

AI-enabled Klarity helps companies identify risks in contracts

November 3 2017, by Brian Eastwood



Software from Klarity seeks to cut down on contract review using artificial intelligence and natural language processing. Credit: MIT Sloan School of Management

New software out of MIT uses artificial intelligence to speed up and

reduce the cost of contract review for companies. [Klarity](#) is taking on nondisclosure agreements first, part of a strategy to build customer trust and expand its offerings.

In a usual scenario today, a salesperson might receive a draft of a nondisclosure [agreement](#) from a potential customer and forward it to a [company](#)'s in-house lawyers. It could take a couple days for the legal team to review the [contract](#) and send it back—or a couple of weeks. As the salesperson waits, he or she loses the ability to move the deal forward.

"There are only a few pieces or items that you care about, but there's a labyrinth of clauses, so you don't know what will trip it up," said Andrew (Ondřej) Antos, Klarity's CEO. "We decided to use [natural language processing](#) and AI to accelerate review."

Using Klarity, a salesperson can input the agreement into the application and, within minutes, receive a recommendation to sign the agreement, renegotiate it, or send it to the legal team, Antos said. The software could help firms cut down on contract review fees from outside attorneys.

The application has been developed to identify the terms that should be present in an agreement, as well as look for important information that is missing. The idea is to provide companies with an overall risk profile of the contract, as well as individualized risk profiles based on clauses or even parts of clauses within the contract, Antos said.

"We ask our clients when deploying, 'What's your policy? What are the terms you are and are not willing to agree to?' he said. "We take this policy and configure the system for the particular client. Klarity looks at contents of agreement in relation to company policy, then creates a risk profile."

Setting up

After working for a law firm specializing in technology mergers and acquisitions and in licensing in his native Czech Republic, Antos came to the United States. He enrolled at Harvard Law School and also registered at MIT Sloan for professor Bill Aulet's New Enterprises class.

Antos ended up sitting next to Nischal Nadhamuni, an MIT student studying computer science. One day, they talked for three hours after class about how to address a problem that Antos frequently encountered in his line of work: contract review.

"When I was doing [intellectual property] licensing and transactional law, it required painfully going through long contracts," said Antos, who received his master's degree in entrepreneurship and law this May. "I remember sitting in the office at 3 a.m. and thinking, 'There must be a better way, a way to use machine learning or [artificial intelligence](#) to go through these contracts.'"

<p>Confidentiality Agreement - Mutual Party 1: Klarity, Inc. Party 2: MIT Date: September 9, 2017</p> <p>new view</p> <ul style="list-style-type: none"> <input type="checkbox"/> Confidential Information <input checked="" type="checkbox"/> IP License/Assignment <input type="checkbox"/> Residuals <input type="checkbox"/> Non-Compete <input type="checkbox"/> Non-Solicitation <input checked="" type="checkbox"/> Term 2 years <input checked="" type="checkbox"/> Termination <input type="checkbox"/> Survival <input type="checkbox"/> Governing Law Commonwealth of Massachusetts <p>Not Found</p> <ul style="list-style-type: none"> <input checked="" type="checkbox"/> Consideration <input checked="" type="checkbox"/> Change of Control <input checked="" type="checkbox"/> Penalty/Equitable Relief <input type="checkbox"/> Indemnification <input type="checkbox"/> Limitation of Liability <input checked="" type="checkbox"/> Power of Attorney 	<p>attempt to induce, any employee or independent contractor of the Disclosing Party to terminate his or her employment or other engagement with the Disclosing Party, or (ii) hire or recruit, or attempt to hire or recruit, or engage or attempt to engage as an independent contractor, any person who was employed or otherwise engaged by the Disclosing Party at any time during the term of this Agreement, provided, that this clause (ii) shall not apply to the recruitment or hiring or other engagement of any individual whose employment or other engagement with the Company has been terminated for a period of six months or longer.</p> <p>10. Term. This Agreement is effective as of the Effective Date and shall continue in full force and effect until the two (2) year anniversary thereof.</p> <p>11. Termination. Either party may terminate this Agreement, for any reason or for no reason, upon fifteen (15) days prior written notice to the other party.</p> <p>12. Survival. Notwithstanding such expiration or termination, the obligations of the Recipient specified in Section 4 shall continue with respect to a particular item of Proprietary Information until the fifth (5th) anniversary of the disclosure of such Proprietary Information to Recipient hereunder, provided, however, that such obligations shall</p>	<p>Non-Solicitation Careful! Most NDAs, apart from Employment-related NDAs, don't contain a Non-Solicitation clause. This may result in severe restrictions on the party which is bound by this clause. Think whether it makes business sense.</p> <p>Term The market standard is five years or less. Just make sure that it is the right length for you.</p> <p>Termination Standard in most NDAs.</p> <p>Survival This is a standard clause in NDAs. It enumerates which specific obligations (typically the confidentiality obligation and restrictive covenants such as a Non-Compete clause. Just make sure that you are willing to be bound by such obligations even after the agreement.</p>
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Klarity's software analyzes contracts to highlight relevant or unusual sections.

Shortly after that, Antos and Nadhamuni connected with Logan Ford, another MIT computer science student, and the three co-founded Klarity.

A pivot to nondisclosures

Initially, Klarity pitched to law firms. After participating in the MIT delta v startup accelerator this summer, though, the company shifted its focus to sales contracts for enterprise software companies. The company has also been part of the MIT Sandbox Innovation Fund Program and Harvard Innovation Lab incubators.

Three of the 21 startup teams at delta v employed lawyers, Antos said—and the other 18 teams were coming to them for help with document review. "The most common was an NDA," he said. "Startups are signing tons of them. We thought, 'Let's build out this app and let them use it.'"

Building trust before scaling

Klarity began work on its software last January; the company has four beta customers, two of whom are live. One is reviewing 500 nondisclosure agreements per week.

Since the nondisclosure is the first document that is signed in the enterprise software sales process, it is a chance to deliver what Antos called "instant value"—and while the agreement is also "low value" compared to other legal documents, he added, it also means companies are willing to try an automated review process.

"We want our clients to trust our system; it's a way to build that trust," he said.

Klarity is currently in the final stages of closing its seed round, Antos said. Over the next several months, the company plans to hire two engineers, continue fundraising, and achieve proof of concept with nondisclosure agreements in order to address additional contracts.

"The way Klarity has been built, the plumbing is not that different for the new document types," Nadhamuni said.

Provided by Massachusetts Institute of Technology

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