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News From around the World

FRANCHISING IN THE AGE OF AI



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News from around the world



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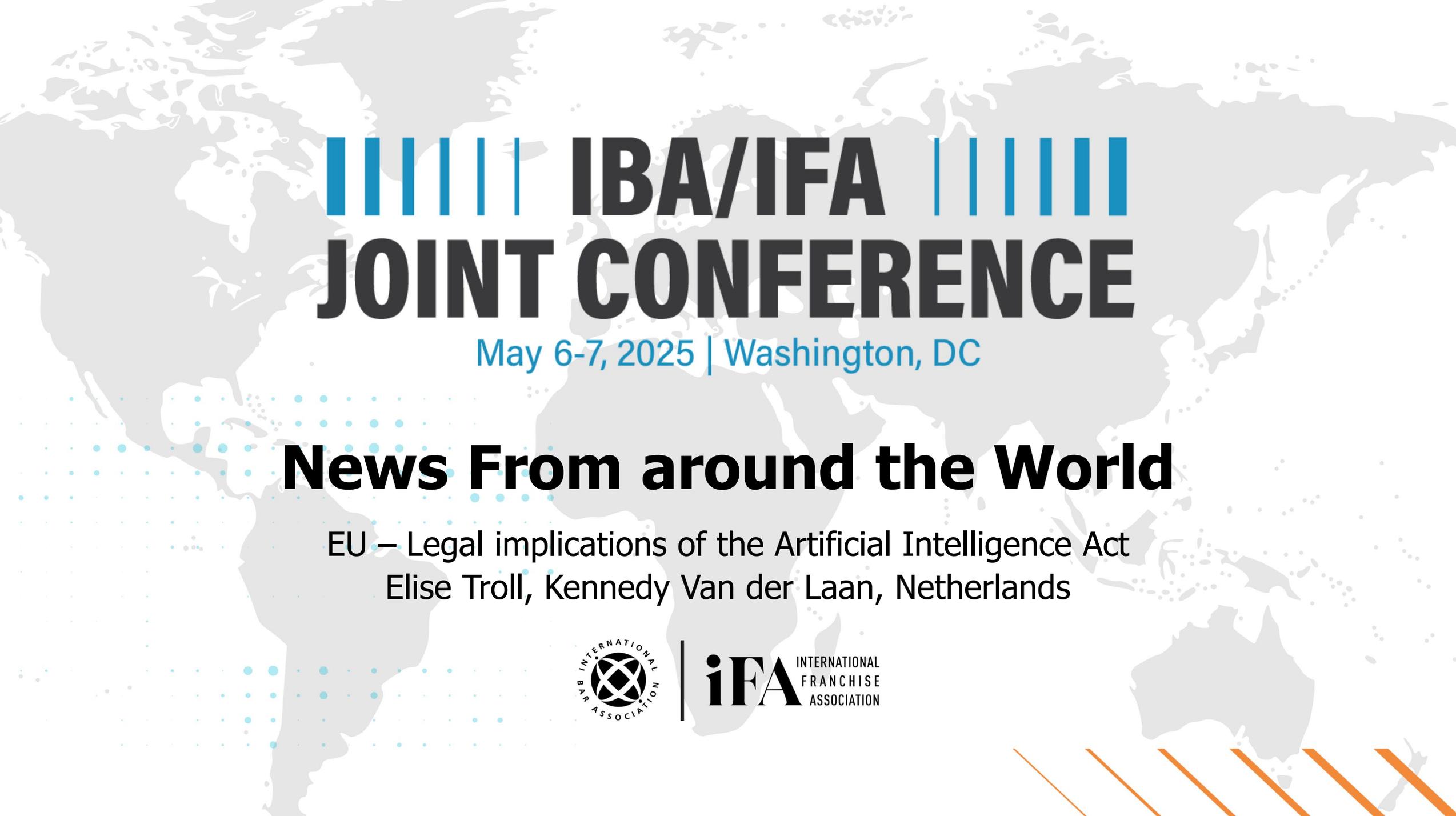
European Union

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EU – Legal implications of the Artificial Intelligence Act
Elise Troll, Kennedy Van der Laan, Netherlands



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Introduction to the EU AI Act

- **Background:** The European Union AI Act (Regulation (EU) 2024/1689) published on 12 July 2024, with provisions effective from 1 August 2024, most requirements enforceable starting 2 August 2026.
- **Purpose:** The AI Act establishes a comprehensive regulatory framework for artificial intelligence in the EU, aiming to ensure AI is used safely, ethically, and in compliance with fundamental rights. This aligns with the EU's goals of promoting innovation while safeguarding citizens' rights.
- **Article 1(1):** *“This Regulation lays down harmonized rules for artificial intelligence (AI) in the Union to ensure that AI systems placed on the market and used in the Union are safe and respect fundamental rights.”*

Definitions of AI under the EU AI Act

- **AI System Definition:** Article 3(1) defines an AI system as “*means a machine-based system that is designed to operate with varying levels of autonomy and that may exhibit adaptiveness after deployment, and that, for explicit or implicit objectives, infers, from the input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments.*”
- **AI System Categories:** The regulation categorizes AI based on risk levels—ranging from unacceptable risk (which is prohibited) to minimal/no risk systems, offering clarity for legal compliance.

Categories of AI Risk

- **Unacceptable Risk AI Systems (Article 5):** The regulation prohibits AI systems that pose an unacceptable risk to individuals' safety and rights, for example:
 - Social scoring systems
 - Predictive policing
 - Real-time biometric identification by law enforcement
- **High-Risk AI Systems (Article 6):** These systems include AI used in recruitment and selection, evaluating creditworthiness or eligibility for public assistance benefits, and require strict compliance with safety, transparency, and oversight standards.
- **Transparency Risk (Article 50):** AI systems that could influence people's decisions or perceptions. Ex: AI systems like chatbots or deepfakes must ensure that users know they are interacting with a machine, not a human.

Requirements high-risk AI systems

- **Transparency (Article 13):** High-risk AI systems shall be designed and developed in such a way as to ensure that their operation is sufficiently transparent to enable deployers to interpret a system's output and use it appropriately.
- **Human Oversight (Article 15):** High-risk AI systems must be subject to human oversight to mitigate risks and ensure accountability in decision-making processes.

Enforcement, Sanctions, Compliance

- **Compliance Mechanisms:** AI system providers must comply with transparency, accountability, and data protection requirements. National authorities will enforce the regulation and monitor compliance.
- **Sanctions for Non-Compliance (Article 99):** Companies that fail to adhere to the AI Act could face significant penalties, including fines of up to € 35 million or 7% of global annual turnover, whichever is greater.



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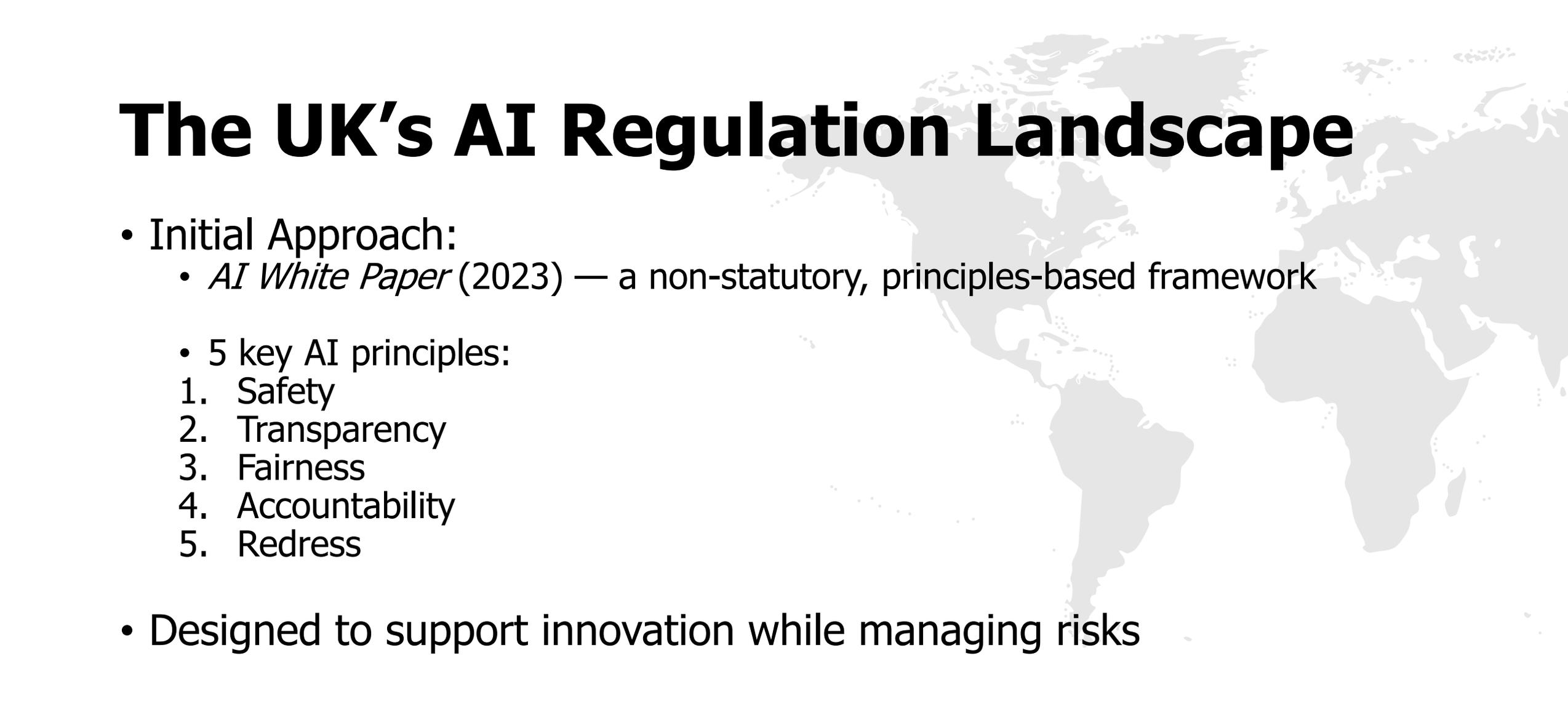
**FRANCHISING IN THE AGE OF AI: UNDERSTANDING THE REGULATORY
FRAMEWORK IN THE UK**

Sophie Peasley – Hamilton Pratt



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The UK's AI Regulation Landscape



- Initial Approach:
 - *AI White Paper* (2023) — a non-statutory, principles-based framework
 - 5 key AI principles:
 1. Safety
 2. Transparency
 3. Fairness
 4. Accountability
 5. Redress
- Designed to support innovation while managing risks

Shifting Government Approaches

- Private Members' AI Bill (2023, reintroduced 2025):
 - Proposes AI Authority & codified principles
- Labour Government (2024–):
 - Indicates stronger regulation
 - Delays draft AI Bill to align with US
- Focus of current AI Opportunities Action Plan (2025):
 - Innovation over regulation

UK v EU

- EU AI Act (2024):
 - Risk-based, binding regulation with strict enforcement
 - Includes penalties, centralised oversight, and mandatory compliance for high-risk AI
- UK Approach:
 - Lighter, sector-led, less enforceable
 - Prioritises flexibility, but risks inconsistency and weaker consumer protection
- Franchising Impact:
 - UK's current model supports AI innovation (e.g. in recruitment, customer service)
 - Lack of statutory clarity = legal uncertainty
 - Future legislation could bring clarity but increase compliance duties

China



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News From around the World - China

Dominic Hui, Ribeiro Hui Shanghai Office



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Copyright Law

- **Copyrightable work must be created by a human author**
- **No separate category for computer generated work**
- **No specific rules on use of third party's materials for training**
- **Note : 2023 Interim Measures – observance of other's IPR rights**

2023 Interim Measures

- **Generative AI : model and technology that can generate texts, pictures, sounds, video footage**
- **National security considerations**
- **Prohibition of discrimination**
- **Prohibition of monopolistic behaviour and unfair competition behaviour**
- **Observance of other's rights (e.g. IPRs, personal data)**
- **Measures to control addictive behaviour of young users**
- **Preservation of records for investigation**

2022 Algorithm Regulations

- **Algorithm recommendation services :**
 - generative and synthetic algorithms
 - personalized contents pushing algorithms
 - sorting and refined selection algorithms
 - Retrieval and filtering algorithms
 - scheduling and decision-making algorithms
- **Several authorities jointly regulate this area**
- **Recordal system for those with public opinion and social mobilization capabilities, as a first step of regulation**

2022 Algorithm Regulations

- **No settings for addictive and over-consumption behaviour**
- **Illegal and unethical contents should not be labelled for pushing information purpose**
- **No block of information, over-recommending certain contents, manipulating ranking or sequence of search results**
- **No use for monopolistic and unfair competition behaviour**
- **Elderly protection and adaptation, minor protection**
- **If target service providers – observe labour rights**
- **No price differentiation or unequal treatment**

2024 Security Governance Framework

- **To understand the logic of the authorities**
- **A mix of regulatory rules and technical requirements**
- **National security considerations**
- **Cognitive and ethical risks stressed**
- **IPR, personal data considerations**
- **Capability to trace back**



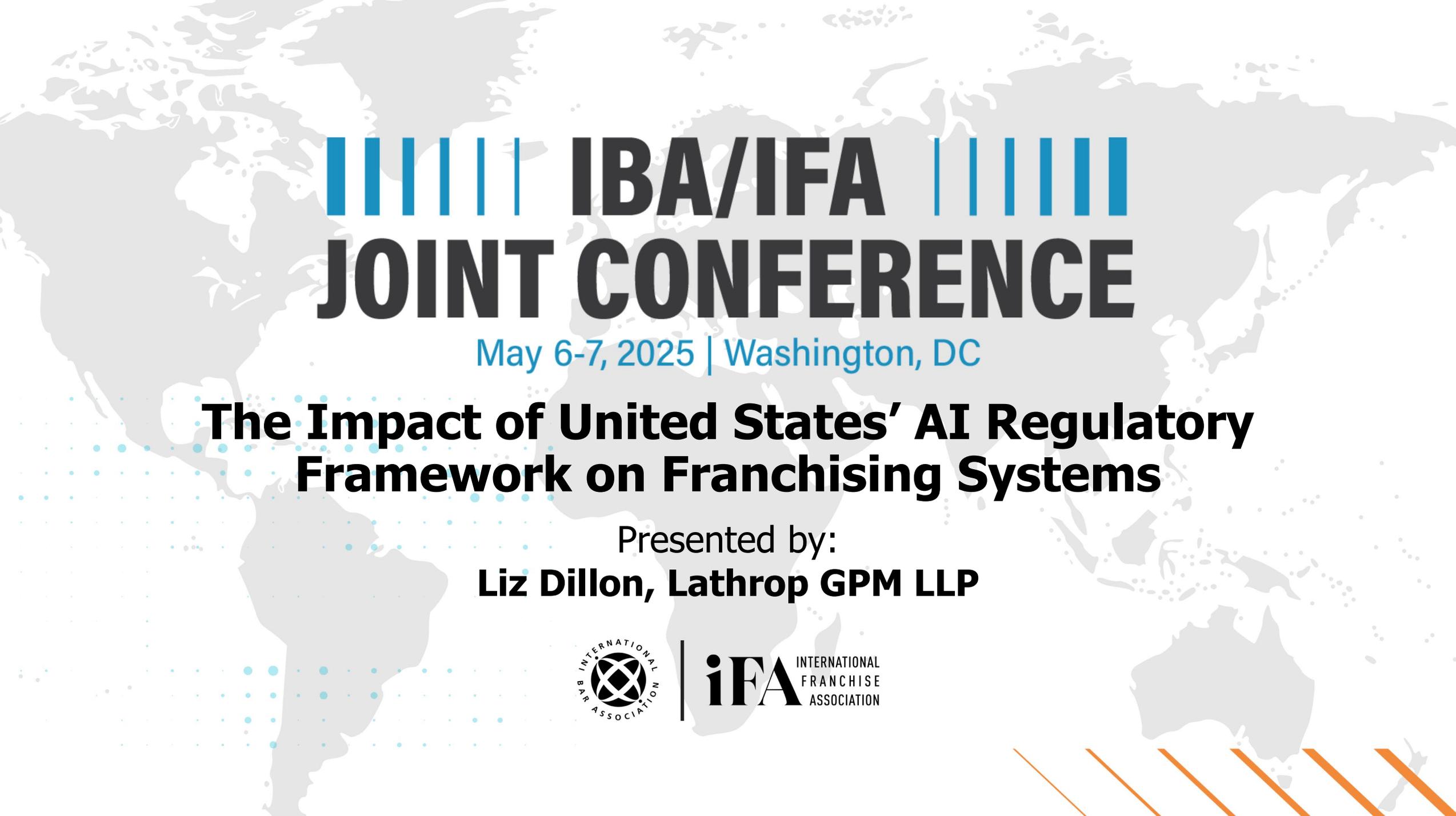
United States

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The Impact of United States' AI Regulatory Framework on Franchising Systems

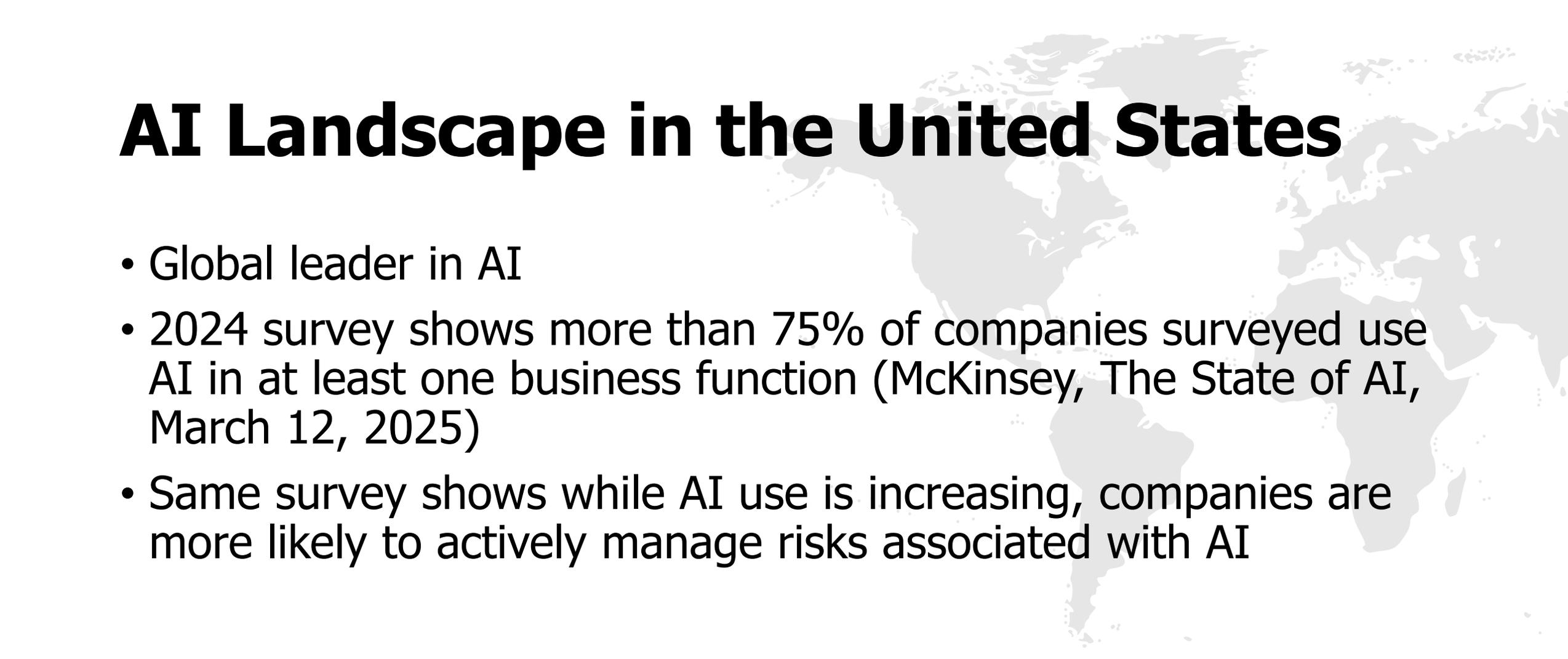
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AI Landscape in the United States



- Global leader in AI
- 2024 survey shows more than 75% of companies surveyed use AI in at least one business function (McKinsey, The State of AI, March 12, 2025)
- Same survey shows while AI use is increasing, companies are more likely to actively manage risks associated with AI

AI Regulations in the United States

- No federal law, though many bills have been proposed
- Impact of Executive Orders
- At the state level, Colorado has enacted the most comprehensive AI regulations
- Other states have passed more limited AI laws (UT, CA) and many states have AI legislation pending
- Trend to focus on transparency and high-risk systems, such as employment, housing, education, credit, and health care

AI Case Trends in the United States

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- FTC Enforcement Actions
 - Operation AI Comply
- Copyright Infringement Cases
 - Thomson Reuters v ROSS



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**The Impact of Canada's AI Regulatory
Framework on Franchising Systems**

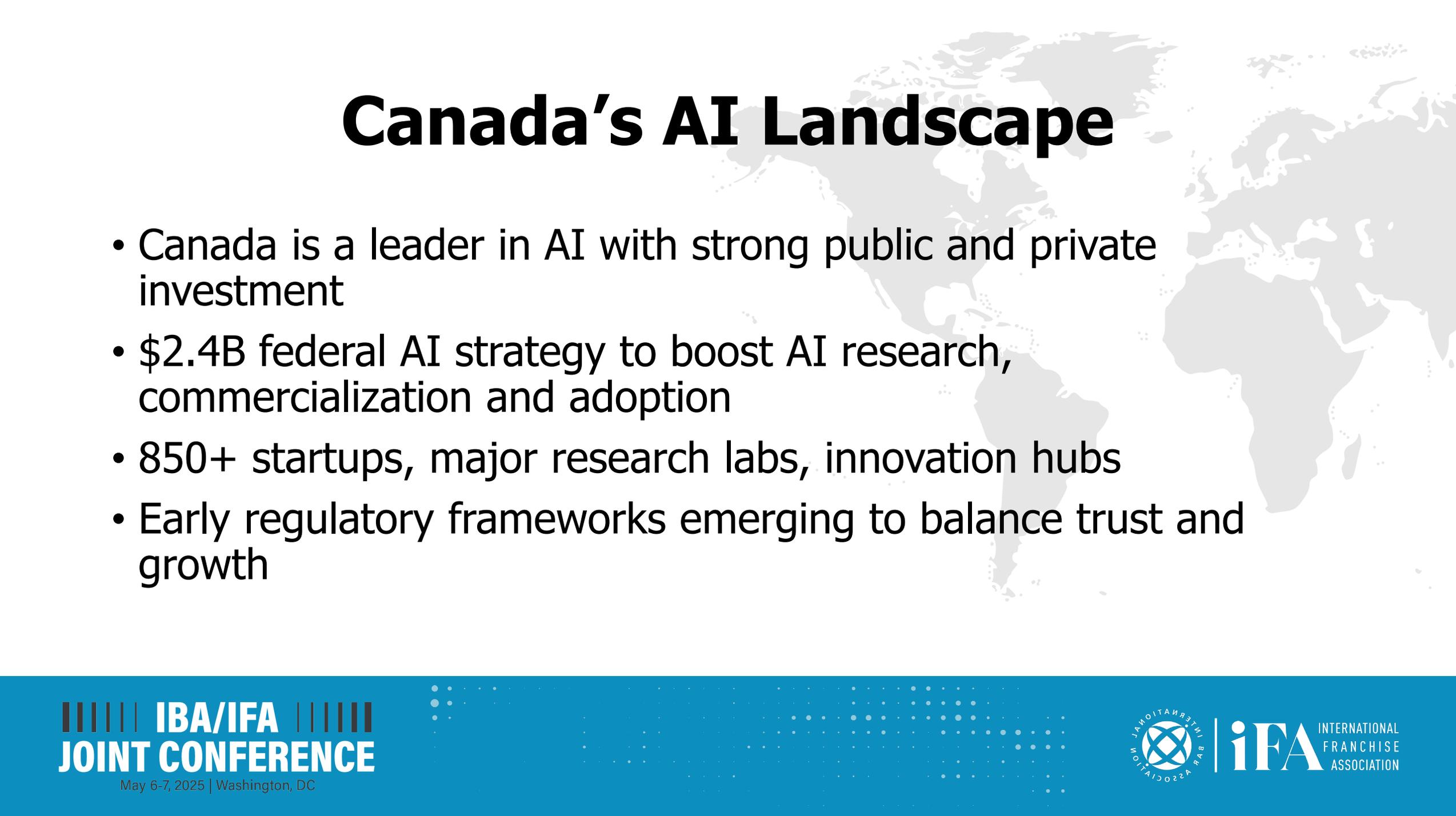
Presented by:

Frank Robinson, Cassels Brock & Blackwell LLP



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Canada's AI Landscape

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- Canada is a leader in AI with strong public and private investment
- \$2.4B federal AI strategy to boost AI research, commercialization and adoption
- 850+ startups, major research labs, innovation hubs
- Early regulatory frameworks emerging to balance trust and growth

Emerging AI Regulation in Canada

- Bill C-27 and the *Artificial Intelligence Data Act* (AIDA) under review
 - Risk-based, principles-driven federal AI regulation
- Provincial AI laws emerging in Ontario, Quebec and Alberta
 - Focus on data privacy, cybersecurity and transparency
- Sector-specific guidance
 - Privacy Commissioner, Competition Bureau

Legal Risks and Compliance Strategies

- Duty of good faith and fair dealing = transparency in AI-driven decisions (Canada)
- Disclosure and accountability frameworks
- Strong data governance and vendor oversight
- IP risks by using proprietary and third-party data
- Mitigating algorithmic bias through audits and ensuring fairness and accountability

Preparing Franchise Systems for an AI-Driven Future

- Embed AI governance directly into operations
- Update franchise agreements and disclosure documents
- Train franchisees on AI, privacy and compliance
- Responsible AI = brand protection and strong franchisee relationships
- Be proactive to ensure compliance and success

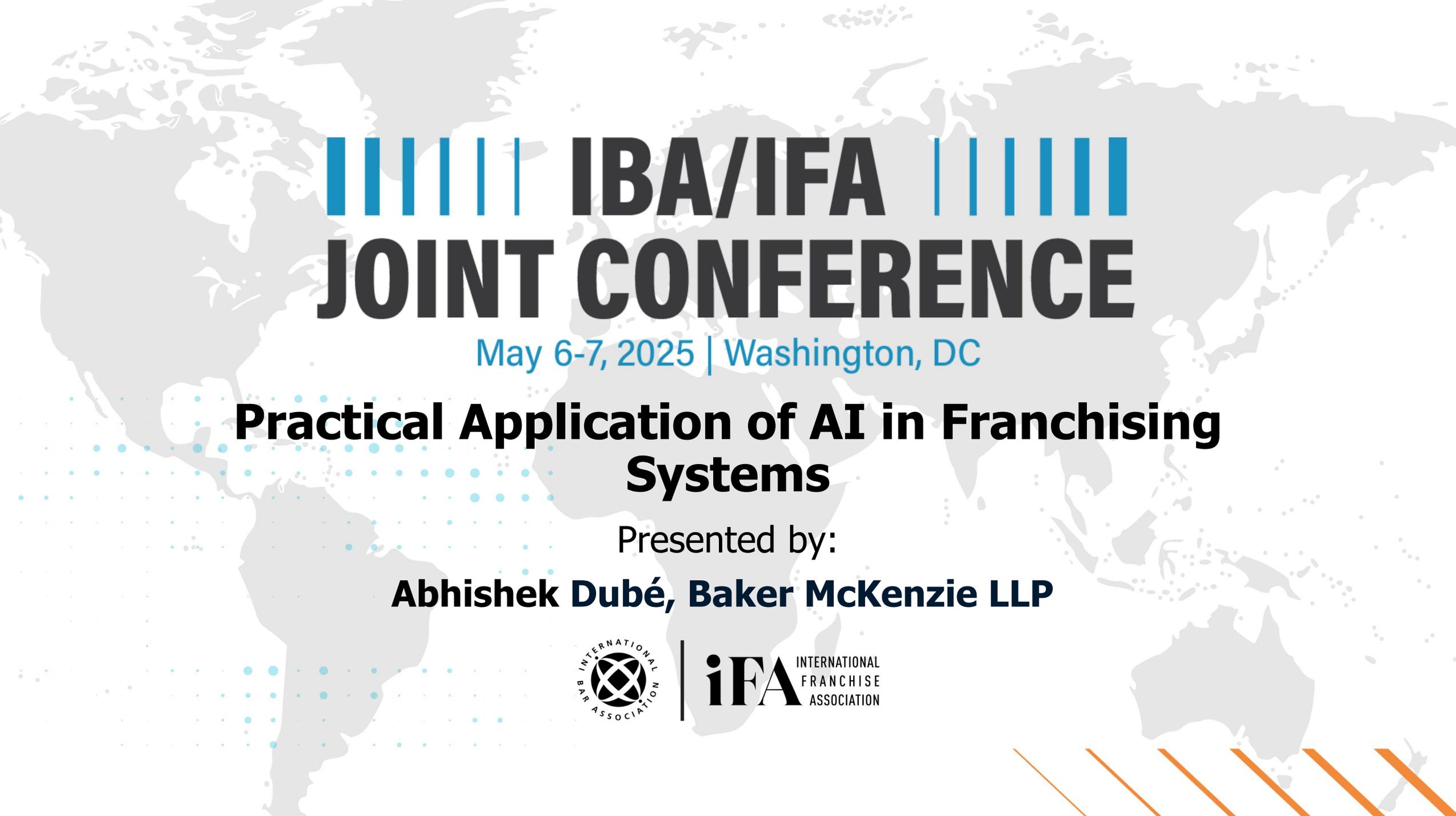


Impact on Franchising?

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Practical Application of AI in Franchising Systems

Presented by:

Abhishek Dubé, Baker McKenzie LLP



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AI Integration in Franchise Systems: Franchisor Use

- Compliance:
 - Review POS data and customer reviews to identify non-compliance
- Business intelligence:
 - Trend forecasting, resource optimization, territory planning
- Customer experience:
 - Personalized engagement to drive sales and boost customer loyalty
- Franchisee support:
 - Smarter recruitment, adaptive onboarding and training

AI Integration in Franchise Systems: Franchisee Use

- Operations:
 - Automating inventory, scheduling, reporting
- Customer engagement:
 - Systems to handle routine inquiries, greet customers and upsell
- Localized marketing:
 - Social media content, email campaigns and event promotions
- Smart hiring:
 - Screen applicants for schedule fit, job skills and predicted turnover

AI Integration in Franchise Systems: Supplier Use

- Franchise Brokers:
 - Evaluate prospect profiles; lead scoring tracking to predict lead conversion
- Accounting/Financial:
 - Financial forecasting and benchmarking; identify performance risks
- Legal:
 - Monitor use of trademarks, assist in due diligence, and flag issues in registration and negotiations
- Marketing
 - Optimize digital ad performance and test messaging