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REGULATING THE USE OF ARTIFICIAL INTELLIGENCE IN CORPORATE DECISION-MAKING

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ABSTRACT

Historically, corporate jurisprudence has relied upon legal fictions to attribute the actions of an artificial entity to an identifiable human mind. The increasing integration of autonomous algorithmic systems into corporate strategy places significant strain on this architecture. This paper examines the doctrinal vacuum created by Artificial Intelligence within Indian corporate governance, specifically under the Companies Act, 2013. When boards delegate commercially consequential decisions to opaque machine-learning models, traditional frameworks governing fiduciary duties and corporate attribution become exceedingly difficult to apply coherently.

This article demonstrates how reliance on algorithmic outputs conflicts with the non-delegable duties of independent judgment and due care mandated by Section 166. Furthermore, it argues that AI deployment complicates the continued application of the *alter ego* doctrine, potentially insulating corporate officers from intent-based criminal liability and vicarious civil claims. While emerging regulatory trajectories—such as the European Union's horizontal risk categorization and India's sector-specific guidelines—address product safety and market integrity, they largely bypass this internal fiduciary crisis.

To resolve the resulting liability vacuum, the paper proposes a targeted evolution of Indian corporate law. Rather than artificially stalling technological adoption, the analysis suggests that statutory frameworks must continue to attach algorithmic deployment to meaningful human oversight. The paper recommends specific legislative interventions, including updating directors' duties to mandate algorithmic diligence, expanding disclosure

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requirements under Section 134 to require independent algorithmic audits, and cautiously narrowing the judicial protection of the business judgment rule. Ultimately, the research concludes that while AI will inevitably reshape commercial operations, corporate law must ensure that autonomous technological systems do not gradually dilute the foundational premise of human accountability.

KEYWORDS

1. Corporate Governance
2. Artificial Intelligence
3. Fiduciary Duties
4. Corporate Attribution
5. Algorithmic Accountability
6. Business Judgment Rule
7. Companies Act, 2013

PART I: INTRODUCTION

Artificial Intelligence is no longer a futuristic concern for corporate governance in India; it is already embedded within day-to-day boardroom decision-making. Large corporations increasingly rely upon algorithmic systems to execute high-frequency trading, assess merger and acquisition opportunities, predict market behavior, and streamline recruitment processes. On Indian stock exchanges alone, algorithmic trading now constitutes a substantial share of total trading activity.[3]What was once considered an experimental technological tool has gradually become part of the operational structure of modern corporations. Decision-making authority, historically exercised by directors and senior officers, is increasingly being delegated—sometimes almost invisibly—to autonomous software systems capable of acting at speeds and scales beyond ordinary human supervision.

This development creates a serious tension within traditional corporate law. Modern company jurisprudence was constructed on the assumption that corporate conduct ultimately flows from human judgment. Concepts such as the "directing mind and will" doctrine, fiduciary obligations, and corporate criminal liability all presuppose the existence of identifiable

[3]Securities and Exchange Board of India, *Consultation Paper on Guidelines for Responsible Usage of AI/ML in Indian Securities Markets* (June 20, 2025).

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human intention.[4] Even the doctrine of mens rea, as applied to corporations, depends upon attributing a guilty state of mind to natural persons acting on behalf of the company. Artificial Intelligence complicates these assumptions in ways existing legal doctrine struggles to accommodate. An algorithm may influence or even independently produce decisions with significant economic consequences, yet it possesses neither legal personality nor moral agency. If an autonomous trading system manipulates markets, or an AI-driven hiring tool systematically discriminates against applicants, the immediate question becomes difficult to answer: where exactly should the law place responsibility?

The uncertainty is especially visible within the Indian regulatory framework. Existing statutes, including the Companies Act, 2013 and the Information Technology Act, 2000, were enacted at a time when autonomous corporate decision-making was not a realistic legislative concern. Section 166 of the Companies Act imposes duties of good faith, due care, and independent judgment upon directors.[5] However, the legislation provides little guidance on how those duties are to be discharged when directors rely on opaque "black box" AI systems whose reasoning processes remain inaccessible even to technical experts. The problem becomes more acute where the consequences are severe. If an AI model causes substantial shareholder losses, facilitates anti-competitive conduct, or produces discriminatory corporate outcomes, Indian law presently offers no coherent framework for apportioning liability between directors, corporations, software developers, and third-party vendors. The result is a regulatory vacuum in which technologically significant decisions may occur without corresponding legal accountability.

This paper argues that corporate law can no longer remain anchored exclusively to a model of pure human agency. Instead, the legal framework governing corporate decision-making must evolve toward a principle of human accountability for algorithmic actions. Corporations should not be permitted to avoid liability merely because critical decisions were generated through automated systems. Accordingly, this paper contends that Indian corporate regulation requires mandatory algorithmic audits, enhanced disclosure obligations relating to AI-assisted decision-making, and a clearly enforceable duty of algorithmic oversight imposed upon boards of directors. Without such reforms, the growing integration of Artificial Intelligence

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Lennard's Carrying Co Ltd v Asiatic Petroleum Co Ltd [1915] AC 705 (HL) (establishing the 'directing mind and will' doctrine, attributing corporate actions to senior individuals).

[5]Companies Act, 2013, § 166(2)–(3).

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into corporate governance risks creating a system in which economically consequential decisions are made through mechanisms that remain legally under-regulated and practically unaccountable.

The discussion proceeds in five parts. Part II examines the manner in which AI systems disrupt traditional understandings of directors' fiduciary duties and the "directing mind and will" doctrine. Part III addresses the emerging liability problem, particularly in relation to negligence, corporate criminal liability, and shareholder remedies where algorithmic systems malfunction or act unpredictably. Part IV undertakes a comparative analysis of India's current position alongside evolving international approaches, particularly the European Union Artificial Intelligence Act. Finally, Part V proposes specific statutory and regulatory reforms aimed at integrating accountability, transparency, and algorithmic oversight into the Indian corporate governance framework.

PART II: ARTIFICIAL INTELLIGENCE AND THE EROSION OF DIRECTORS' FIDUCIARY DUTIES

The fiduciary framework under Indian company law was designed around a simple assumption: corporate decisions are made by human beings capable of judgment, intention, and moral accountability. That assumption begins to fracture once decision-making authority shifts toward autonomous systems. Artificial Intelligence may process information more efficiently than any human boardroom ever could, but corporate law does not measure efficiency alone. It measures responsibility. This distinction becomes critical when AI systems begin influencing strategic corporate actions such as predictive M&A modeling, automated credit scoring, algorithmic risk assessments, and high-frequency financial trading.

Under the Companies Act, 2013, directors owe statutory fiduciary duties to the company, shareholders, and stakeholders[6]Section 166(2) requires directors to act in good faith in order to promote the objects of the company and act in its best interests[7]Section 166(3) further obligates directors to exercise duties with "due and reasonable care, skill and diligence" while exercising "independent judgment"[8] These obligations are not procedural formalities. They

[6]Companies Act, 2013, § 166.

[7]Id. § 166(2) ("A director of a company shall act in good faith in order to promote the objects of the company for the benefit of its members as a whole…").

[8]Id. § 166(3) ("A director of a company shall exercise his duties with due and reasonable care, skill and diligence and shall exercise independent judgment.").

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are cognitive duties. The statutory framework presumes active human evaluation, conscious balancing of risk, and deliberate commercial reasoning. A machine cannot act in good faith. It cannot owe loyalty. Most importantly, it cannot exercise judgment in the legal sense of the term. It calculates.

This creates an immediate conflict once directors begin relying heavily upon AI-generated recommendations for strategic corporate actions. Indian company law certainly permits delegation. Boards routinely depend upon accountants, auditors, investment bankers, and legal advisors to provide technical expertise beyond the directors' personal competence. Modern corporate governance would be impossible otherwise. Yet delegation has always operated within an important limitation: directors may delegate assistance, but they cannot abdicate responsibility. The final commercial judgment must still remain human.

That distinction becomes dangerously blurred in the context of AI-assisted governance. Consider a board relying upon predictive M&A software to identify acquisition targets and recommend transaction structures based upon market data, behavioral analytics, and historical valuation trends. If directors independently interrogate the recommendation, assess the risks, seek additional opinions, and consciously decide whether to proceed, the AI system functions merely as a sophisticated analytical tool. The legal problem emerges when the board effectively rubber-stamps the output because the algorithm is assumed to be more accurate, faster, or technologically superior. At that point, the directors are no longer exercising independent judgment; they are outsourcing it.

The problem becomes even sharper because many modern AI systems do not merely assist in organizing information. They generate substantive conclusions. Deep learning systems, particularly those operating through neural networks, often produce outputs through internal computational processes that remain opaque even to their own developers. This is the well-known "black box" problem. In practical terms, a director may receive an AI-generated recommendation to acquire a competitor, deny a line of credit, restructure operations, or terminate employees without being able to fully explain how the system reached that conclusion.

The duty of care creates an immediate bottleneck here. Section 166(3) requires directors to exercise reasonable care and diligence before making corporate decisions [9]Yet it becomes

[9]Companies Act, 2013, § 166(3).

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difficult to argue that reasonable care was exercised where the underlying basis of the decision is fundamentally incomprehensible to the decision-maker. A director cannot meaningfully evaluate risks they cannot understand. Even if a board argues that reliance on advanced AI software constitutes prudent modern governance, that defense weakens considerably once opacity enters the equation. Blind reliance is not diligence.

The issue is not theoretical. AI systems have already demonstrated significant failures in commercial and regulatory contexts worldwide. Algorithmic hiring tools have been criticized for discriminatory biases against female applicants. Automated financial systems have triggered flash crashes within securities markets. Predictive risk models have produced distorted lending and insurance outcomes due to biased training data. In each case, the technological failure was accompanied by a legal vacuum regarding accountability. The software produced the harmful output, but the consequences were ultimately borne by corporations, consumers, and shareholders.

Indian corporate law presently offers no clear doctrinal mechanism to resolve this accountability gap. Existing fiduciary standards assume that directors can explain why they acted as they did. That assumption collapses where strategic decisions are based upon systems incapable of providing transparent reasoning. The legal difficulty is not merely that directors relied on AI. It is that directors may no longer understand the basis of the decisions attributed to them.

This tension becomes particularly important when viewed through the lens of the Business Judgment Rule ("BJR"). Although Indian jurisprudence does not codify the BJR as explicitly as jurisdictions such as the United States, courts have generally shown reluctance to interfere in bona fide commercial decisions made honestly and with due care. [10]The underlying rationale is straightforward: directors should not face liability merely because a business decision turns out badly. Corporate risk-taking is inevitable.

Artificial Intelligence complicates this protection. Suppose a corporation purchases the most advanced algorithmic trading or predictive analytics software available in the market, conducts vendor due diligence, and follows the AI-generated recommendation in good faith.

[10]*Miheer H. Mafatlal v. Mafatlal Industries Ltd.*, (1997) 1 SCC 579 (discussing judicial non-interference in bona fide commercial decisions absent fraud, illegality, or procedural unfairness)

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Can directors then claim protection under the Business Judgment Rule if the decision later causes catastrophic losses?

The answer cannot simply be yes.

If directors treat technological sophistication as a substitute for independent oversight, the very rationale behind fiduciary accountability begins to disappear. A board cannot avoid scrutiny merely by pointing toward the complexity of the software it purchased. Otherwise, AI becomes a liability shield rather than a governance tool. The legal standard under Section 166 was never intended to reward passive acceptance of external outputs, whether generated by humans or machines.

Even if reliance on specialized AI systems is considered commercially reasonable, directors must still demonstrate active engagement with the decision-making process itself. This includes understanding the scope of the algorithm, recognizing its limitations, questioning its assumptions, and assessing foreseeable risks associated with automated outputs. The standard cannot realistically require directors to understand source code or machine-learning architecture at a technical level. That would be commercially impractical. But the law can reasonably require directors to understand the consequences of relying upon systems whose logic they cannot independently verify.

The distinction between a lawful corporate tool and an unlawful substitute for fiduciary judgment therefore becomes critical. AI used for data collection, trend analysis, fraud detection, or predictive forecasting does not inherently violate directors' duties. In many situations, refusing to use advanced analytical systems may itself amount to commercial negligence. Contemporary corporations operate within data environments too complex for purely human processing. The law cannot expect directors to ignore technological efficiency.

The line is crossed when AI systems cease functioning as advisory mechanisms and begin operating as de facto decision-makers. Once directors surrender substantive strategic evaluation to autonomous systems without meaningful human oversight, fiduciary obligations under Section 166 become diluted. Corporate governance cannot be reduced to algorithmic obedience.

This distinction ultimately preserves the normative foundation of company law itself. Fiduciary duties exist because corporate power carries consequences extending beyond

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balance sheets and quarterly profits. Decisions affecting shareholders, employees, creditors, and markets require accountable judgment attached to identifiable legal actors. Artificial Intelligence may assist directors in processing information, but it cannot replace the human responsibility at the center of fiduciary governance. The law recognizes accountability, not automation

PART III: CORPORATE ATTRIBUTION AND THE EMERGING LIABILITY VACUUM

Corporate liability under Indian law has always depended upon a carefully constructed legal fiction. A company, after all, has no physical existence, no consciousness, and no mind of its own. Courts therefore developed attribution doctrines to identify the individuals whose actions and intentions could legally be treated as the actions and intentions of the corporation itself. For decades, this framework worked reasonably well because the decision-making structure inside a corporation remained fundamentally human: directors made decisions, senior officers implemented them, and liability followed identifiable actors. However, Artificial Intelligence wholly destabilizes this foundational structure. The difficulty is not simply that corporations now use software to improve efficiency; rather, modern boards increasingly rely on AI systems to conduct predictive M&A modeling, algorithmic risk assessments, automated compliance monitoring, and dynamic pricing analysis with minimal human intervention.

In some instances, these systems do not merely assist in processing information. They generate substantive strategic conclusions capable of materially influencing corporate conduct. Once this occurs, the traditional chain of attribution begins to weaken. Corporate law still searches for a legally identifiable "mind" behind the decision-making process, yet the operative decision may no longer originate from a human actor in any meaningful sense.

Indian courts have historically relied upon the "directing mind and will" doctrine to attribute criminal intent to corporations. [11]The principle traces back to Lennard's Carrying Co Ltd v Asiatic Petroleum Co Ltd, where Viscount Haldane observed that certain senior individuals may function as the very ego and center of the company's personality. [12]Indian jurisprudence subsequently adopted similar reasoning. In Iridium India Telecom Ltd. v. Motorola Inc., the

[11] *See generally Iridium India Telecom Ltd. v. Motorola Inc., (2011) 1 SCC 74.*
[12] *Lennard's Carrying Co Ltd v Asiatic Petroleum Co Ltd [1915] AC 705 (HL).*

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Supreme Court confirmed that corporations may be prosecuted for offenses requiring mens rea because the criminal intent of senior managerial personnel can be attributed to the company itself. [13]Yet applying this logic becomes a profound jurisprudential challenge once autonomous systems enter the boardroom. If a corporation deploys an advanced AI-driven pricing system trained to maximize market dominance, and that algorithm independently develops patterns amounting to predatory conduct or tacit cartelization, the directors may never have specifically instructed the software to violate competition law.

The directors may not even fully understand the internal computational process that produced the outcome, yet the harmful conduct still occurred through the operational machinery of the company—forcing courts to determine where the law can legally locate intent. The AI system itself cannot satisfy the requirement of mens rea because it possesses neither consciousness nor legal personality, while the board can simultaneously argue that no individual director formed the specific intention necessary for criminal liability. Existing attribution theory assumes that somewhere within the corporate structure there exists a human actor capable of forming a guilty mind. AI destabilizes that assumption because the operational “decision” may emerge through statistical optimization rather than deliberate human reasoning.

The danger here is difficult to ignore. A corporation that routes high-risk decisions through opaque algorithmic systems may later argue that no natural person ever possessed the requisite criminal intent. If accepted too broadly, this creates a troubling incentive structure in which corporations could strategically insulate themselves from intent-based statutory liability by increasing reliance upon autonomous systems.

The implications for corporate fraud provisions under the Companies Act, 2013 are particularly significant. Section 447 fundamentally depends upon concepts such as deception, concealment, abuse of position, and intent to injure the interests of shareholders or the company itself. [14]An algorithm, however, does not “intend” to deceive in the legal sense. It identifies patterns, optimizes outputs, and pursues assigned objectives. Even where harmful outcomes are foreseeable, translating algorithmic conduct into conventional criminal intention becomes an insurmountable evidentiary hurdle. This doctrinal gap extends seamlessly into the realm of civil liability.

[13]*Iridium India Telecom Ltd. v. Motorola Inc., (2011) 1 SCC 74.*

[14]Companies Act, 2013, § 447.

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Traditional principles of vicarious liability and agency law generally operate on the assumption that a principal is liable for the acts of its agents acting within the scope of authority. However, Section 182 of the Indian Contract Act, 1872 defines an "agent" as a person employed to do any act for another. [15]AI systems, irrespective of sophistication, are not recognized as legal persons under Indian law. They continue to exist merely as software tools or commercial products. The doctrinal difficulty emerges once these tools begin exercising functional decision-making authority capable of producing independent commercial consequences.

This does not mean corporations automatically escape civil liability whenever AI systems cause harm. Indian courts could still impose liability through negligence principles, employment law obligations, consumer protection frameworks, anti-discrimination standards, or broader enterprise liability reasoning. The difficulty, however, is that traditional agency doctrines no longer fit comfortably once autonomous systems begin functioning as de facto decision-makers within corporate structures.

Consider an AI-driven recruitment platform trained on historical employment data that systematically disadvantages female candidates or minority applicants. The discriminatory outcome may become obvious only after deployment, particularly where the underlying bias remains buried within training datasets or machine-learning correlations invisible to ordinary human review. The company may nevertheless attempt to frame the discriminatory outcome as an unforeseeable technological failure rather than negligent corporate conduct. Consequently, foreseeability becomes the central fulcrum of the liability analysis: as algorithmic harms become increasingly documented across global markets, corporations will find it nearly impossible to argue that such risks were unpredictable. Bias in automated hiring systems, manipulative algorithmic trading behavior, and opaque lending models are no longer speculative concerns confined to academic theory. They are recognized commercial risks.

Once these risks become commercially foreseeable, continued deployment of AI systems without meaningful oversight mechanisms may itself amount to negligence. A corporation cannot indefinitely claim ignorance while simultaneously benefiting from the efficiency and profitability generated by autonomous systems. The law has historically imposed higher obligations upon entities deploying dangerous or high-risk instruments within commercial

[15]Indian Contract Act, 1872, § 182.

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activity. There is a strong argument that autonomous algorithmic systems increasingly fall within that category.

The deeper problem is that Indian corporate law still largely conceptualizes AI as a passive instrument operating under direct human supervision. That characterization is becoming progressively inaccurate. Certain AI systems now operate with sufficient autonomy to materially shape corporate outcomes without continuous human intervention at every operational stage. Yet the framework of accountability remains anchored to older assumptions about centralized human decision-making.

Part II established that fiduciary obligations such as good faith, loyalty, due care, and independent judgment remain fundamentally human responsibilities. The liability issue follows naturally from that conclusion. If corporations cannot legally transfer fiduciary obligations to autonomous systems, they should likewise not be permitted to invoke algorithmic opacity as a shield against liability.

The better doctrinal approach may therefore require a gradual shift away from rigid intent-based attribution toward a framework grounded in negligent deployment, foreseeable algorithmic risk, and mandatory oversight obligations. Under such a model, liability would not depend exclusively upon proving that directors specifically intended the harmful outcome. Instead, the focus would shift toward whether the corporation implemented adequate safeguards before deploying autonomous systems within high-risk corporate functions.

This does not require imposing automatic liability every time AI systems malfunction. Such an approach would likely discourage legitimate technological innovation and create regulatory over-deterrence. But there remains an important distinction between responsible technological adoption and blind algorithmic dependence. A corporation deploying opaque autonomous systems without audit structures, explainability mechanisms, compliance review protocols, or meaningful human supervision arguably assumes foreseeable legal risk from the outset.

Ultimately, the issue is not whether Artificial Intelligence should participate in corporate governance. That transition is already underway. The real question is whether corporate law will continue permitting economically consequential decisions to emerge from systems whose accountability structure remains fundamentally undefined.Although the technology is

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new, the underlying legal concern is familiar: corporate power still requires identifiable accountability. Someone must still answer for the decision.

PART IV: COMPARATIVE REGULATORY ANALYSIS: THE EU AI ACT AND THE INDIAN CONTEXT

Once autonomous systems begin influencing corporate strategy, the regulatory problem shifts quickly from innovation to accountability. Jurisdictions have responded unevenly. Some, particularly the European Union, prefer comprehensive horizontal regulation. Others, including India, continue relying on sector-specific supervision and existing statutory frameworks. The comparison exposes a deeper problem: while product-safety regulations can mitigate algorithmic harm, they do not resolve the fundamental corporate law crisis of fiduciary attribution.

The European Categorization of Risk

The European Union's Artificial Intelligence Act (EU AI Act) represents the most aggressive horizontal attempt to regulate algorithmic conduct. [16]The EU framework does not directly confront the corporate attribution problem discussed in Parts II and III. Instead, it largely bypasses it. It classifies AI systems based on their capacity to cause harm, imposing extensive compliance obligations on "high-risk" systems utilized in critical corporate functions such as employment, credit scoring, and biometric categorization.[17]

Under the Act, corporations deploying these high-risk systems must ensure continuous human oversight, establish risk-management frameworks, and maintain technical documentation aimed at improving explainability. The framework is designed to preserve a visible chain of human accountability even where algorithmic systems perform substantial operational functions. If a high-risk system causes harm, regulatory scrutiny immediately falls upon the corporation's failure to maintain the mandated oversight architecture, thereby reducing dependence upon proving the board's specific *mens rea*.

The Doctrinal Shortfall in Corporate Governance

[16]Regulation (EU) 2024/1689 of the European Parliament and of the Council (Artificial Intelligence Act).

[17]Regulation (EU) 2024/1689, tit. III (addressing requirements for high-risk AI systems).

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While the EU AI Act effectively standardizes algorithmic deployment, it suffers from a distinct doctrinal limitation when viewed through the lens of corporate governance. The difficulty, however, is that the legislation still conceptualizes AI primarily as a hazardous technological product rather than an active participant in strategic decision-making.

Compliance is heavily focused on technical conformity assessments and data governance. However, fulfilling these technical requirements does not automatically resolve the fiduciary conflicts explored in Part II. A board of directors could purchase a fully compliant high-risk AI system, deploy it for predictive M&A analysis, and still unlawfully abdicate their independent business judgment. The legislation therefore addresses algorithmic safety more effectively than algorithmic governance. The distinction matters.

The Emerging Indian Regulatory Trajectory

India, however, has moved in a very different direction. Rather than enacting an omnibus AI law, Indian regulators have increasingly signaled support for a sector-led governance approach emphasizing responsible AI deployment, transparency obligations, and supervisory oversight through existing regulatory institutions.

Recent policy developments—such as the Ministry of Electronics and Information Technology's (MeitY) India AI Governance Guidelines and the Reserve Bank of India's consultative FREE-AI framework—focus heavily on voluntary risk mitigation and algorithmic transparency.[18][19]Concurrently, sectoral regulators like SEBI have introduced stringent algorithmic trading rules requiring unique identifier tags and mandatory broker audits, thereby preserving accountability at the level of human intermediaries.[20]

The flexibility of this sector-led approach may suit the realities of the Indian market. The difficulty is that it leaves corporate governance doctrine underdeveloped. While SEBI may regulate how a listed company uses AI to interact with the market, there remains no central corporate law doctrine governing how the board uses AI to govern the company itself. Most existing guidelines still approach AI through the lens of information technology regulation or consumer protection rather than corporate governance.

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[18]Ministry of Electronics and Information Technology, *India AI Governance Guidelines* (2025).

[19]*See generally* Reserve Bank of India, *Framework for Responsible and Ethical Enablement of Artificial Intelligence (FREE-AI)* (2025).

[20]*See* Securities and Exchange Board of India, Guidelines on Algorithmic Trading (2026 framework).

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India probably does not require a wholesale replication of the EU framework. But the present position leaves an uncomfortable disconnect between technological adoption and corporate accountability. To bridge the liability vacuum, India requires a bespoke evolution of corporate law—one that formally recognizes algorithmic auditing as a core component of the board's risk management duties, ensuring that autonomous corporate systems never become detached from the accountability of human directors.

PART V: POLICY RECOMMENDATIONS AND REFORM FRAMEWORK

The present regulatory trajectory rests on a flawed assumption: that sectoral guidelines can independently cure structural weaknesses within corporate law. MeitY and the RBI can dictate how an algorithm interacts with the market. However, questions concerning how directors rely upon autonomous systems ultimately fall within the domain of corporate law rather than sector-specific technological regulation. As long as the Companies Act, 2013 remains silent on algorithmic delegation, directors continue to retain incentives to deploy opaque systems in ways that diffuse accountability. To correct this, Indian corporate jurisprudence must explicitly bridge the gap between technological autonomy and fiduciary accountability.

Amending Section 166: The Limits of 'Independent Judgment'

The most urgent intervention requires modernizing the statutory codification of directors' duties. Section 166(3) mandates that a director shall exercise their duties with "due and reasonable care, skill and diligence and shall exercise independent judgment."[21] The provision was drafted within a human-to-human delegation framework and offers little guidance for regulating reliance upon autonomous systems.

The legislature must introduce an explanatory clause to Section 166, formally classifying the deployment of autonomous decision-making systems in core corporate functions as a non-delegable board responsibility. This does not mean directors must possess the technical expertise to code neural networks. Rather, it imposes a legal duty to understand the strategic parameters, data limitations, and operational risks of the systems they deploy. If a board cannot reasonably explain the variables a pricing algorithm relies upon, they cannot legally

[21]The Companies Act, 2013, § 166(3).

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rely upon its outputs. At a minimum, the doctrinal position should recognize that a director cannot rely unquestioningly upon systems whose operational logic remains entirely opaque. A persistent inability to understand the operational basis of an algorithm may itself indicate a failure of fiduciary diligence.

Revising the Directors' Responsibility Statement (Section 134)

Disclosure obligations remain one of the most effective mechanisms for enforcing corporate accountability. Under Section 134(5) of the Companies Act, the Board's report must include a Directors' Responsibility Statement affirming that adequate systems are in place to ensure compliance with all applicable laws. [22]The provision may therefore require explicit adaptation for AI-assisted governance structures.

Where a corporation relies on autonomous systems for high-stakes financial, operational, or compliance decisions, the board should be required to affirmatively state that an independent algorithmic audit has been conducted and that human override mechanisms remain fully operable. By forcing directors to sign off on the integrity of their AI systems annually, the framework would place greater accountability upon the executives who authorized the deployment of such systems. The broader objective is to prevent algorithmic opacity from functioning as a buffer against corporate responsibility.

Judicial Carve-Outs to the Business Judgment Rule

Statutory amendments take time. In the interim, Indian courts may eventually need to reconsider how traditional standards of judicial deference apply to AI-assisted governance. The business judgment rule traditionally offers a safe harbor to directors, protecting *bona fide* commercial decisions from judicial second-guessing. But applying this doctrine to AI-generated strategies requires strict circumscription.

Future judicial disputes involving AI-assisted governance may eventually require Indian courts and tribunals to reconsider the scope of the business judgment rule. A stronger doctrinal position would likely require that the rule not protect reliance on AI unless the board demonstrates procedural prudence in its deployment. If a system is inherently unexplainable, relying on it for critical corporate strategy cannot be deemed a reasonable exercise of business judgment. Extending traditional judicial leniency into the algorithmic

[22]The Companies Act, 2013, § 166(3).

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boardroom risks weakening the traditional chain of corporate accountability. Judicial protection under the business judgment rule becomes difficult to justify where directors have effectively surrendered the underlying judgment itself.

PART VI: CONCLUSION

Historically, corporate jurisprudence has proven remarkably resilient in adapting its core legal fictions to shifting commercial realities. Whether conceptualizing the separate legal personality or developing the *alter ego* doctrine to assign criminal intent, courts have consistently found ways to trace corporate action back to human agency. But the integration of autonomous algorithms into corporate strategy disrupts this historical continuity. The law is now confronted with systems capable of generating and implementing commercially significant decisions, yet possessing no legal capacity to be held culpable.

The resulting doctrinal vacuum under the Companies Act, 2013 is not merely theoretical. When directors delegate high-stakes commercial strategy to opaque machine-learning models, the foundational assumptions of fiduciary duty become increasingly difficult to apply coherently. The statutory duties of good faith, due care, and independent judgment are inherently human obligations; they cannot be fulfilled through passive reliance on statistical outputs. The result is that algorithmic opacity may gradually weaken the effectiveness of traditional attribution doctrines, particularly in cases involving intent-based liability and vicarious civil claims.

Emerging regulatory frameworks address only part of the problem. While the European Union's horizontal risk categorization and India's emerging sector-led guidelines address algorithmic safety and market integrity, they generally bypass the internal governance crisis. Imposing compliance standards on the software itself does not automatically redefine the fiduciary relationship between the director and the company.

The necessary doctrinal response likely does not lie in attempting to assign legal personhood to algorithms or artificially stalling technological adoption. Instead, Indian corporate law may need to pivot toward a framework that continues to attach algorithmic deployment to meaningful human oversight. By clarifying the limits of fiduciary delegation, expanding board-level accountability disclosures, and cautiously narrowing the protection of the business judgment rule, the legal architecture can compel corporate actors to internalize the governance risks of the technologies they deploy.

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Artificial intelligence is already reshaping the operational mechanics of the modern Indian corporation. It should not, however, be permitted to gradually erode the foundational premise of corporate accountability. The technology operates autonomously; the legal responsibility cannot.

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