ARTIFICIAL INTELLIGENCE AND CORPORATE GOVERNANCE IN INDIA: RETHINKING BOARD ACCOUNTABILITY, FIDUCIARY DUTIES AND REGULATORY OVERSIGHT

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ABSTRACT

The increasing integration of Artificial Intelligence (AI) into corporate decision-making is transforming the manner in which boards identify risks, evaluate information, formulate strategies and exercise managerial oversight. While AI can enhance efficiency and analytical capacity, its growing role in corporate governance creates a fundamental legal question:

Whether existing Indian corporate law can adequately determine responsibility when directors rely upon AI-assisted or AI-driven decisions that result in corporate harm, regulatory failure or breaches of fiduciary obligations.

This paper examines the adequacy of the Companies Act, 2013, particularly the statutory duties imposed upon directors under Section 166, in addressing accountability within an increasingly algorithmic corporate environment. It analyses the principles of due care, skill and diligence, independent judgment, good faith and board oversight in light of emerging forms of AI-enabled decision-making. The paper further examines the implications of algorithmic opacity, excessive technological dependence, inadequate human oversight, data-related risks and the potential displacement of managerial responsibility. Through a doctrinal and comparative legal methodology, supported by Indian corporate governance jurisprudence and contemporary regulatory developments, the study also evaluates whether responsibility can meaningfully be attributed among directors, senior management, compliance personnel, technology providers and the corporate entity itself. Rather than treating AI as an independent legal decision-maker, the paper argues for a **human-centred accountability framework** in which technological assistance does not dilute fiduciary responsibility. It proposes an AI Corporate Governance Accountability Framework incorporating board-level AI oversight, documented decision-making, algorithmic due diligence, explainability, audit mechanisms, disclosure standards and regulatory supervision.

Keywords: Artificial Intelligence, Corporate Governance, Board Accountability, Fiduciary Duties, Regulatory Oversight.

INTRODUCTION

The rapid advancement of Artificial Intelligence (AI) is reshaping corporate decision-making by enabling companies to analyse large volumes of information, identify business and compliance risks, predict market trends, detect irregularities and support strategic decisions with increasing speed and sophistication. Its growing integration into corporate functions, however, raises a fundamental question concerning the relationship between technological decision-support and established principles of corporate accountability. In India, corporate governance is primarily structured around human decision-makers, particularly directors and senior management, whose responsibilities are governed by the Companies Act, 2013, securities regulations and established principles of fiduciary responsibility. Section 166 of the Companies Act, 2013[1] requires directors to act in good faith, exercise due and reasonable care, skill and diligence and exercise independent judgment.

The emergence of AI-assisted decision-making creates uncertainty regarding how these duties should operate when directors increasingly depend upon algorithmic systems for information, recommendations, risk assessments or even pre-authorised corporate actions. The difficulty becomes more significant where AI systems are opaque, produce biased or inaccurate outcomes, rely upon flawed data or operate beyond the effective understanding of the directors supervising them. In such circumstances, attributing responsibility cannot simply be resolved by treating the AI system as the decision-maker, since existing Indian corporate law does not recognise AI as a director or fiduciary actor. Instead, the central issue is whether reliance upon technological systems can affect the scope of directors' existing duties and the standard of board oversight expected from them.

This study therefore examines the adequacy of India's existing corporate governance framework in addressing AI-mediated corporate decisions, with particular emphasis on board accountability, fiduciary duties, independent judgment, oversight and regulatory supervision. It seeks to determine whether technological assistance can ever justify a reduction in human responsibility and proposes a governance approach that preserves meaningful human accountability while enabling responsible adoption of AI within Indian corporations.

[1] Section 166 of the Companies Act, 2013 https://e-book.icsi.edu/default.aspx

LEGAL FRAMEWORK GOVERNING CORPORATE GOVERNANCE AND DIRECTORS' DUTIES IN INDIA

The Indian corporate governance framework establishes a system through which companies are directed, controlled and held accountable to shareholders and other stakeholders. The Companies Act, 2013 provides the principal statutory foundation by regulating the composition and functioning of the Board, directors' responsibilities, board committees, disclosure obligations and mechanisms for internal oversight. This framework is particularly significant in the context of Artificial Intelligence because corporate decisions increasingly involve technological systems capable of analysing information, identifying risks and generating recommendations. However, the statutory framework continues to place legal responsibility upon human directors rather than technological systems. The central relevance of this framework to AI therefore lies in determining whether directors can satisfy their statutory responsibilities merely by relying upon AI-generated information or whether such reliance itself requires enhanced scrutiny, verification and supervision.

2.1 Corporate Governance under the Companies Act, 2013

The Companies Act, 2013 does not provide a single exhaustive definition of corporate governance; instead, it establishes governance through interconnected requirements concerning the Board, directors, shareholders, disclosure and accountability. **Section 149**[2] requires every company to have a Board of Directors consisting of individuals and prescribes requirements relating to board composition, while **Section 179**[3] identifies important powers exercisable by the Board. **Section 166**[4] establishes statutory duties of directors, thereby transforming principles traditionally developed through fiduciary law into express statutory obligations. In addition, **Sections 134, 177, 178 and 184**[5] strengthen governance through board reporting, committee oversight and disclosure mechanisms. The Supreme Court's decision in **Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.,**[6] demonstrates the importance of board autonomy, corporate decision-making and statutory corporate governance principles in evaluating disputes concerning the functioning of a company. In the AI context, these provisions demonstrate that technological sophistication cannot displace the legally constituted

[2] Section 149 of the Companies Act, 2013 https://e-book.icsi.edu/default.aspx
[3] Section 179 of the Companies Act, 2013 https://e-book.icsi.edu/default.aspx
[4] Supra 1
[5] Sections 134, 177, 178 and 184 of the Companies Act, 2013 https://e-book.icsi.edu/default.aspx
[6] Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd., (2021) 9 SCC 449

governance structure.

2.2 Board Structure, Independent Directors and Board Committees

The Board functions as the principal mechanism through which corporate powers are exercised. **Section 149(4)**[7] requires every listed public company to have at least one-third of its total directors as independent directors, subject to the statutory framework. Independent directors are expected to contribute objective judgment rather than merely endorse management decisions. **Schedule IV** further identifies duties and responsibilities of independent directors, including participation in board deliberations, scrutiny of management performance and protection of stakeholder interests. The **Audit Committee under Section 177**[8] and the **Nomination and Remuneration Committee under Section 178**[9] provide specialised oversight mechanisms. In an AI-enabled corporation, these bodies may become important for examining algorithmic risks, technology-related controls, cybersecurity exposure and the reliability of AI-generated information. The governance model therefore requires the Board to remain capable of questioning technological outputs rather than treating them as automatically authoritative.

2.3 Fiduciary Duties of Directors under Section 166

Section 166 represents the central statutory provision governing directors' duties under Indian company law. Under Section 166(2), directors must act in good faith to promote the company's objects for the benefit of members as a whole and in the interests of the company, employees, shareholders, the community and environmental protection. **Section 166(3)** requires directors to exercise due and reasonable care, skill and diligence and independent judgment, while subsequent provisions restrict conflicts of interest and improper advantages[10]. These obligations become particularly significant when AI is used in corporate decision-making because directors cannot automatically transfer fiduciary responsibility to an algorithm. In **Dale & Carrington Investment (P) Ltd. v. P.K. Prathapan**[11], the Supreme Court says the fiduciary character of directors' powers and the requirement that such powers be exercised for proper corporate purposes. Applied to AI, the principle suggests that the use of sophisticated technology must

[7] Section 149(4) of the Companies Act, 2013 https://e-book.icsi.edu/default.aspx
[8] Audit Committee under Section 177 https://share.google/OxCLhIG7qSkPZdcPt
[9] Nomination and Remuneration Committee under Section 178 https://share.google/vIExVKpIDZe6zSt9l
[10] Supra1
[11] Dale & Carrington Investment (P) Ltd. v. P.K. Prathapan, (2005) 1 SCC 212

remain subordinate to the legitimate interests and purposes of the company.

2.4 Due Care, Skill, Diligence and Independent Judgment

The requirement of **due and reasonable care, skill and diligence under Section 166(3)** becomes particularly challenging where directors depend substantially upon AI-generated analysis. The statutory standard does not require directors to possess technical expertise in every technology used by their company; however, it requires meaningful engagement with matters falling within their corporate responsibilities. Consequently, blind reliance on an AI system without understanding its limitations, data sources, material risks or reliability may raise questions concerning the discharge of the statutory standard. The requirement of **independent judgment** is equally significant because AI recommendations should inform, rather than replace, the Board's legally required decision-making function. In **Official Liquidator v. P.A. Tendolkar**[12], the Supreme Court recognised the importance of directors' responsibility in relation to corporate management and supervision. The principle is particularly relevant where directors seek to rely upon technological delegation as a justification for insufficient oversight.

2.5 Board Oversight, Disclosure and Regulatory Responsibilities

Corporate governance extends beyond the decision itself to the systems through which risks are identified, monitored and disclosed. **Section 134** requires specified disclosures in the Board's report, while **Section 177** strengthens audit and internal-control oversight. For listed entities, the **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**[13] supplement the Companies Act by imposing governance and disclosure requirements. The **SEBI Act, 1992** provides the broader statutory foundation for securities-market regulation. In the AI context, these requirements raise an emerging question: *whether material dependence on AI, significant algorithmic risks or AI-related governance failures may require consideration within existing risk-management and disclosure structures*. Regulatory responsibility is therefore not limited to responding after technological failures occur; it increasingly involves ensuring that boards possess appropriate mechanisms to identify, evaluate and supervise technology-related risks before they translate into corporate harm. This creates the foundation for examining, in the next section, how AI changes the practical application of

[12] Official Liquidator v. P.A. Tendolkar, (1973) 1 SCC 602
[13] SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
https://share.google/jXNxQNYggyuprZ9qk

fiduciary accountability.

AI-ASSISTED CORPORATE DECISION-MAKING AND THE QUESTION OF BOARD ACCOUNTABILITY

Artificial Intelligence is increasingly moving beyond routine automation and becoming part of corporate decision-making, including financial analysis, compliance monitoring, fraud detection, risk assessment, forecasting and strategic recommendations. This development creates a distinction between the **technological capacity to generate a decision and the legal authority to make that decision**. Under Indian company law, the latter continues to rest with legally constituted human decision-makers. Section 166 of the Companies Act, 2013 requires directors to exercise independent judgment and due and reasonable care, skill and diligence. The central issue, therefore, is not whether companies may use AI, but whether directors can rely upon AI without compromising their statutory responsibilities. This chapter examines different degrees of AI involvement, the problems created by opaque and potentially biased algorithms, the limits of delegation and the allocation of responsibility when an AI-assisted corporate decision produces loss, regulatory breach or harm.

3.1 AI as a Decision-Support Mechanism within Corporate Boards

AI can function as a **decision-support mechanism** by processing information that would be difficult for directors to evaluate manually. A corporate board may use AI to identify unusual transactions, analyse financial indicators, predict market developments, assess compliance risks or compare strategic alternatives. In such circumstances, AI does not formally possess corporate authority; it supplies information or recommendations upon which authorised human decision-makers may act. This distinction is legally important because the use of an algorithm does not transfer the Board's statutory powers to the technology. **Section 173**[14] regulates Board meetings, while **Section 179**[15] identifies powers exercisable by the Board, reinforcing the continuing institutional role of human directors. Accordingly, AI should ordinarily be treated as an instrument supporting corporate judgment rather than as an independent corporate actor. The legal difficulty begins when directors accept AI-generated recommendations without adequately examining their assumptions, limitations or reliability.

[14] Section 173 of the Companies Act, 2013 https://e-book.icsi.edu/default.aspx
[15] Supra 3

3.2 Human, Augmented and Autonomous Forms of AI Decision-Making

AI involvement in corporate decisions can be understood through three broad levels. **Human-assisted AI** provides information while the director independently makes the final decision. **Augmented or agentic AI** goes further by ranking alternatives, recommending a course of action and potentially initiating pre-authorised operational steps, although meaningful human supervision remains possible. **Autonomous AI** represents the most difficult category because the system may make or execute consequential decisions with little or no meaningful human intervention. Under the present Companies Act framework, directors are natural persons and Section 166 expressly imposes duties upon a "director"; the provision does not recognise an AI system as a fiduciary office-holder. Therefore, increasing technological autonomy cannot automatically create an independent legal personality or fiduciary status for AI. The greater the autonomy of the system, however, the stronger the argument for enhanced human oversight before deployment and during operation.

3.3 Algorithmic Opacity, Bias and Explainability Challenges

One of the most significant governance problems arises when directors cannot adequately understand **how an AI system reached a particular recommendation or outcome**. Complex machine-learning models may depend upon extensive datasets, correlations and computational processes that are difficult to interpret even for technically qualified users. Errors may arise from incomplete data, inappropriate training data, hidden assumptions or systemic bias. For corporate boards, this creates a governance risk because accepting an unexplained recommendation may undermine meaningful judgment. The issue is increasingly recognised within India's securities regulatory environment: SEBI's 2025 regulatory amendments place responsibility on regulated entities using AI or machine-learning tools, including responsibility for safeguarding data and the accuracy of outputs. Thus, AI opacity should not be treated merely as a technical issue; it can become a **corporate accountability issue** when directors rely upon materially consequential outputs without adequate verification.

3.4 Can Directors Delegate Decision-Making without Delegating Fiduciary Responsibility?

Delegation is an ordinary feature of corporate management, but fiduciary responsibility cannot simply be transferred by inserting an AI system between the director and the decision. **Section 166(3)** expressly requires independent judgment, making unrestricted dependence upon an

algorithm difficult to reconcile with the statutory standard. A director may reasonably rely upon specialist technology, but such reliance should be informed, proportionate and accompanied by appropriate verification, particularly where the decision involves significant financial, regulatory or stakeholder consequences. In **N. Rangachari v. Bharat Sanchar Nigam Ltd.**[16], the Supreme Court examined the importance of directors' responsibilities in the context of corporate statutory obligations and governance. The broader principle supports the proposition that directors cannot treat corporate responsibility as disappearing merely because particular functions are performed through delegated mechanisms. In the AI context, delegation should therefore mean **delegation of a task, not delegation of accountability**.

3.5 Attribution of Responsibility for AI-Assisted Corporate Decisions

When an AI-assisted decision causes corporate loss or regulatory harm, responsibility may potentially arise at several levels: the directors who approved the decision, senior management that implemented it, personnel responsible for AI governance, the company itself or an external technology provider. The appropriate allocation should depend upon the nature of the decision, the degree of human involvement, the foreseeability of the risk and the quality of oversight exercised before and after deployment. **Sections 447 and 448 of the Companies Act, 2013**[17] may become relevant where AI-related conduct involves fraud or materially false statements, while **Section 166** remains central to evaluating directors' own statutory conduct. The key principle should be that the mere statement that "the algorithm made the decision" cannot, by itself, constitute a defence where legally responsible persons authorised, relied upon or failed to supervise the system. Recent regulatory developments similarly emphasise that organisations using AI remain responsible for the accuracy and lawful use of its outputs. The resulting accountability model should therefore focus on **human control, foreseeability, oversight and causation**, rather than assigning responsibility merely according to who technically operated the AI system.

RETHINKING FIDUCIARY DUTIES AND REGULATORY OVERSIGHT IN THE AI ERA

The integration of AI into corporate decision-making requires Indian fiduciary principles to be interpreted in a manner that preserves accountability without unnecessarily restricting

[16] N. Rangachari v. Bharat Sanchar Nigam Ltd., (2012) 13 SCC 167
[17] Sections 447 and 448 of the Companies Act, 2013 https://e-book.icsi.edu/default.aspx

technological innovation. **Section 166 of the Companies Act, 2013** remains the principal statutory foundation because directors continue to owe duties of good faith, care, skill, diligence and independent judgment even when decisions are supported by AI. The emerging challenge is therefore to determine whether conventional fiduciary standards are sufficiently adaptable to algorithmic decision-making.

A director who relies on AI should reasonably understand the purpose, limitations and material risks of the system rather than treating its output as inherently reliable. Board oversight must consequently extend to the selection, deployment, monitoring and periodic evaluation of AI systems, particularly where they influence material financial, compliance or stakeholder decisions. **Sections 177 and 178** can provide institutional mechanisms for such oversight through the Audit Committee and Nomination and Remuneration Committee, while **Section 134** is relevant to corporate reporting and disclosure. The need for transparency is particularly important where AI-related risks could materially affect investors, employees, customers or regulatory compliance. In **LIC of India v. Escorts Ltd.**[18], the Supreme Court recognised the broader regulatory and public-interest dimensions surrounding corporate activity, illustrating that corporate autonomy operates within a framework of lawful regulatory supervision.

In the securities sector, this responsibility has become more explicit: SEBI's **Intermediaries (Amendment) Regulations, 2025** introduced **Regulation 16C**[19], under which SEBI-regulated entities using AI/ML tools, including third-party tools, remain responsible for investor-data protection, the outputs on which they rely and compliance with applicable law. SEBI has also issued a consultation paper on responsible AI/ML usage in Indian securities markets, demonstrating the movement from general technological awareness towards more structured regulatory oversight. These developments suggest that AI governance should not create a liability vacuum between directors, management and technology providers: contractual delegation to an external vendor should not eliminate the company's regulatory obligations, while directors should remain accountable for inadequate supervision where the law places responsibility upon them. The appropriate approach is therefore **shared operational responsibility with clear legal accountability**, supported by AI due diligence, human oversight, documentation, auditability, risk assessment and appropriate disclosure.

[18] LIC of India v. Escorts Ltd., (1986) 1 SCC 264
[19] SEBI's Intermediaries (Amendment) Regulations, 2025 introduced Regulation 16C https://share.google/bODhb7daRDdbMRkx6

JUDICIAL AND COMPARATIVE PERSPECTIVES ON AI, CORPORATE ACCOUNTABILITY AND BOARD OVERSIGHT

This chapter examines how judicial principles governing directors, boards and corporate accountability can be applied to the emerging problem of AI-mediated corporate decision-making. Indian company law does not yet provide a comprehensive statutory framework specifically addressing AI within corporate governance, making judicial interpretation particularly important. Indian courts have developed principles concerning fiduciary responsibility, proper exercise of corporate powers, minority protection, board autonomy and judicial restraint in commercial decisions. These principles provide a foundation for determining how accountability should operate when technological systems increasingly influence corporate decisions. Comparative examination of the United Kingdom and United States is useful because both jurisdictions have developed sophisticated approaches to directors' duties and board oversight, although through different statutory and judicial traditions. International frameworks, particularly the G20/OECD Principles of Corporate Governance and the EU AI Act, further demonstrate the emerging emphasis on transparency, risk management, human oversight and accountability. The objective is not to transplant foreign rules into India mechanically, but to identify principles capable of strengthening India's own corporate governance framework.

5.1 Indian Jurisprudence on Directors' Fiduciary Duties and Corporate Governance

Indian jurisprudence treats directors as persons occupying a position of responsibility rather than merely as agents exercising managerial authority. The courts have repeatedly emphasised that corporate powers must be exercised bona fide, for legitimate corporate purposes and within the limits of the authority conferred by law. In **Needle Industries (India) Ltd. v. Needle Industries Newey (India) Holding Ltd.**[20], the Supreme Court examined the exercise of directors' powers and distinguished legitimate corporate action from conduct motivated by improper purposes. This principle is particularly relevant to AI because an algorithm may produce a technically efficient outcome without necessarily reflecting the legally appropriate corporate purpose. Similarly, **Bajaj Auto Ltd. v. N.K. Firodia**[21] held that directors exercising corporate powers cannot act arbitrarily or for collateral purposes. These principles suggest that

[20] Needle Industries (India) Ltd. v. Needle Industries Newey (India) Holding Ltd., (1981) 3 SCC 333
[21] Bajaj Auto Ltd. v. N.K. Firodia, (1970) 2 SCC 550

AI-generated recommendations must ultimately be evaluated against the company's legitimate interests, applicable law and governance obligations rather than accepted merely because they are computationally sophisticated.

5.2 Lessons from Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.

The decision in **Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.**[22] is particularly significant for understanding contemporary Indian corporate governance. The Supreme Court considered questions concerning board functioning, shareholder interests, corporate management and the limits of judicial intervention in commercial decisions. The judgment demonstrates that corporate governance involves balancing board authority with accountability and protecting the legitimate interests recognised by company law. Its relevance to AI lies in the principle that technological efficiency cannot independently determine the legitimacy of a corporate decision. Where AI is used to influence board decisions, the Board must still exercise the authority entrusted to it under the Companies Act, 2013 and remain capable of explaining the basis upon which significant decisions were adopted. The case therefore provides a useful Indian foundation for examining the relationship between **board autonomy, accountability and technology-assisted governance**.

5.3 Dale & Carrington Investment (P) Ltd. v. P.K. Prathapan and the Fiduciary Standard

In **Dale & Carrington Investment (P) Ltd. v. P.K. Prathapan**[23], the Supreme Court dealt with the improper exercise of directors' powers in circumstances involving the issue of shares and alteration of corporate control. The Court treated directors' powers as fiduciary powers and scrutinised whether those powers had been exercised bona fide and for a legitimate corporate purpose. The significance of this principle for AI governance is substantial: the use of an algorithm cannot convert an improper corporate objective into a legitimate one. If directors design, select or deploy an AI system for a purpose that improperly benefits particular persons or prejudices legitimate corporate interests, the technological mechanism should not shield the underlying decision from fiduciary scrutiny. AI therefore changes the **method of decision-making**, but it does not fundamentally alter the fiduciary character of the authority being exercised.

[22] Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd., (2021) 9 SCC 449
[23] Dale & Carrington Investment (P) Ltd. v. P.K. Prathapan, (2005) 1 SCC 212

5.4 Comparative Perspectives from the United Kingdom and United States

The **United Kingdom Companies Act 2006** provides a useful statutory comparison because directors' general duties are expressly codified. **Sections 173 and 174**[24] require independent judgment and reasonable care, skill and diligence respectively. Section 174 adopts both an objective and subjective dimension by considering the knowledge, skill and experience reasonably expected of a person performing the relevant functions as well as the director's actual knowledge and experience. This provides an important comparative basis for considering whether directors who deploy sophisticated AI should possess sufficient understanding to evaluate its risks. UK jurisprudence also demonstrates that delegation does not eliminate the continuing responsibility of directors to understand and supervise the company's affairs; **Weavering Capital (UK) Ltd v Dabhia**[25] discussed the continuing duty of directors to maintain sufficient knowledge and understanding of the company's business. In the United States, Delaware's **Caremark** line of cases provides an important comparative model for board-level oversight of compliance and mission-critical risks. Its significance for AI governance lies in the possibility of treating AI-related systems, cybersecurity, data governance and algorithmic risks as matters requiring appropriate board-level monitoring where they are material to the company's operations.

5.5 Applicability of Emerging International AI Governance Principles to India

International standards provide useful guidance for developing an Indian AI-governance framework without replacing domestic legislation. The **G20/OECD Principles of Corporate Governance 2023**[26] emphasise board accountability, independent judgment, risk oversight, disclosure and digital-risk management; they specifically recognise that digital technologies can improve governance while also creating risks involving data quality, technical competence, third-party dependency, cybersecurity and over-reliance on algorithmic systems. The **EU AI Act** provides another important comparative model through requirements relating to risk management, data governance, record-keeping, transparency, human oversight, accuracy, robustness and cybersecurity for high-risk AI systems. These principles can inform India without being directly transplanted. A suitable Indian model would adapt them to the Companies Act, 2013, SEBI regulations and India's technology and data-protection framework,

[24] Supra 13 and Sections 174 of the Companies Act, 2013 https://e-book.icsi.edu/default.aspx
[25] Weavering Capital (UK) Ltd v Dabhia, [2013] EWCA Civ 71
[26] G20/OECD Principles of Corporate Governance 2023 https://share.google/YHURDBeh8YgqAKbeMn

particularly through **risk-based AI governance, board-level oversight, algorithmic documentation, meaningful human supervision, auditability and accountability for material AI-related corporate decisions**. The comparative lesson is therefore not that India requires an identical foreign AI statute, but that its existing corporate governance architecture may need targeted regulatory development to address technological risks that conventional governance mechanisms were not designed to anticipate.

TOWARDS AN AI CORPORATE GOVERNANCE ACCOUNTABILITY FRAMEWORK FOR INDIA

The existing Indian corporate governance framework contains important principles capable of governing AI-assisted corporate activity, but it was principally designed around human decision-makers, conventional managerial structures and identifiable sources of information. It does not yet provide a comprehensive framework addressing how boards should govern AI systems, what level of technological due diligence directors should undertake, when AI-related risks require disclosure or how responsibility should be distributed between a company, its directors, management personnel and external technology providers. This regulatory uncertainty becomes particularly significant as AI moves from simple decision-support towards systems capable of making recommendations, prioritising risks and initiating operational actions. The proposed framework should therefore supplement, rather than replace, the existing Companies Act, 2013, SEBI regulations and data-protection framework. Its central principle should be that **technological delegation cannot become a mechanism for legal evasion**. The framework should combine board-level human accountability with proportionate technological oversight, documented decision-making, risk-based auditing and clear allocation of responsibility.

6.1 Identifying the Gaps in the Existing Indian Legal Framework

The principal gap is the absence of a **dedicated corporate AI-governance architecture** within the Companies Act, 2013. Section 166 establishes directors' duties, while Sections 177, 178 and 134 create mechanisms for oversight and reporting, but these provisions do not specifically prescribe how boards should govern material AI systems. There is also limited statutory clarity regarding algorithmic explainability, AI-related board reporting, independent AI audits, responsibility for third-party AI systems and preservation of AI-generated decision records. The **Digital Personal Data Protection Act, 2023** addresses personal-data processing but does not

constitute a comprehensive corporate AI-governance statute. The resulting framework is therefore fragmented, requiring companies to derive AI governance obligations from existing corporate, securities, data, cybersecurity and sector-specific laws.

6.2 Board-Level AI Governance and Mandatory Human Oversight

Companies using AI for material corporate functions should establish a **Board-level AI Governance Policy** proportionate to the significance of the system. The Board should identify high-impact AI applications, assign oversight responsibility, establish escalation procedures and periodically review technological risks. For listed entities, this responsibility could be integrated with existing Audit Committee and risk-governance structures under **Section 177 of the Companies Act, 2013 and Regulation 18 of the SEBI LODR framework**[27]. Human oversight should remain mandatory where AI influences decisions involving substantial financial commitments, regulatory compliance, employment, market integrity or significant stakeholder interests. Human involvement, however, should be substantive rather than merely formal; a director should possess sufficient information and authority to question, reject or modify an AI-generated recommendation.

6.3 AI Due Diligence, Algorithmic Auditing and Decision Documentation

Before adopting a material AI system, companies should undertake **AI due diligence** covering data quality, security, reliability, bias, explainability, vendor dependencies and foreseeable legal risks. Periodic algorithmic audits should determine whether the system continues to perform within approved parameters. For significant decisions, companies should maintain an **AI decision record** identifying the system used, relevant inputs, recommendation generated, human review undertaken and final decision-maker. Such documentation would strengthen internal accountability and provide evidence for regulators, auditors and courts when questions arise concerning corporate conduct. **Section 134** can provide an existing reporting foundation, while **Section 177** can support audit-oriented oversight.

6.4 Disclosure, Explainability and Corporate Risk Management

AI-related risks that may materially affect a company's financial position, operations, compliance or reputation should form part of appropriate corporate risk-management and

[27] Regulation 18 of the SEBI LODR framework https://share.google/Rd51CBsLQYInMe6dV

disclosure processes. For listed companies, the existing SEBI disclosure framework can provide the regulatory foundation for developing more specific AI-risk disclosure requirements. Disclosure need not reveal commercially sensitive source code; instead, companies could disclose the **nature, materiality, purpose, principal risks and governance arrangements** surrounding significant AI systems. This approach would promote transparency without forcing unnecessary disclosure of proprietary technology. SEBI's recent regulatory approach to AI/ML use by regulated entities demonstrates an increasing emphasis on accountability for the use and outputs of AI systems.

6.5 Allocation of Responsibility among Boards, Management and AI Providers

Responsibility should be allocated according to **control, knowledge, involvement and foreseeability**, rather than simply assigning liability to the person who technically operated the AI system. Directors should remain responsible for board-level oversight and statutory duties; senior management should be accountable for implementation and operational controls; specialised personnel should manage technical risks; and technology providers should remain contractually and legally accountable for representations concerning system performance, security and compliance. Importantly, outsourcing AI functions should not automatically transfer the company's statutory obligations. This approach is consistent with the emerging regulatory position that regulated entities remain responsible for their use of AI/ML systems and the outputs on which they rely.

6.6 Recommendations for Legislative and Regulatory Reform

India should progressively develop a **risk-based AI corporate governance framework** through amendments, regulations and regulatory guidance rather than immediately creating an entirely separate corporate statute. The Companies Act, 2013 could recognise material AI governance within board responsibilities and prescribe appropriate standards for high-impact AI deployment. SEBI could introduce proportionate AI-governance and disclosure requirements for listed entities and regulated intermediaries. Regulatory guidance should address AI due diligence, independent auditing, human oversight, incident reporting, documentation and board competency. Companies should also be encouraged to establish contractual accountability mechanisms for AI vendors, including audit rights, security obligations, incident notification and compliance warranties. Ultimately, India's framework should establish a clear principle: **AI may assist corporate decision-making, but it cannot**

become an accountability shield for the humans and institutions legally responsible for corporate conduct. This would preserve technological innovation while ensuring that corporate governance continues to rest upon transparency, responsibility and meaningful human oversight.

CONCLUSION

Artificial Intelligence is no longer merely a technological tool operating outside the sphere of corporate governance; it is increasingly becoming part of the processes through which companies assess risks, evaluate information and make consequential business decisions. This transformation, however, does not alter the fundamental legal principle that corporate authority and fiduciary responsibility remain vested in legally accountable human decision-makers. The analysis demonstrates that the **Companies Act, 2013**, particularly the duties imposed upon directors under **Section 166**, provides an important foundation for addressing AI-assisted corporate decision-making through the principles of good faith, due care, diligence and independent judgment. Nevertheless, these general obligations were not specifically designed to address algorithmic opacity, autonomous systems, data-dependent decision-making or the complexities of third-party AI technologies.

Consequently, relying exclusively upon existing provisions may leave significant uncertainty regarding the standard of oversight expected from directors and the allocation of responsibility when AI-assisted decisions result in corporate, financial or regulatory harm. Judicial principles concerning fiduciary responsibility, proper exercise of corporate powers and board oversight remain relevant, but their application to AI requires careful and context-sensitive development rather than mechanical extension. The comparative analysis further demonstrates that effective AI governance is increasingly associated with risk-based supervision, transparency, human oversight, accountability and appropriate documentation.

For India, the preferable approach is therefore not to treat AI as a separate corporate actor or to impose liability merely because technology was involved. Instead, responsibility should be determined according to **control, knowledge, foreseeability, human involvement and the nature of the decision concerned**. A coherent AI Corporate Governance Accountability Framework should consequently strengthen board-level oversight, AI due diligence, algorithmic auditing, decision documentation, proportionate disclosure, explainability and accountability mechanisms for technology providers. Such reforms can be developed through

targeted amendments, SEBI regulations and regulatory guidance while remaining consistent with the Companies Act, 2013 and India's evolving digital regulatory framework. Ultimately, the responsible integration of AI into Indian corporate governance depends not upon replacing human judgment with technological efficiency, but upon ensuring that technological innovation operates within a structure of **clear legal responsibility, institutional oversight and accountable human decision-making**.

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