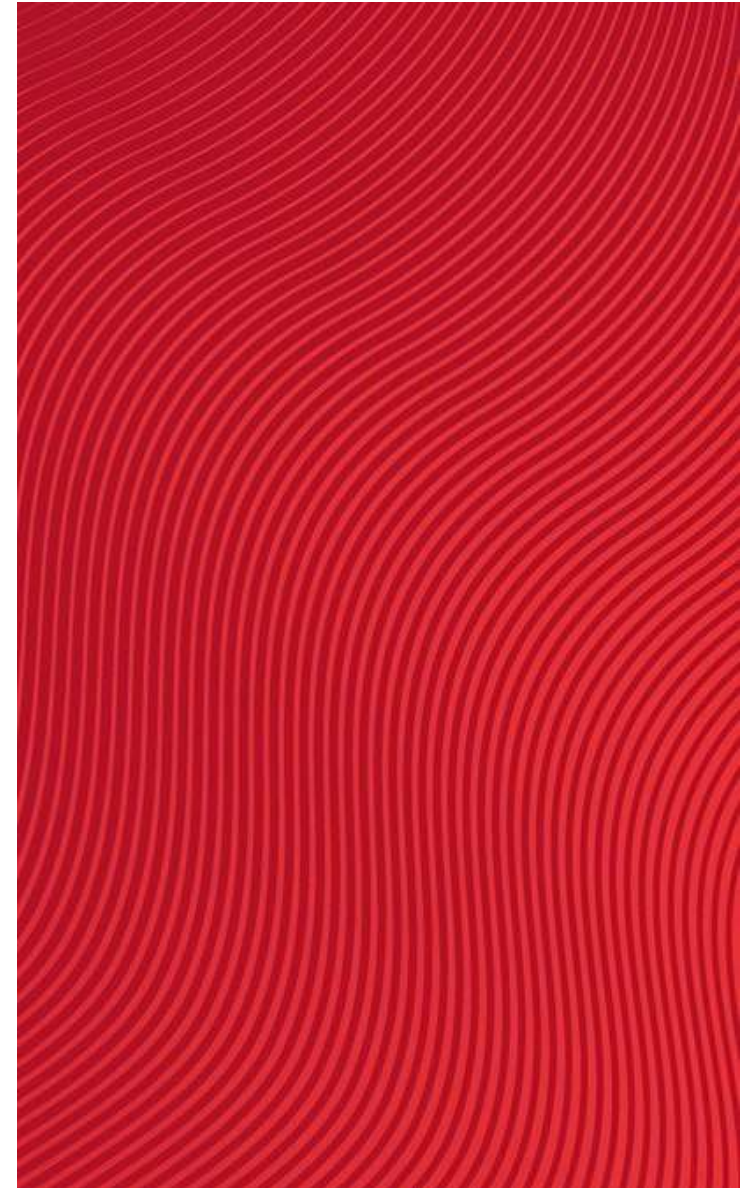
Aarthi Belani
Baker McKenzie
Partner, Transactions

aarthi.belani@bakermckenzie.com



Jonathan Tam
Baker McKenzie
Partner, Tech and IP

jonathan.tam@bakermckenzie.com





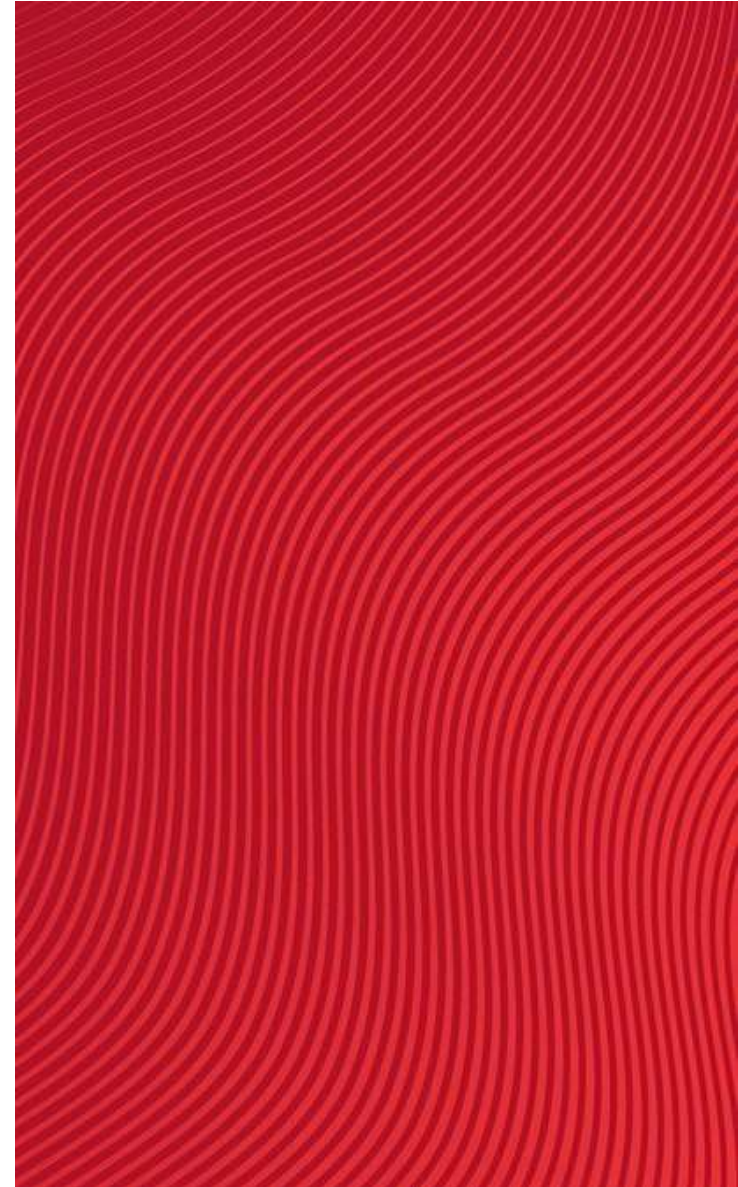
Agenda

01 What is AI? How are companies using it?

02 Regulatory Compliance

03 Due Diligence

04 Transactions involving AI Assets



01 What is AI?

How are companies using it?



What is AI?

Varying Definitions

National AI Initiative Act of 2020

"artificial intelligence" means a **machine-based system** that can, for a given set of human-defined **objectives**, make **predictions, recommendations or decisions influencing real or virtual environments.**

California Privacy Protection Agency's Draft Regulations (2023)

"Artificial Intelligence" means an engineered or **machine-based system** that is designed to operate with **varying levels of autonomy** and that can, for explicit or implicit **objectives, generate outputs such as predictions, recommendations, or decisions that influence physical or virtual environments.**

EU Parliament's draft EU AI Act (2023)

"artificial intelligence system" means a **machine-based system** that is designed to operate with **varying levels of autonomy** and that can, for explicit or implicit **objectives, generate outputs such as predictions, recommendations, or decisions, that influence physical or virtual environments.**



What is AI?

New York City's Automated Employment Decisions Tools Law

Automated employment decision tool means any **computational process**, derived from machine learning, statistical modeling, data analytics, or artificial intelligence, that issues simplified **output**, including a score, classification, or recommendation, that is **used to substantially assist or replace discretionary decision making for making employment decisions that impact natural persons**.

The term "automated employment decision tool" does not include a tool that does not automate, support, substantially assist or replace discretionary decision-making processes and that **does not materially impact natural persons**, including, but not limited to, a junk email filter, firewall, antivirus software, calculator, spreadsheet, database, data set, or other compilation of data.



What Is AI?

Keep your AI claims in check

By: Michael Atleson, Attorney, FTC Division of Advertising Practices

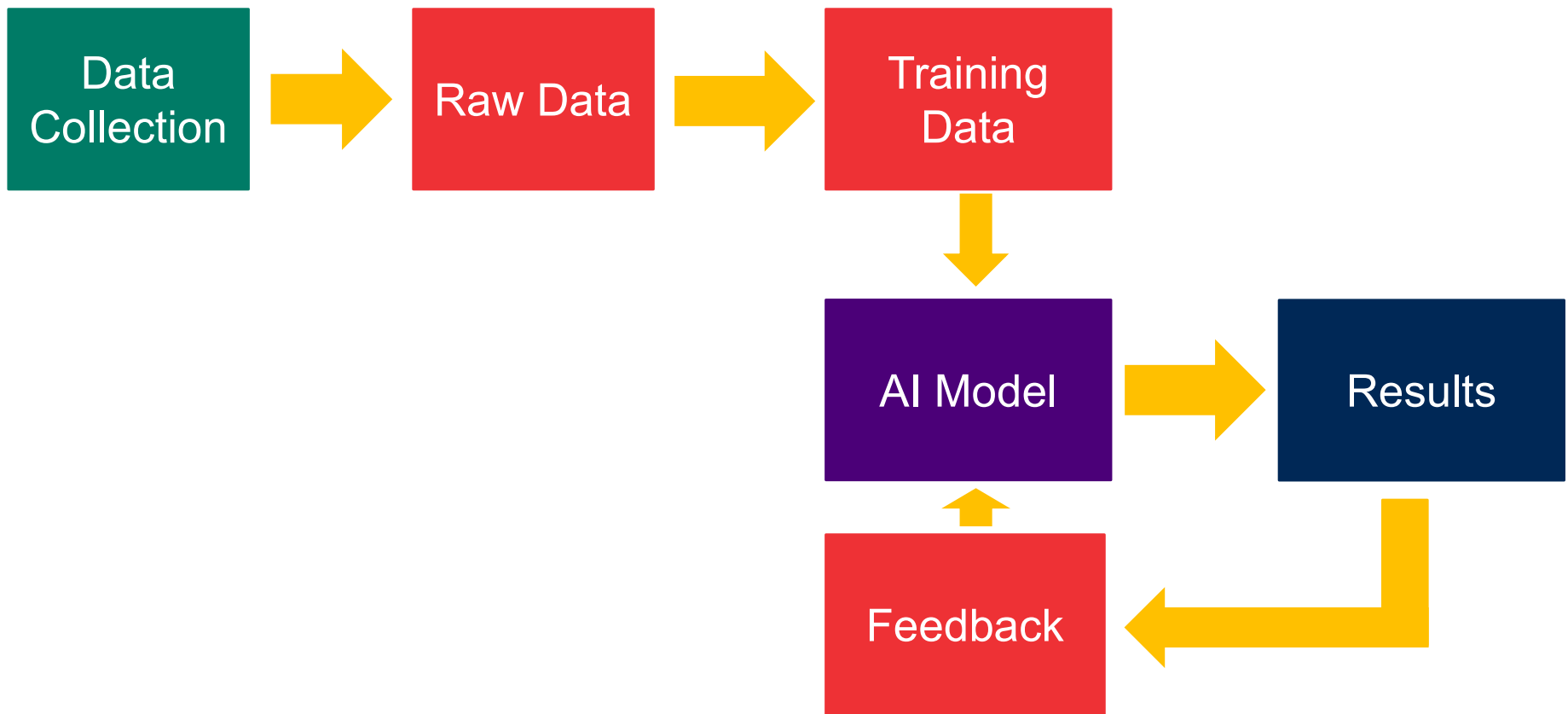
February 27, 2023



FEDERAL TRADE COMMISSION
PROTECTING AMERICA'S CONSUMERS

- Are you exaggerating what your AI product can do?
- Are you promising that your AI product does something better than a non-AI product?
- Are you aware of the risks?
- Does the product actually use AI at all?

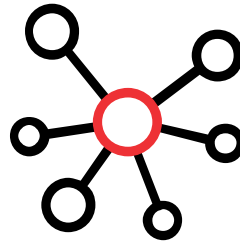
What is AI?



How are Companies using AI?

Users

Companies that use AI tools to enhance their operations

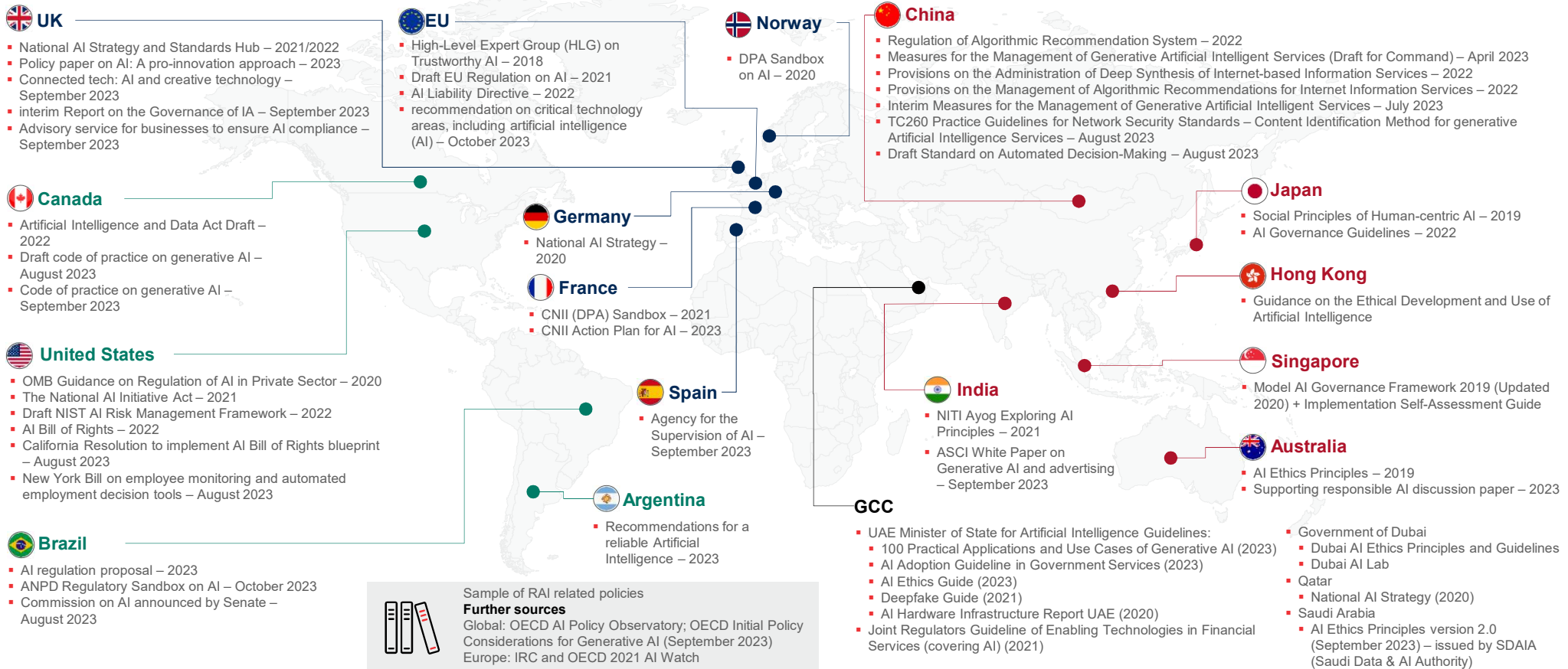


Providers

Companies that provide AI tools, including white labeled AI tools

02 Regulatory Compliance

Evolving AI Regulation Across the Globe





Regulatory Compliance

Examples of regulatory issues when using AI Tools



Users

- **Privacy:**
 - Are you permitted to provide personal data to providers of AI tools?
 - Are you permitted to process personal data for training, analysis, R&D, etc.?
 - Do you need to perform a privacy impact assessment?
- **Cybersecurity:** What are the data security risks of engaging the provider of the AI tool?
- **Residency:** Where is the data stored and are you permitted to transfer it there?
- **Specific Use Cases:** In compliance with NYC's Automated Employment Decisions Tools Law?



Regulatory Compliance

Examples of regulatory issues when providing AI tools

Providers

- Collecting data for training from third-party sources may be prohibited by **contracts**
- Scraping data for training from third-party websites and databases may infringe **computer interference laws**
- Examples of measures that a seller should implement and a buyer should evaluate:
 - Evaluate applicable contracts and document permissions
 - Avoid deceptive methods to gain access to data or describing how it was collected
 - Assess data scraping laws and take note of technical measures designed to prohibit scraping, such as restrictions in robots.txt files
 - Log and honor requests by operators of data sources



Regulatory Compliance

Examples of regulatory issues when providing AI tools

Providers

- Data used to train the AI Model may be subject to **data privacy & security laws**
- Examples of measures that a seller should implement and a buyer should evaluate:
 - Obtain prior express written consent from data subjects
 - Immediately remove identifiable information, as appropriate
 - Avoid sensitive personal information (e.g., biometrics, health data)
 - Only use the minimum personal data needed for training
 - Ensure you can give effect to data subject rights
 - Diligence third-party suppliers of data and seek contractual protections from them



Regulatory Compliance

Harmful and illegal outputs



Users



Providers

- **Harmful outputs** could expose the company to liability
- Users must vet outputs and avoid adopting them wholesale without scrutiny
- Examples of measures that a provider should implement and a buyer should evaluate:
 - Detailed documentation of the development and training process
 - Taking ethics into consideration in data collection, training and feedback steps
 - Uncertainty modeling to gauge the system's confidence in its output
 - Sandboxes, red teaming and adversarial testing
 - Giving users a way to report problems



Regulatory Compliance

AI-Specific Regulations



Users



Providers

- White House's Blueprint for an AI Bill of Rights
- FTC's AI-specific guidance
- California's Bot Disclosure Law
- Texas' Securing Children Online through Parental Empowerment (SCOPE) Act
- Data privacy and protection laws that focus on automated decision-making
- NYC's Automated Employment Decisions Tools Law
- Upcoming EU AI Act

03 Due Diligence



Due Diligence

Sample Questions regarding Use of AI



Users

- What AI tools does the target use and for what purposes?
- What types of data are being processed by the AI tools?
- Does the target have valid licenses for the AI tools?
- What do the licenses state about the ownership or use by provider of inputted data?
- Does the target use generative AI technologies to write code? If so, does it scan the output for open source licenses?
- What measures has the company conducted to mitigate potentially unfair outcomes resulting from the AI tools?
- Are there any critical dependencies on the AI tools?
- Does the company have employees with sufficient skills to use the AI tools?



Due Diligence

Sample Questions regarding Provision of AI

Providers

- Does the company have clear ownership or appropriate licenses for the AI tools?
- What is the process for ensuring quality and reliability in the AI tools?
- What types of data are used to train and operate the AI tools?
- How does the company address ethical considerations and mitigate biases?
- What measures does the company take to secure its AI tools and protect user data from cybersecurity threats?
- Are there any critical dependencies on third-party vendors to operate the AI tools?
- Does the company have employees with sufficient skills to develop the AI tools?



Intellectual Property

Using AI Tools



Users

- Trade secrets, confidential information and other IP may be inadvertently disclosed
- Code, text, images and other works may be inadvertently infringing
- Examples of measures that a seller should implement and a buyer should evaluate:
 - Evaluate the AI tools in use by seller and the terms under which they are used
 - Look out for clauses that permit the vendor to “own” inputted data
 - Consider whether seller’s IT, legal or other teams conducted an evaluation of the vendor’s data security/privacy terms before onboarding
 - What protocols and training does seller have to avoid inputting confidential info or copyrighted works
 - Scan output for infringements



Intellectual Property

Intellectual Property in the Raw Data

Providers

- Data used to train the AI Model may be subject to third-party IP rights
 - Evaluate terms for any datasets purchased by the Seller
 - Evaluate contract terms which permit the Seller to use its Customers' data
- Examples of measures that a seller should implement and a buyer should evaluate:
 - Obtain prior licenses from copyright holders
 - Document a fair use analysis
 - Use plagiarism detection tools
 - Diligence third-party suppliers of data and seek contractual protections from them



Intellectual Property

Providers

- **Copyrights:** Register copyrights to establish ownership in expressive elements
- **Patents:** File patents to protect underlying methodologies, processes and algorithms
- **Trade secrets:** Maintain aspects that you don't want to disclose as trade secrets
- **Customer Licenses:** Carefully draft customer licenses to only grant limited rights
- **Worker and Supplier Contracts:** Include robust IP protections and NDAs
- **Trademarks:** Register trademarks in names, logos and brand elements
- **Monitor Competitive Activity:** Watch for potential infringement of your IP rights

04 Transactions involving AI Assets



Transactions involving AI Assets

Regulatory Scrutiny over the Transaction

- **National Security:** Some nations restrict foreign investments in domestic AI companies to limit foreign control over sensitive tech with security implications
- **Antitrust:** Concentration of power in the AI industry or the systems and data that power it are under increasing regulatory scrutiny
- **Trade:** Exporting AI systems or their components to foreign entities may be restricted. Special rules apply to dual use technologies
- **Job Loss:** While still theoretical, governments may block AI acquisitions that could significantly disrupt domestic job markets and employment levels
- **AI Licenses:** U.S. and other regulators are considering requiring licenses for certain AI development activities



Transactions involving AI Assets

Representations and Warranties

- Are AI-specific representations and warranties necessary?
- Ensure that the representation and warranties cover:
 - Intellectual property rights, including registrations, applications, freedom to operate, protection of trade secrets and other intellectual property
 - Non-infringement of third-party licenses and contracts
 - Absence of infringement or other claims
 - Compliance with privacy, security and other laws



Transactions involving AI Assets

Representations and Warranties

Generative AI. (i) The Company uses all Generative AI Tools (as defined below) in [material] compliance with the applicable license terms, consents, agreements and laws. (ii) The Company has not included and does not include any sensitive Personal Information, trade secrets or material confidential or proprietary information of the Company, or of any third Person under an obligation of confidentiality by the Company, in any prompts or inputs into any Generative AI Tools, except in cases where such Generative AI Tools do not use such information, prompts or services to train the machine learning or algorithm of such tools or improve the services related to such tools. (iii) The Company has not used Generative AI Tools to develop any material Company-Controlled Intellectual Property that the Company intended to maintain as proprietary in a manner that it believes would materially affect the Company's ownership or rights therein. (v) For purposes hereof, "**Generative AI Tools**" means generative artificial intelligence technology or similar tools capable of automatically producing various types of content (such as source code, text, images, audio, and synthetic data) based on user-supplied prompts.

Questions

The image features a white background with a large, irregular white shape in the center. This shape is surrounded by a red area that has a wavy, textured pattern. The word "Questions" is written in a bold, black, sans-serif font within the white area.

Baker McKenzie.

Baker McKenzie delivers integrated solutions to complex challenges.

Complex business challenges require an integrated response across different markets, sectors and areas of law. Baker McKenzie's client solutions provide seamless advice, underpinned by deep practice and sector expertise, as well as first-rate local market knowledge. Across more than 70 offices globally, Baker McKenzie works alongside our clients to deliver solutions for a connected world.

bakermckenzie.com

Baker & McKenzie LLP is a member firm of Baker & McKenzie International, a global law firm with member law firms around the world. In accordance with the common terminology used in professional service organizations, reference to a "partner" means a person who is a partner, or equivalent, in such a law firm. Similarly, reference to an "office" means an office of any such law firm. This may qualify as "Attorney Advertising" requiring notice in some jurisdictions. Prior results do not guarantee a similar outcome.

© 2023 Baker & McKenzie LLP