

Artificial Intelligence Speeds Up Mergers and Acquisitions: Efficiency, Legal Risk and the Case for Human-Controlled Due Diligence

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Abstract—Artificial intelligence is reshaping mergers and acquisitions (M&A), particularly the due-diligence phase in which parties examine a target company's contracts, financial records, litigation exposure, intellectual property, data practices and regulatory compliance. AI-enabled systems can sort, search, classify and summarise very large document collections at a speed that conventional manual review cannot match. This can reduce transaction time, control costs and allow lawyers to focus on material risks and commercial judgement. Yet speed is not equivalent to legal reliability. AI systems may omit crucial provisions, generate incorrect summaries, reproduce bias embedded in their data, mishandle confidential material or provide outputs that cannot be adequately explained. These risks are serious because an M&A transaction allocates substantial financial, regulatory and reputational risk between buyer and seller.

This paper argues that AI should be treated as an assistive technology rather than an autonomous legal decision-maker. Its lawful and responsible use in M&A requires a framework of competent human supervision, validation of outputs, confidentiality safeguards, documented audit trails, vendor due diligence, and transaction documents that allocate AI-related risks expressly. The paper considers the relevance of the EU Artificial Intelligence Act, the General Data Protection Regulation (GDPR), professional duties of competence and confidentiality, and India's Digital Personal Data Protection Act 2023. It concludes that AI can accelerate M&A without weakening legal due diligence only where lawyers retain responsibility for material conclusions and final advice.

Index Terms—Artificial intelligence, mergers and acquisitions, due diligence, legal ethics, data protection, corporate law, AI governance

I. Introduction

Mergers and acquisitions are among the most document-intensive transactions in corporate practice. Before a buyer acquires shares, assets or control of a target company, it must understand what it is buying and what liabilities may follow the acquisition. Lawyers therefore review incorporation records, material contracts, employment arrangements, licences, intellectual-property rights, financing documents, data-processing arrangements, litigation records, environmental permissions and regulatory correspondence. In large transactions, this material may run into hundreds of thousands of pages.

Artificial intelligence promises to reduce this burden. Document-review platforms can identify clauses, compare versions of agreements, extract metadata, cluster related records, flag deviations from model provisions and generate preliminary summaries. Generative AI can also assist in preparing due-diligence reports, issue lists, disclosure schedules and first drafts of transaction documents. The attraction is clear: where a legal team previously spent weeks locating change-of-control clauses or assigning thousands of

agreements for review, an AI-assisted workflow may identify a preliminary set of relevant documents much earlier.

However, this development raises a central legal question: **does AI merely make M&A faster, or does it alter the standard of care expected from the lawyers, advisers and companies using it?** The answer is both. AI can improve the speed and breadth of review, but it also creates new sources of legal risk. A system that misses a termination right in a key contract, inaccurately summarises a regulatory obligation, exposes confidential data to an external model or fabricates an authority can produce a flawed transaction decision. A well-known caution from legal practice is that generative systems can produce plausible but false legal material; the legal professional, not the software, remains answerable for work submitted or advice delivered.^[1]

This paper contends that AI should accelerate the collection and organisation of information, while legal judgement remains human. The governing principle should be simple: automation may support diligence, but it cannot replace professional responsibility.

II. AI in the M&A Process

2.1 M&A and legal due diligence

M&A includes several methods of combining businesses, including statutory mergers, share acquisitions, asset purchases and share exchanges. Regardless of structure, a buyer must determine the target's value, identify legal liabilities, negotiate price adjustments and decide whether risks should be accepted, insured, indemnified or treated as deal-breakers.

Due diligence commonly covers five connected areas:

- Legal diligence, including contracts, litigation, licences, corporate authority and compliance.
- Financial diligence, including accounts, revenue quality, debt, working capital and contingent liabilities.
- Tax diligence, including historical compliance, tax disputes and transaction structuring.
- Operational diligence, including supply chains, workforce arrangements and business continuity.
- Information-technology and data diligence, including cybersecurity, software rights, data governance and technology infrastructure.^[1]

The traditional process relies heavily on lawyers reading documents stored in a physical or virtual data room. The method is careful but expensive and slow. It may also be inconsistent: reviewers working under

time pressure can classify clauses differently, overlook cross-references or fail to recognise a pattern emerging across thousands of documents.

2.2 Where AI adds speed

AI contributes most effectively where the transaction involves repetitive, high-volume and comparatively structured information. It may be used to:

- Ingest and organise data-room documents.
- Perform optical character recognition on scanned records.
- Identify documents containing specific provisions, such as assignment, exclusivity, non-compete, audit or change-of-control clauses.
- Extract key data points, including contract parties, term, renewal date, governing law, payment obligation and termination rights.
- Compare a target's contracts against a clause library or an agreed risk matrix.
- Detect duplicate, incomplete or anomalous documents.
- Create preliminary summaries and lists for human review.
- Support financial analysis by extracting information from invoices, accounts and management reports.
- Monitor regulatory announcements and public litigation records after closing.

AI therefore shifts some work away from manual search and initial classification. Research on AI-assisted legal due diligence recognises that machine learning can improve efficiency and accuracy, but also stresses that the judgement, strategic assessment and experience of senior lawyers remain indispensable.^[2]

2.3 The distinction between speed and legal certainty

The value of AI should not be overstated. An AI system may rapidly identify all agreements containing the phrase 'change of control', but it may not reliably determine whether the clause is enforceable, commercially material, triggered by the proposed transaction or capable of being cured through consent. Those questions often depend on the applicable law, the wider agreement, negotiations between parties and the commercial significance of the relationship.

For example, an AI tool may identify a supplier contract that requires consent before an assignment. A lawyer must still determine:

- Whether the proposed share acquisition legally constitutes an assignment or change of control.
- Whether the supplier's consent is practically obtainable.

- Whether loss of the contract threatens the target's business.
- Whether the issue requires a condition precedent, indemnity, price reduction or warranty.
- Whether the seller's disclosure is complete and accurate.

The important point is that AI can identify the issue more quickly. It cannot independently decide how the transaction should respond to it.

III. Legal Risks of AI-Accelerated M&A

3.1 Accuracy, hallucination and incomplete review

Generative AI can produce fluent answers that appear authoritative while being incomplete or factually wrong. In M&A, an inaccurate summary may be more dangerous than no summary at all because it can create unjustified confidence. A due-diligence report is ordinarily relied upon for pricing, warranties, indemnities, financing and board approval. A missed liability may therefore have consequences long after completion.

The problem is not confined to generative tools. Predictive systems depend on training data, prompt quality, document quality and user-defined review rules. Where documents are poorly scanned, drafted in unusual language, incomplete, multilingual or heavily negotiated, extraction accuracy may decline. An AI system may also fail to identify legal significance that is obvious only when multiple documents are read together.

Accordingly, transaction teams should not regard AI output as final legal advice. They should validate results through sampling, senior review and issue-specific verification.

3.2 Confidentiality, privilege and cybersecurity

Data rooms contain highly sensitive material. They may include trade secrets, employee data, customer information, source code, board minutes, pricing arrangements, legal advice and details of pending litigation. Uploading those materials into a public or inadequately governed AI platform can create serious confidentiality and data-protection concerns.

The risks include:

- Retention of data by an AI vendor beyond the transaction's needs.
- Use of prompts or uploaded documents for model training.
- Cross-border transfer of personal data.
- Inadequate access controls or cyber security.
- Loss of legal professional privilege.

- Unauthorised disclosure to third parties.
- Re-identification of supposedly anonymised data.

A lawyer using AI must understand where the data is processed, whether it is retained, whether the vendor uses it to train systems, what access controls exist and whether the applicable data-protection obligations have been met. A confidentiality clause with the AI vendor is useful, but it is not a substitute for technical and legal due diligence.

3.3 Bias and unequal risk assessment

AI systems can reproduce patterns embedded in historical data. In an M&A setting, this could affect risk scoring, employee analysis, customer churn assessments, fraud alerts or valuation models. If the system gives disproportionate weight to proxies associated with protected characteristics or disadvantaged regions, the result may be legally and ethically problematic.

Bias is especially significant where AI is used beyond document review and begins to influence decisions about workforce restructuring, credit, customer value or regulatory risk. A buyer should know whether its tool is being used merely to organise information or to make predictive assessments that could materially affect individuals or groups.

3.4 Liability and professional responsibility

AI has no professional licence, fiduciary duty or independent legal personality. The responsible actors remain the buyer, seller, directors, lawyers, accountants, advisers and technology vendors, depending on the facts and contractual arrangements.

A law firm cannot defend an inaccurate report simply by stating that an AI tool made the error. Professional duties of competence, diligence and confidentiality continue to apply. The lawyer must know enough about the technology to use it responsibly, supervise it appropriately and verify material conclusions.

The American Bar Association's Resolution 604 supports a governance approach centred on accountability, transparency and traceability. It emphasises human authority over AI systems and assigns responsibility for legally cognisable harm to persons or entities rather than to AI itself. Although the Resolution is advisory rather than binding law, its underlying principles are persuasive for M&A practice.^[1]

IV. Regulatory Framework

4.1 GDPR

The GDPR is relevant whenever personal data is processed in a manner falling within its territorial scope. Its core principles require personal data to be processed lawfully, fairly and transparently. In AI-assisted

diligence, the relevant obligations commonly include purpose limitation, data minimisation, security, accountability and restrictions on international transfers.^[3]

The due-diligence context creates a particular difficulty. A buyer wants broad access to information in order to assess the target; however, privacy law requires that disclosure be necessary and proportionate. The parties should therefore use measures such as redaction, controlled access, clean teams, role-based permissions, anonymisation or pseudonymisation, and a staged disclosure process.

Where an external AI provider processes personal data on behalf of a party, the parties should also assess whether the provider is a processor, whether a compliant data-processing agreement is required, and whether the provider's infrastructure permits lawful international transfers.

4.2 EU Artificial Intelligence Act

Regulation (EU) 2024/1689, commonly called the EU AI Act, establishes a risk-based framework for AI systems. Its general application date is 2 August 2026, while particular provisions have phased application dates.^{[4][5]}

Not every AI tool used in M&A will be classified as high-risk. A document-review or clause-extraction tool may often fall outside the Act's high-risk categories. Nonetheless, the Act matters for three reasons:

- A target company may itself develop, deploy or sell regulated AI systems, making AI compliance a central acquisition risk.
- A buyer may use general-purpose AI models or AI systems whose governance, transparency and documentation must be assessed.
- AI-related diligence should investigate the target's data governance, model documentation, risk-management processes, monitoring arrangements and contractual relationships with AI suppliers.

For transactions involving AI businesses, conventional intellectual-property diligence is no longer sufficient. The buyer must examine training data rights, data provenance, model licences, open-source dependencies, cybersecurity, bias testing, incident history, regulatory classification and the allocation of liability in customer contracts.

4.3 India's data-protection context

For Indian transactions, the Digital Personal Data Protection Act 2023 is central to the lawful processing of digital personal data. The Act comes into force on dates notified by the Central Government, rather than automatically upon enactment. A researcher should verify the latest notifications before submission or publication because commencement and rules may change.^{[6][7]}

Even where a particular statutory obligation is not yet operational, prudent M&A practice requires parties to treat personal data as a controlled asset. Buyer and seller should identify what personal data is shared, the lawful basis or permitted ground for processing, the purpose of disclosure, security safeguards, retention limits and contractual responsibility for a breach.

V. A Human-Controlled M&A Framework

A responsible AI-diligence framework should be built into the transaction from the beginning rather than added after documents are uploaded. The following measures are recommended.

5.1 Define the permitted use

The engagement letter, data-room protocol or internal transaction policy should specify:

- Which AI tools are approved.
- What categories of information may be uploaded.
- Whether personal data, privileged materials or source code are prohibited or require additional approval.
- Whether data can be retained or used for model training.
- Who may access the tool and its outputs.
- Which findings require mandatory human review.

This avoids the common mistake of allowing informal experimentation with sensitive documents before legal and technical controls exist.

5.2 Conduct vendor due diligence

Before choosing an AI provider, the user should assess:

- Data location and cross-border transfers.
- Encryption during transmission and storage.
- Identity and access management.
- Audit logging and incident-response procedures.
- Retention and deletion practices.
- Sub-processors and onward transfers.
- Whether prompts or documents are used to train models.
- Contractual indemnities, liability caps and insurance.

- Security certifications and independent assurance reports.

The buyer or law firm should retain written evidence of this assessment. Documentation is important because it demonstrates that technological competence was exercised rather than assumed.

5.3 Validate AI outputs

Validation should be proportionate to the importance of the issue. A practical method is to classify outputs into three categories:

Output category	Example	Required review
Administrative	Document naming, duplicate detection, basic metadata	Automated review with sampling
Preliminary legal	Clause extraction, first summaries, issue lists	Lawyer review and testing
Material legal judgement	Deal-breakers, regulatory advice, warranties, board advice	Senior lawyer's independent review

Materiality must determine the intensity of review. A missed minor renewal date may be manageable; a missed consent requirement in a revenue-critical contract may not be.

5.4 Preserve an audit trail

The transaction team should retain records of:

- The AI system used and its version.
- The documents analysed.
- Search terms, prompts and review criteria.
- The people who reviewed material outputs.
- Corrections made to AI-generated findings.
- Escalations and decisions on material risks.

An audit trail improves accountability, supports quality control and may be valuable if a dispute later arises over the adequacy of diligence.

5.5 Allocate risk contractually

Transaction documents should address AI-related risks explicitly where they are material. Relevant provisions may include warranties or indemnities concerning:

- Ownership or lawful use of AI models and training data.
- Compliance with data-protection and AI regulation.
- Absence of undisclosed AI incidents, security breaches or regulatory investigations.
- Accuracy of material AI-related representations.
- Rights in software, datasets and open-source components.
- Continued availability of third-party AI services after closing.
- Required consents for data transfer, model use or vendor assignment.

Where the buyer uses AI during diligence, the acquisition agreement should not casually shift responsibility for the buyer's own inadequate review to the seller. Contractual allocation must reflect the factual role of each party.

VI. Conclusion

AI can substantially accelerate M&A by improving the organisation, extraction and preliminary analysis of transaction data. Its greatest contribution is not that it replaces lawyers, but that it enables lawyers to spend less time on mechanical sorting and more time on judgement, negotiation and risk allocation. AI may therefore improve both speed and quality when used carefully.

Yet M&A is not a purely informational exercise. It involves legal interpretation, commercial significance, fiduciary responsibility, regulatory assessment and strategic decision-making. These tasks cannot be transferred wholesale to an algorithm. A fast but inaccurate diligence process is not efficient; it is a delayed source of dispute.

The appropriate legal position is therefore one of **human-controlled automation**. Lawyers and deal teams should use AI for high-volume and repeatable tasks, while maintaining independent review of material matters. They should protect confidentiality, test outputs, assess vendors, document their methodology and allocate AI-related risk in the transaction documents. Under this approach, AI becomes a tool for more informed M&A rather than a shortcut that compromises legal standards.

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