Accelerating Artificial Intelligence in the Private Equity Ecosystem

Frequently Asked Questions

A recent KPMG webcast, Accelerating Artificial Intelligence in the Private Equity Ecosystem, explored the transformative potential of artificial intelligence (AI) in the private equity (PE) industry. KPMG AI experts presented a lively and insightful discussion and answered many of the thoughtful questions posted by attendees. This FAQ page is designed to briefly address some of the key questions that emerged during the session, to help you better understand how AI can be leveraged to drive value, enhance decision-making, and streamline operations in the PE landscape.

Question

What is the best practice for ensuring AI tools perform accurate calculations, which is critical for finance professionals?

Response

AI can improve analysis, but precision must be maintained. Here are key practices for ensuring accurate financial calculations:

- **Data Quality:** Use clean, accurate, and current data with strong validation and regular audits.
- **Model Validation:** Back-test and calibrate models; monitor and revalidate as markets evolve.
- **Transparency:** Choose AI platforms that offer clear insights over black-box methods for critical decisions.
- **Human Oversight:** Ensure experts review outputs and decisions alongside AI automation.
- **Updates:** Keep systems and algorithms current with ongoing integration and awareness of new technology.
- **Compliance & Security:** Safeguard sensitive data and meet regulatory requirements with robust security.
- **Training:** Provide targeted education to maximize effective and ethical AI use.
- **Expert Collaboration:** Work with AI professionals and consultants to stay updated on best practices.

Question

What are things to consider from a compliance perspective when implementing AI?
Do you need to archive prompts as part of the recordkeeping rule?
Do you need to obtain investor approval prior to having AI access information?

Response

When implementing AI, private equity firms must address key compliance issues, such as recordkeeping, data privacy, investor approval, regulatory adherence, ethics, vendor management, employee training, and documentation. Key measures include:

- **Recordkeeping:** Archive all AI interactions securely to meet regulatory standards (e.g., SEC requirements).
- **Data Privacy & Security:** Use encryption, restrict access, minimize data collection, and conduct regular audits.
- **Investor Approval:** Obtain and document investor consent for AI use; clearly communicate AI's role and data usage.
- **Regulatory Compliance:** Ensure AI systems comply with AML, KYC, fair trading, confidentiality, and insider trading safeguards.
- **Ethics:** Test for bias, ensure transparency, and define accountability for AI decisions.
- **Vendor Management:** Confirm third-party vendors follow relevant laws and have sound security practices.
- **Training:** Provide ongoing AI compliance and usage training for employees.
- **Documentation & Reporting:** Maintain records of AI policies, risk assessments, and deliver updates to stakeholders.

Question

When incorporating AI, how can we ensure that correct attention goes towards protecting our data?

Response

Integrating AI can boost efficiency and decision-making, but requires careful data protection. Here are key strategies:

- Identify what data AI uses and its sources.
- Set clear data governance policies and assign responsibility, particularly regarding AI uses outside your firm's firewall.
- Use RBAC, MFA, and encryption for secure access and storage.
- Perform regular audits and external assessments.
- Train employees on AI security risks and run phishing simulations.
- Stay compliant with regulations like GDPR and CCPA.
- Assess vendors' security practices and include requirements in contracts.
- Prepare an AI-specific incident response plan and conduct drills.
- Monitor systems continuously and update security methods as needed.
- Lead by example and encourage a strong culture of data security and best practice reporting.

Question

> When incorporating AI in our operations, what is a good resource for the accounting teams to learn best practices for processing expenses, reconciling cash and closing monthly or quarterly books?

Response

AI has strong potential to improve financial processes, with full capability anticipated in 3–5 years. For now, focus on specific segments of the quarterly close process that AI can optimize rather than attempting to automate the entire workflow. Key strategies:

- Break down the process into discrete steps and identify areas where AI can be leveraged. For example, out of 10 steps, AI could streamline four.
- AI is more effective in the upstream process, particularly for anomaly detection within financial transactions.
- Consider tasks the finance team handles before the quarterly close, such as performance commentary and variance analysis.
- Remember that human oversight is still essential to ensure accuracy and reliability.

Question

> Can you provide examples of working applications specific to GPs for both investment and back-office sides of the business?

Response

Investment Side

Case Study: Leveraging AI to Identify Opportunities and Risk

A leading private equity firm used a KPMG AI-powered platform to evaluate a mid-sized tech company. The AI analytics identified growth opportunities and risks, leading to a more informed investment decision. Post-acquisition, AI-driven integration playbooks ensured a seamless transition, reducing disruptions and accelerating the process.

Case Study: Recognizing a high-growth healthcare niche

A major private equity firm implemented KPMG's AI-driven market analysis tool, to gain a competitive edge in healthcare. The AI algorithms identified a high-growth niche and provided real-time portfolio performance monitoring, enabling quick issue resolution and optimized returns. AI-enhanced risk management features mitigated regulatory and market risks.

Back-Office Side

Case Study: Streamlining Financial Reporting

A large private equity firm adopted KPMG's AI-enabled solution to streamline financial reporting and compliance. AI-powered automated reporting reduced the time and effort for financial statements, allowing the finance team to focus on strategic tasks. AI compliance tools ensured regulatory adherence, maintaining investor trust and avoiding penalties.

Case Study: Unlocking the Power of GenAI in M&A Tax

Learn to identify practical use cases and develop tailored GenAI tools, with demonstrations of innovative solutions. Access the webcast replay to discover real-world application and best practices.

Question

What are some guardrails to using AI for due diligence work?

Response

Integrating AI into due diligence improves efficiency and accuracy but requires responsible application. Key guardrails include:

- **Data Quality:** Use accurate, complete, and current data with strong governance.
- **Transparency:** Choose AI tools that clearly explain their insights for compliance and stakeholder trust.
- **Regulatory Compliance:** Ensure tools meet legal standards and conduct regular audits.
- **Human Oversight:** Validate AI outputs with expert review; AI should support, not replace, human judgment.
- **Bias Mitigation:** Routinely check for bias and diversify data sources.
- **Security:** Protect sensitive data with robust security measures.
- **Scalability:** Select adaptable tools that fit various data and deal types.
- **Integration:** Ensure seamless fit with current systems and workflows.
- **Continuous Improvement:** Regularly update and refine AI tools based on performance.
- **Ethics:** Align AI use with firm values and communicate practices transparently.

Question

How do companies manage data ownership and privacy across users/countries?

Response

- Comply with data-protection regulations in all operating regions (e.g., GDPR, CCPA).
- Establish Clear Data Ownership Policies
  - Define data ownership and rights.
  - Use role-based access control (RBAC).
  - Draft agreements for data use and sharing, especially with AI.
- Protect Privacy and Security
  - Encrypt data in transit and at rest.
  - Collect only necessary data.
  - Conduct regular audits for compliance.
  - Prepare a breach response plan.
- Manage Cross-Border Data Transfers
  - Use Standard Contractual Clauses (SCCs).
  - Store data locally when required.
  - Assess and mitigate risks for cloud-based AI services.
- Adopt Ethical AI Practices
  - Be transparent about AI usage and data processing.
  - Test for bias and ensure fairness.
  - Set accountability and issue-resolution mechanisms.

Question

As AI becomes deeply integrated into private equity operations by 2030, what strategic considerations should firms prioritize to maximize value creation while mitigating risks?

Response

By 2030, AI will be a core enabler of private equity value creation, but its adoption requires a deliberate strategy. Key considerations include:

- **Data Sovereignty and Quality:** AI-driven insights depend on clean, structured, and ethically sourced data. PE firms must invest in robust data governance frameworks to ensure compliance across jurisdictions and maintain investor trust.
- **Algorithmic Transparency and Explainability:** Regulators and LPs will demand clarity on how AI models influence investment decisions. Firms should adopt explainable AI (XAI) to validate outcomes and avoid bias in deal sourcing, valuation, and portfolio optimization.
- **Cybersecurity and IP Protection:** As AI models become proprietary assets, safeguarding intellectual property and preventing adversarial attacks will be critical. Cyber resilience will be a differentiator in investor confidence.
- **Human-AI Collaboration:** AI will augment—not replace—investment professionals. Firms should design workflows where AI accelerates due diligence and scenario modeling, while humans provide judgment and relationship management.
- **Regulatory and Ethical Compliance:** Global AI regulations will evolve rapidly. PE firms must embed compliance into their operating model, ensuring responsible AI use aligned with ESG principles and fiduciary duties.

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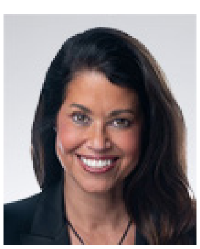

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