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**AI in Franchise Systems: Regulatory and Practical  
Considerations in Canada and the United States**

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# AI IN FRANCHISE SYSTEMS: REGULATORY AND PRACTICAL CONSIDERATIONS IN CANADA AND THE UNITED STATES

## 1. Introduction to AI Legislation in Canada and the United States

Artificial intelligence (AI) is rapidly transforming the franchising sector by streamlining operations, enhancing decision-making, and enabling personalized customer and franchisee interactions.

With regulatory developments accelerating across North America, it is critical to examine the current and evolving legal frameworks that govern AI in both Canada and the United States. This paper explores these developments, evaluates the implications of AI adoption by franchisors, franchisees, and suppliers, and offers practical guidance for compliance and innovation.

### 1.1. *Canada*

Canada stands among the pioneering nations to propose federal legislation regulating artificial intelligence (“AI”), positioning itself at the forefront of this critical global conversation.<sup>1</sup> As a recognized leader in AI, Canada is home to 20 public AI research labs, 75 incubators and accelerators, 60 investor groups, and more than 850 AI-related startups.<sup>2</sup> Regulatory efforts are progressing rapidly at federal, provincial and territorial levels, with several legislative proposals currently under review, though no federal law has yet to be enacted. At the same time, numerous industries have published reports and policy papers addressing the implications of generative AI. In a significant move, in April 2024, the Government of Canada announced a \$2.4 billion package to strengthen the national AI sector, demonstrating a clear dedication to fostering innovation while promoting responsible AI development.<sup>3</sup> This evolving regulatory landscape is particularly significant for the franchise sector, where AI is increasingly leveraged to optimize operations, enhance customer engagement, and inform strategic decision-making.

### 1.2. *United States*

The United States has adopted a sectoral and agency-driven approach to regulating AI, with a growing patchwork of federal, state, and local initiatives shaping the legal landscape. Although no comprehensive federal AI law has been enacted to date, the federal government has issued a series of policy frameworks and executive actions. At the state level, many state legislatures are advancing bills addressing algorithmic transparency, bias, and data privacy. U.S. agencies such as the FTC, EEOC, and DOJ

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<sup>1</sup> Innovation, Science and Economic Development Canada, “Artificial Intelligence and Data Act” (27 September 2023), online (government publication): <[Artificial Intelligence and Data Act](#)>.

<sup>2</sup> Innovation, Science and Economic Development Canada, “The Artificial Intelligence and Data Act (AIDA) – Companion Document”, (31 January 2025), online (government publication): <[The Artificial Intelligence and Data Act \(AIDA\) – Companion document](#)?>.

<sup>3</sup> Maxwell Solomons, Courtney Wong & Tushar Sharma, “Eh-I? Canada Commits \$2.4 Billion to AI Development” (25 April 2024), online (blog): <[Eh-I? Canada Commits \\$2.4 Billion to AI Development | Cassels.com](#)>.

have also issued guidance and warnings about the misuse of AI in hiring, advertising, and consumer protection, and the FTC has brought a series of actions.

For the franchising sector, these legal developments are increasingly relevant as AI tools are deployed across marketing, supply chain logistics, employee screening, and customer interactions. Understanding and anticipating these evolving obligations is critical for franchisors, franchisees, and suppliers operating in this dynamic regulatory environment.

## 2. Canada AI Legislation

### 2.1. Canadian Federal AI Legislation

At the center of Canada's federal efforts to regulate AI is Bill C-27, the *Digital Charter Implementation Act*, which is currently under review by the Standing Committee on Industry and Technology in the House of Commons.<sup>4</sup> This comprehensive legislation seeks to modernize the *Personal Information Protection and Electronic Documents Act* by safeguarding Canadians' privacy and providing businesses with clear, adaptable frameworks to navigate emerging technologies. Bill C-27 aims to enhance transparency and individual control over personal data, allowing Canadians to securely transfer their information between organizations and request its secure deletion. It also significantly expands the authority of the Privacy Commissioner of Canada, including the power to issue binding orders and suspend the collection or use of personal information. Notably, the legislation introduces severe penalties for non-compliance, with fines reaching up to 5% of global revenue or \$25 million, whichever is greater.<sup>5</sup> Upon enactment, Bill C-27 will establish three new laws: the *Consumer Privacy Protection Act*, the *Personal Information and Data Protection Tribunal Act*, and the *Artificial Intelligence and Data Act*.

The *Artificial Intelligence and Data Act* (the "**AIDA**"), introduced as part of Bill C-27, adopts a principles-based framework aimed at ensuring responsible governance and oversight of AI technologies.<sup>6</sup> Its central objective is to safeguard the public interest by identifying and regulating high-impact AI systems, with a particular focus on preventing harm to individuals, property, and the economy.<sup>7</sup> AIDA proposes the development of new governance structures and risk-based policies that hold businesses accountable for AI systems under their control. The legislation is designed to be adaptive, applying more rigorous obligations to systems deemed to carry higher risks.<sup>8</sup> Additionally, AIDA will introduce new criminal provisions into the Canadian *Criminal Code*, targeting the reckless or malicious use of AI that results in, or poses a risk of harm. To support the enforcement

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<sup>4</sup> Bill C-27, *Digital Charter Implementation Act*, 2022, 1st Sess, 44<sup>th</sup> Parl, 2021, (second reading 24 April 2023).

<sup>5</sup> Innovation, Science and Economic Development Canada, "Bill C-27 Summary: Digital Charter Implementation Act, 2022" (18 August 2022), online (government publication): <[Bill C-27 summary: Digital Charter Implementation Act, 2022](#)>.

<sup>6</sup> Bill C-27, *Artificial Intelligence and Data Act*, 1<sup>st</sup> Sess, 44<sup>th</sup> Parl, 2021, (second reading 24 April 2023), s 2.

<sup>7</sup> Cassels, Brock & Blackwell's Information Technology & Data Privacy Group, "Be (Artificially) Intelligent – Examining New Guidance for the Artificial Intelligence and Data Act" (29 March 2023), online (blog): <[Be \(Artificially\) Intelligent – Examining New Guidance for the Artificial Intelligence and Data Act | Cassels.com](#)>.

<sup>8</sup> *Supra*, note 1.

and administration of these measures, the Act would establish a new statutory office headed by an AI and Data Commissioner.

While Canada has not yet adopted a formal statutory definition of AI, AIDA provides a working definition of an “artificial intelligence system” as “a technological system that, autonomously or partly autonomously, processes data related to human activities through the use of a genetic algorithm, a neural network, machine learning or another technique in order to generate content or make decisions, recommendations or predictions.”<sup>9</sup>

The future of Bill C-27 and the AIDA remains uncertain in light of recent political shifts within the Canadian federal government. The resignation of Prime Minister Justin Trudeau led to the prorogation of Parliament until March 24<sup>th</sup>, 2025. However, Parliament was dissolved shortly thereafter, just nine days after Canada’s new Prime Minister, Mark Carney, was sworn into office.<sup>10</sup> With a federal election scheduled for April 28<sup>th</sup>, 2025, as of the date of writing, the legislative trajectory of Bill C-27 and AIDA remains subject to further delays or significant revisions, depending on the priorities of the next government.

## 2.2. Canadian Provincial AI Legislation

At the provincial level, the same at which franchising is regulated, jurisdictions such as Québec, Ontario, and Alberta have begun the process or have enacted legislation addressing the use of AI. In Ontario, proposed legislation titled the *Strengthening Cyber Security and Building Trust in the Public Sector Act* seeks to establish requirements for the use of AI within the public sector.<sup>11</sup> Once enacted, the Act will mandate transparency in AI-driven hiring processes, expand the investigative powers of the Ontario Information and Privacy Commissioner, and introduce new regulatory authorities related to cybersecurity and AI oversight.

Québec has taken a significant step with the introduction of Law 25, *Act Respecting the Protection of Personal Information in the Private Sector*, which came into force in September 2023.<sup>12</sup> It emphasizes principles of legal authority, transparency, and accountability, ensuring that AI systems align with the province’s robust privacy framework.

In December 2024, Alberta passed two complementary laws - the *Protection of Privacy Act* and the *Access to Information Act* to regulate the public sector’s use of information and AI technologies.<sup>13</sup> These laws adopt a privacy-by-design approach and introduce stringent penalties for the misuse of personal information, reinforcing Alberta’s commitment to data protection and responsible AI deployment.

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<sup>9</sup> Bill C-27, *Artificial Intelligence and Data Act*, 1<sup>st</sup> Sess, 44<sup>th</sup> Parl, 2021, (second reading 24 April 2023), s 2.

<sup>10</sup> [Mark Carney triggers federal election for Canada - National | Globalnews.ca](#)

<sup>11</sup> *Strengthening Cyber Security and Building Trust in the Public Sector Act*, SO 2024, c 24.

<sup>12</sup> *Act Respecting the Protection of Personal Information in the Private Sector*, CQLR, c P-39.1.

<sup>13</sup> Bill 33, *Protection of Privacy Act*, 1<sup>st</sup> Session, 31<sup>st</sup> Leg, Alberta, 2024, s 6.

### 2.3. Canadian Federal Sectors on AI

Beyond legislative efforts, various federal bodies in Canada have actively engaged with the societal and economic implications of AI. The Government of Canada has published a proposed *Code of Practice for Generative AI Systems*, aimed at establishing clear guardrails to promote the ethical and responsible use of AI technologies. The Code emphasizes foundational principles such as transparency, accountability, fairness, and the protection of privacy, aligning with Canada’s anticipated regulatory framework for AI.<sup>14</sup>

The Office of the Privacy Commissioner of Canada has also addressed the risks associated with AI. In December 2024, together with provincial and territorial privacy regulators, the Commissioner released guidance on the responsible use of generative AI<sup>15</sup>, which outlines key privacy principles, including legal authority, transparency, accountability, and the implementation of safeguards to protect personal information.

Additionally, the federal Competition Bureau has been actively examining the impact of AI on market dynamics and competition policy. In March 2024, following a public consultation, the Bureau released a discussion paper exploring how AI affects competition in Canada.<sup>16</sup> The report offers insights into AI’s influence on market behavior, while offering suggestions on the promotion of fair competition. It underscores the importance of balanced regulation and inter-agency collaboration to effectively navigate the opportunities and risks associated with AI technologies.

### 2.4. Proposed AIDA and Impact on Franchising in Canada

The proposed AIDA stands to meaningfully impact the franchising sector by challenging traditional operational models and imposing a new layer of compliance obligations. Franchisors would be required to ensure transparency around the use of AI systems across their networks, including clear communication to franchisees about how these technologies function and the potential risks and benefits associated with their deployment. The legislation would further mandate the creation of defined accountability frameworks that govern the development, implementation, and oversight of AI tools, ensuring alignment with evolving legal and ethical standards. Additionally, franchisors would need to establish and maintain robust data protection protocols to safeguard sensitive franchisee and customer information. AI systems would also be expected to

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<sup>14</sup> Innovation, Science and Economic Development Canada, “Canadian Guardrails for Generative AI – Code of Practice” (16 August 2023), online (government publication): <[Canadian Guardrails for Generative AI – Code of Practice](#)>.

<sup>15</sup> Office of the Privacy Commissioner of Canada, “Principles for Responsible, Trustworthy and Privacy-Protective Generative AI Technologies” (7 December 2023), online (government publication): <[Principles for responsible, trustworthy and privacy-protective generative AI technologies - Office of the Privacy Commissioner of Canada](#)>.

<sup>16</sup> The Competition Bureau of Canada, “Consultation on Artificial Intelligence and Competition: What We Heard”, (27 January 2025), online (government publication): <[Consultation on Artificial Intelligence and Competition: What We Heard](#)>.

incorporate safeguards that detect and reduce bias, promoting fairness and equitable treatment across the franchise system.<sup>17</sup>

### 3. United States AI Legislation

#### 3.1. Federal AI Legislative and Regulatory Landscape

In contrast to Canada’s national legislative approach, the United States currently has a decentralized, sector-specific regulatory model, with executive actions, agency rulemaking, and state-level initiatives filling the legislative gap. As of this writing, the U.S. has not yet enacted comprehensive federal AI legislation, but continued activity at all levels of government signals that a more structured regulatory regime is on the horizon.

The most consequential action to date was President Biden’s Executive Order on the Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence, issued on October 30, 2023 (“Biden EO”).<sup>18</sup> This Executive Order directed numerous federal agencies to act under existing legal authority to address AI-related risks, foster innovation, and promote ethical use. But this Executive Order was blunted by President Trump’s Executive Order dated January 23, 2025 (“Trump EO”)<sup>19</sup> which requires that:

1. Certain advisors submit a report establishing an action plan to “sustain and enhance America’s AI dominance” within 180 days;
2. Policies and actions taken under the Biden EO are identified and those actions are suspended, revised or rescinded if they are inconsistent with the Trump EO; and
3. The Office of Management and Budget (OMB) revise its published guidance on AI within 60 days to align with the priorities set forth in the Trump EO.

Meanwhile, Congress has introduced multiple bills that impact AI regulations including the following in the past year:

- The **Artificial Intelligence Research, Innovation, and Accountability Act** of 2024, a bipartisan bill to provide a a framework for artificial intelligence innovation and accountability.<sup>20</sup>
- The **Preserving American Dominance in AI Act** of 2024, a bill to establish an Artificial Intelligence Safety Review Office in the Department of Commerce.<sup>21</sup>

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<sup>17</sup> Christine Jackson & Sam Ip, “Leveraging AI in Franchising: Opportunities and Legal Considerations (5 July 2024), online (blog): <[Leveraging AI in franchising: opportunities and legal considerations - Osler, Hoskin & Harcourt LLP](#)>.

<sup>18</sup> Exec. Order No. 14110, 3 C.F.R. 75191 (October 30, 2023)

<sup>19</sup> Exec. Order No. 14179, 3 C.F.R. 8741 (January 23, 2025)

<sup>20</sup> Artificial Intelligence Research, Innovation, and Accountability Act, S. 3312, 118<sup>th</sup> Cong. (2024).

<sup>21</sup> Preserving American Dominance in AI, S. 5616, 118<sup>th</sup> Cong. (2024).

- **AI Act of 2024**, a bill to require financial regulators to carry out studies on the realized and potential benefits of artificial intelligence.<sup>22</sup>
- **Advancing Digital Freedoms Act**, a bill to provide for international protection of digital freedom and ensure that artificial intelligence is developed, deployed, and governed in accordance with universal human rights laws.<sup>23</sup>

Although none of these bills have passed, bipartisan interest continues to grow, and Congress is expected to revisit federal AI regulation in 2025–2026.

### 3.2. *State AI Legislation and Emerging Proposals*

With no comprehensive federal law in place, U.S. states are leading the way on AI regulation. These efforts vary widely in scope, but generally focus on high-risk use cases such as employment, education, consumer interactions, and biometric surveillance. Some states have already enacted AI-specific laws, while others have advanced or proposed legislation that is still under consideration. Below is a clearer categorization of these developments.

#### 3.2.1. *States with Enacted AI-Related Laws*

Several states have already passed legislation directly regulating the use of AI or automated decision-making, often as part of broader privacy or consumer protection frameworks:

- **Colorado:** The Colorado Artificial Intelligence Act went into effect in February 2025 and it is one of the most comprehensive AI laws in the United States. The Colorado Act adopts a risk-based model, applying heightened obligations to “high-risk” AI systems—those used in sensitive contexts such as employment, education, housing, healthcare, and credit.<sup>24</sup> The law requires both developers and deployers of such systems to conduct algorithmic impact assessments, adopt measures to prevent algorithmic discrimination, and provide clear notices and documentation to individuals affected by AI-driven decisions. The law mandates human oversight for consequential decisions and grants enforcement authority to the Colorado Attorney General. The Colorado law will be template for other states as they pursue their own legislation.
- **Utah:** The Utah Artificial Intelligence Policy Act requires individuals and entities to disclose the use of artificial intelligence in communications with consumers under consumer protection laws.<sup>25</sup>

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<sup>22</sup> AI Act of 2024, H.R. 10262, 118<sup>th</sup> Cong. (2024).

<sup>23</sup> Advancing Digital Freedoms Act, S. 5344, 118<sup>th</sup> Cong. (2024).

<sup>24</sup> Colo. Rev. Stat. § 6-1-17 (2024)

<sup>25</sup> Utah S.B. 149

- **California:** California has enacted several AI bills that address the use and disclosure of AI in health care services, elections, social media, entertainment, and other industries.<sup>26</sup>

### 3.2.2. States with Pending or Anticipated AI Legislation

Other states are actively moving forward with AI bills or studies. In 2024 alone, 45 US states introduced almost [700 different AI bills](#)<sup>27</sup> and already in 2025, 45 US states have introduced approximately 550 different AI bills.<sup>28</sup> Many of these bills have a narrow application but there are a few bills that focus on high-risk AI systems that play a substantial role in making “consequential decisions” relating to education, employment, financial services, housing, health care or legal services.

Notably, in 2005, Virginia passed legislation under High-Risk Artificial Intelligence Developer and Deployer Act (House Bill 2094).<sup>29</sup> This legislation is similar to the Colorado law aiming to directly address the growing use of automated decision-making and profiling. But the legislation was vetoed by the Governor on March 24, 2025. It is not clear if the legislature will try to override the Governor’s veto..

### 3.2.3. Regulatory Themes Across States

Across this increasingly active state landscape, several common themes are beginning to converge, pointing toward an emerging regulatory consensus around the governance of AI.

One of the most prominent trends is the adoption of a risk-based approach, where AI systems that influence critical areas—such as employment, housing, education, credit, and healthcare—are subject to heightened scrutiny. These “high-risk” systems are more frequently targeted with obligations such as algorithmic impact assessments, documentation of intended use, and mandatory human oversight. At the same time, nearly every proposed or enacted bill underscores the importance of transparency, requiring clear and conspicuous notice to individuals when AI tools are in use, particularly where the technology is performing tasks that may be mistaken for human judgment. States are also beginning to introduce substantive rights for individuals affected by automated decision-making, including the ability to opt out of certain decisions, receive meaningful explanations, or seek redress when AI tools result in adverse outcomes.

While enforcement models vary, there is growing agreement that AI must be deployed responsibly, with fairness, accountability, and individual autonomy as core principles. As more states enter the regulatory space and draft legislation that draws from the experiences of early movers, the legal framework surrounding AI in the United States

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<sup>26</sup> For example, CA Elec Code § 20510 (2024) and CA Bus & Prof Code § 22757 (2024).

<sup>27</sup> <https://www.ncsl.org/technology-and-communication/artificial-intelligence-2024-legislation>

<sup>28</sup> <https://www.ncsl.org/technology-and-communication/artificial-intelligence-2025-legislation>

<sup>29</sup> Virginia H.B. 2094 (2025)

is likely to solidify around these shared pillars, albeit with regional variation in enforcement intensity and industry focus.

#### 4. Anticipated Use of AI in Franchise Systems

AI is rapidly transforming the franchise landscape, offering powerful tools to drive efficiency, improve decision-making, and personalize experiences across the system. AI technologies are being deployed at all levels—by franchisors, franchisees, and the broader ecosystem of advisors and suppliers—to optimize operations, enhance support, and maintain brand consistency across geographically dispersed locations. Below is a detailed look at how each group is using AI, with practical examples across multiple functional areas.

##### 4.1. Use of AI by Franchisors

Franchisors are using AI to enhance consistency, scale operational support, and improve strategic oversight across large, geographically dispersed systems.

- **Business Intelligence and Performance Analytics.** AI analyzes real-time and historical data to surface performance trends across locations. Franchisors can use these insights to identify underperforming units, track seasonal demand, and optimize promotions at the system level.
- **Territory Planning and Site Selection.** Location data, traffic flows, and demographic patterns are processed by AI to guide market entry, predict cannibalization risks, and rank prospective sites based on success probability.
- **Dynamic Pricing and Menu Optimization.** AI tools assess consumer behavior and local competition to support region-specific pricing, bundled offers, and item substitutions—especially in food service and retail franchises.
- **Automated Franchisee Support.** Natural language AI bots and smart knowledge bases help franchisees get 24/7 support. These systems handle FAQs, troubleshoot operations, and escalate complex issues, reducing helpdesk costs and delays.
- **Compliance and Brand Standard Monitoring.** Franchisors are deploying AI to scan point-of-sale (POS) data, customer reviews, and public posts to identify non-compliance with pricing policies, branding guidelines, and service standards.
- **Personalized Franchisee Training.** AI-powered learning platforms adapt training modules to franchisee experience levels and learning styles. Progress is tracked, and content evolves dynamically to meet performance gaps.

#### 4.2. *Use of AI by Franchisees*

Franchisees benefit from AI tools that reduce manual work, enhance customer experiences, and improve local decision-making—while staying aligned with brand systems.

- **Operational Efficiency Tools.** AI automates inventory restocking, schedules staff based on predicted foot traffic, and manages utility use for cost savings. These tools free up franchisee time to focus on service and growth.
- **AI-Driven Customer Engagement.** Virtual assistants, chatbots, and AI-powered POS systems help greet customers, handle routine inquiries, and upsell intelligently based on purchase history and preferences.
- **Localized Marketing Automation.** Franchisees use generative AI to create social media content, email campaigns, and local event promotions. Templates stay on-brand but adapt messaging to the local audience and trends.
- **Smart Hiring and Staff Management.** AI screens applicants for schedule fit, job skills, and predicted turnover risk. During onboarding, adaptive training tools deliver tailored content that adjusts to learning speed and progress.
- **Sentiment Monitoring and Customer Feedback.** AI reviews customer surveys and online reviews to detect trends, flag potential service breakdowns, and generate insights on which products or services drive satisfaction or complaints.

#### 4.3. *Use of AI by Suppliers*

Suppliers to the franchise ecosystem—such as brokers, legal advisors, accountants, and consultants—are leveraging AI to improve service delivery, accuracy, and efficiency.

- **Franchise Brokers and Developers.** AI matching tools evaluate prospect profiles against franchise system criteria to recommend ideal fits. Lead scoring and behavioral tracking prioritize candidates likely to convert, improving recruitment pipelines.
- **Accounting and Financial Services.** AI systems handle financial forecasting, tax modeling, and benchmarking across the franchise network. Accountants use AI to identify anomalies, automate reporting, and flag performance risks before they escalate.

- **Franchise Legal Advisors.** Franchise legal advisors are increasingly using AI to streamline their workflows, enhance accuracy, and deliver more strategic legal services. AI-powered tools assist in drafting and updating Franchise Disclosure Documents (FDDs), Franchise Agreements, and state addenda by automatically suggesting jurisdiction-specific language and ensuring consistency across documents. During negotiations, AI can review and redline contracts, flagging certain provisions and inconsistencies, which helps accelerate revisions and minimize manual errors. When responding to comment letters from state regulators, attorneys are using AI to analyze past examiner responses, summarize key issues, and generate tailored draft replies, significantly improving efficiency and consistency. For compliance, AI systems track multi-state registration deadlines, renewal cycles, and evolving disclosure obligations, sending automated alerts to help franchisors maintain continuous compliance with the FTC Rule and state franchise laws. In the area of intellectual property, AI monitors online platforms for unauthorized use of trademarks, logos, and trade dress—flagging potential infringement across websites, social media, and e-commerce marketplaces. Legal teams are also turning to AI in litigation and dispute management, using it to analyze relevant case law, assess arbitration or termination clauses, and even forecast potential outcomes based on jurisdiction and issue type. Finally, in the context of franchise system audits or M&A due diligence, AI can rapidly scan and compare large volumes of agreements, identifying deviations from standard templates and highlighting areas that may require legal remediation. Altogether, AI is becoming an essential tool for franchise lawyers navigating an increasingly complex and data-driven legal environment.
- **Marketing Vendors and Consultants.** Agencies are deploying AI tools to personalize franchisee marketing materials, optimize digital ad performance, and test visual or messaging variations using customer data and conversion trends.
- **Real Estate and Site Selection Firms.** AI analyzes real estate trends, foot traffic, and competitive density to help franchisors and franchisees choose optimal locations. It can also model how proposed zoning changes or neighborhood shifts might impact long-term success.

#### 4.4. *Canadian Legal Implications for Franchise Systems*

The integration of AI into franchise systems introduces a range of novel legal challenges, many of which are still evolving. Franchisors must navigate these complexities with care to ensure compliance with applicable laws, contractual obligations, and ethical standards.<sup>30</sup>

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<sup>30</sup> *Supra*, note 18.

Franchisors should start by carefully reviewing their franchise agreements and relevant legislative frameworks to assess how AI-related practices align with existing legal duties. Of particular importance is the statutory duty of good faith and fair dealing, which requires franchisors to act honestly, reasonably, and fairly toward franchisees. The introduction of AI into operations may raise new considerations in fulfilling this duty, particularly where automation impacts decision-making or service delivery. Franchisors should also seek appropriate representations, warranties, and contractual protections to ensure compliance with privacy legislation and to allocate risk appropriately.<sup>31</sup>

Given the data-intensive nature of AI systems, it is essential that franchisors confirm their legal authority, and that of their franchisees, to collect, use, and share data. This includes establishing clear data ownership and usage rights and determining whether franchisors have the legal basis to collect and disclose data to AI vendors or third-party service providers.<sup>32</sup> Robust data governance practices are critical to protecting personal and sensitive information from unauthorized access or misuse.

AI use may also raise concerns around intellectual property. Training AI systems with proprietary data or generating outputs that potentially infringe third-party rights can expose franchisors to liability.<sup>33</sup> Notably, Canadian courts have yet to recognize AI systems as authors or inventors under copyright or patent law, requiring a human element for the purposes of securing intellectual property protection.<sup>34</sup>

Another key concern is algorithmic bias. AI systems trained on skewed or non-representative data sets may perpetuate or amplify discriminatory and other undesired outcomes. To address these risks, franchisors should implement measures to regularly audit and update algorithms, diversify training data, and embed transparency and accountability mechanisms within AI governance frameworks.<sup>35</sup> These proactive steps help ensure that AI is deployed in a manner that aligns with legal obligations and ethical standards within franchise systems.

#### 4.5. *United States Legal Implications for Franchise Systems*

For U.S. franchise systems, the adoption of AI introduces significant legal implications that extend well beyond evolving federal and state legislation. While statutory and regulatory developments are gaining momentum, the more immediate considerations arise under existing contractual, common law, and compliance frameworks. Franchisors deploying AI—whether for internal analytics, consumer-facing applications, or franchisee support—must navigate novel risks that implicate duties of good faith, data governance, IP ownership, anti-discrimination obligations, and disclosure compliance.

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<sup>31</sup> A. Chandimal Nicholas, Eric Mayzel, Jeremy Barretto, Michelle McKinnon & Brock Melnyk, “The Landscape of AI Regulation in Canada”, online (blog): <[The Landscape of AI Regulation in Canada | Cassels.com](#)>.

<sup>32</sup> *Supra*, note 20.

<sup>33</sup> *Supra*, note 23.

<sup>34</sup> See *Samuelson-Glushko Canadian Internet Policy and Public Interest Clinic (CIPPIC) v. Sahni*, (2023), Canada, FC T-1717-24-ID 1 (Notice of Application). In this ongoing case before the Federal Court of Canada, the Court is being asked to determine whether authorship under Canadian copyright law is limited to human creators.

<sup>35</sup> *Supra*, note 18.

Franchisors relying on automated systems to allocate territories, evaluate performance, set pricing parameters, or deliver support risk allegations of arbitrary or opaque decision-making—particularly where algorithmic outputs are not readily auditable or lack human oversight. Courts have long imposed limits on discretionary conduct that undermines franchisee expectations, and AI-driven actions may be viewed as mechanized extensions of that discretion. This risk is compounded where AI deployment affects fundamental economic rights within the franchise relationship, even absent a formal breach.

Data governance is another critical area, particularly in light of the U.S.'s fractured privacy landscape. With state statutes such as California's CPRA, Virginia's CDPA, and others extending opt-out and transparency rights in contexts involving profiling and automated decision-making, franchisors must ensure that both their own data practices and those of their franchisees are contractually and operationally aligned. Where AI models ingest customer, employee, or transaction data for personalization, predictive analytics, or staffing optimization, the legal basis for collection, sharing, and use should be clearly established. Franchisors must also assess whether their agreements adequately address issues such as data ownership, breach notification, and the scope of permissible vendor relationships. Simply assuming system-wide access to franchisee-collected data may no longer suffice.

Intellectual property law adds further complexity. As confirmed by the U.S. Copyright Office and federal courts, AI-generated works lacking human authorship are not protectable under copyright law. For franchisors using generative AI to develop manuals, training materials, or marketing collateral, this raises both enforcement and ownership concerns. Without sufficient human involvement, these outputs may fall outside the scope of registrable IP—and may even incorporate third-party content in ways that expose the franchisor to infringement or misappropriation claims. Vendor agreements should address training data sources, indemnification, and licensing to mitigate these risks, particularly where franchisors are using commercial models or third-party platforms to generate system content.

The growing use of AI in operational tools—especially those involving customer interactions, employment screening, or pricing—also implicates anti-discrimination and consumer protection law. Agencies such as the FTC, EEOC, and DOJ have signaled aggressive enforcement postures toward algorithmic systems that produce disparate outcomes, regardless of intent. While many franchisors attempt to disclaim liability for employment decisions made at the unit level, the endorsement or requirement of AI-powered systems (e.g., for hiring or scheduling) may expose franchisors to joint liability if such tools produce biased results. At a minimum, franchisors should conduct diligence on the fairness and transparency of AI tools made available to or required of franchisees and consider whether contractual indemnities or audit rights are appropriate.

Lastly, the FTC Franchise Rule and state disclosure laws may require updates to reflect the operational impact of AI within the system. If franchisors rely on AI to monitor compliance, analyze franchisee performance, or determine outcomes related to marketing fees, pricing mandates, or service quality, these practices may rise to the level

of material facts requiring disclosure. Franchisors should also consider whether manuals, training, and onboarding materials adequately prepare franchisees to use AI tools in a manner consistent with brand standards and applicable law.

In short, while the regulatory landscape surrounding AI continues to develop, many of the most pressing risks for franchisors are already embedded in existing legal doctrines. The use of AI introduces not only operational efficiencies but also legal exposure across the franchise relationship. Legal counsel advising franchisors should ensure that existing frameworks—franchise agreements, data policies, vendor contracts, FDDs, and compliance protocols—are being revisited and recalibrated to reflect the realities of AI integration. Taking a proactive approach now will be critical to mitigating liability and maintaining system-wide consistency in an increasingly complex environment.

## **5. Conclusion**

Artificial intelligence is rapidly reshaping the franchise sector, offering meaningful operational benefits but also introducing complex legal risks. As Canada moves toward centralized AI legislation through Bill C-27 and AIDA, and the U.S. continues to develop a patchwork of state laws, executive actions, and agency guidance, franchisors must prepare for a shifting regulatory environment grounded in transparency, data protection, and algorithmic accountability.

AI is already being integrated into core franchise operations—from customer engagement and pricing optimization to compliance monitoring and franchisee support. Yet these efficiencies bring legal exposure across well-established areas of law, including contractual duties, privacy rights, IP ownership, and anti-discrimination obligations. As a result, franchisors and their counsel must revisit franchise agreements, data governance structures, disclosure documents, and vendor contracts to ensure alignment with emerging expectations.

Legal advisors have a critical role to play—not just in tracking legislation, but in helping clients navigate the real-world implications of AI deployment. That includes guiding ethical use, mitigating risk, and embedding accountability into the design and oversight of AI systems. As regulation evolves, the franchise industry’s success with AI will depend not just on innovation, but on sound legal infrastructure and informed, proactive governance.

## **Biographies**

### **Elizabeth Dillon, Partner, Lathrop GPM LLP**

With over 20 years of experience, Liz Dillon is a trusted advisor to franchisors at every growth stage. Liz helps franchisors navigate the complexities of franchise development, registration and expansion, positioning their systems for domestic and international success. She also advises on the distribution and international sale of goods and helps clients avoid accidental franchises. In mergers and acquisitions, she provides critical franchise, licensing and distribution counsel to ensure seamless transitions. Her global reach includes facilitating franchise expansions across Latin America, the Caribbean, Asia, Europe and the Middle East. Liz is the leader of the firm's Franchise & Distribution Practice Group and also serves on the firm's Executive Committee. Liz serves on the Supplier Forum Advisory Board and the International Committee of the International Franchise Association.

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Abhishek Dube is a member of Baker McKenzie's Franchise, Distribution & Global Brand Expansion team. He assists clients with franchise, license and distribution transactions, including U.S., international and M&A transactions. He works with new and existing franchise programs, and has structured and negotiated franchise and distribution transactions for the world's leading brands. Abhi is a Certified Franchise Executive, and serves as the Director of the ABA Forum on Franchising's International Division and as a Member of the International Franchise Association Legal Symposium Task Force. He received a B.S. in Finance from Carnegie Mellon University, and J.D. and LL.M. in International Business Law from Indiana University School of Law

### **Frank Robinson, Partner, Cassels Brock & Blackwell LLP**

Frank Robinson is a partner in the Franchise Law and Business Law Groups at Cassels and serves as Co-Chair of the firm's Hospitality Group. Frank practises business law, with a focus on franchising, licensing, distribution and intellectual property. He also provides counsel on mergers and acquisitions, and general corporate, commercial and contractual matters. Frank advises Canadian and international companies on all matters relating to franchising, licensing and distribution including structuring and expansion strategies, legal and regulatory

issues, contract drafting and negotiation, and compliance with Canadian franchise disclosure legislation. Frank has worked with a broad range of product and service distribution, franchise and retail companies, from local startups to international and global corporations, and in industries as diverse as financial services, oil and gas, energy, hospitality and hotels, food and beverage, personal and fitness services, commercial and residential services, apparel, consumer goods, automotive, telecommunications, software and robotics, childcare and education, construction and technical services, health and elder care, cannabis, and others.