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GENERATIVE AI AS A DE FACTO FINFLUENCER: EXAMINING REGULATORY GAPS AND LIABILITY UNDER INDIAN SECURITIES LAW

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ABSTRACT

The rapid integration of Generative Artificial Intelligence into financial services has changed how investment-related information is made, shared and used. AI systems are now able to produce market reports, answer questions and affect investment choices through customised communication.[1] These advancements have made financial information easier to access. They have also made it harder to tell the difference between technology tools, finfluencers and traditional investment advisers. Therefore, new concerns have come up about how to protect investors, who should be held responsible and how to properly supervise these systems.[2]

This paper looks at the growing role of Generative AI as a kind of finfluencer in the world. It checks how well India's current laws can handle the problems created by AI-generated advice. Using analysis and comparisons with other countries the study looks at laws like the Securities and Exchange Board of India Act, 1992; the SEBI (Investment Advisers) Regulations, 2013; the SEBI (Research Analysts) Regulations, 2014; the Information Technology Act, 2000 and the Consumer Protection Act, 2019. It also examines how the United States, the European Union, the United Kingdom and Singapore are handling these issues.

The paper argues that current Indian laws were made to regulate people, not technological intelligence.[3] As a result, these laws are not ready for the challenges that come with AI-driven advice. Important questions remain, like how to classify advice made by AI, who should be held accountable when something goes wrong and how to protect investors effectively. The study ends with recommendations for regulation. It suggests treating AI-generated advice as its own kind of financial influence. It also calls for rules about transparency and makes it clear

[1] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[2] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).
[3] Securities and Exchange Board of India Act 1992; SEBI (Investment Advisers) Regulations 2013; SEBI (Research Analysts) Regulations 2014.

ISSN: 2582-6433

that the companies using AI in financial markets must be held responsible. These changes are necessary to support innovation while still protecting the integrity of the market and keeping investors safe.

Keywords: Generative Artificial Intelligence, Finfluencers, Investment Advice, SEBI, Technological Intelligence, Transparency.

CHAPTER I: BACKGROUND OF THE STUDY

1.1 Introduction

Artificial Intelligence (AI) has truly transformed how we create, share, and handle information across industries. In finance, it's heavily used for investment research, planning, customer service, risk assessment, and market forecasting.[4] Thanks to recent advancements in Large Language Models (LLMs), AI conversational systems can now respond instantly with human-like accuracy and tailored personal insights.

Everyday investors are flocking to tools like ChatGPT and Gemini now that they're so easy to use. People use these systems to understand complex financial concepts, analyse market trends, and figure out what step should be taken next. Search engines just give you a list of links and the research has to be done by you, but AI actually does the main research work itself by collecting data from everywhere and summarizes it specifically for you. That single difference is completely changing how regular people decide to spend and invest their money.[5]

Global market regulators are starting to panic a bit about this AI boom.[6] The International Organization of Securities Commissions (IOSCO) warned that while AI can help protect investors and keep markets stable, it creates just as many new headaches. Today, AI isn't just a side tool, it's plugged directly into market research, automated portfolios, trading algorithms, compliance systems, and customer support, driving major money decisions behind the scenes. This shift is a massive deal when it comes to financial regulation. Historically, the folks handing out investment insights were human middlemen including financial advisors, analysts, brokers, portfolio managers, and market commentators. Because these individuals hold a lot of sway over how investors behave, the law has always kept them on a tight leash. Take India, for example: the Securities and Exchange Board of India (SEBI) closely oversees analysts and

[4] World Economic Forum, *The Future of Artificial Intelligence in Financial Services* (WEF 2024).
[5] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[6] International Organization of Securities Commissions (IOSCO), *The Use of Artificial Intelligence and Machine Learning by Market Intermediaries and Asset Managers* (2021).

ISSN: 2582-6433

advisors with strict rules meant to safeguard investors and keep trust high in the market.[7]

Yet, the boom in generative AI throws a wrench into a lot of these classic rules. Even though AI isn't officially categorised as a finfluencer, still the work done by it mirrors that of a licensed professional. Through conversational format, generative AI can break complex financial subjects, compare securities, evaluate investment paths, and dish out custom recommendations based on an individual's personal goals. Consequently, it has morphed into a powerful source of financial influence, even though it slips right past the rulebook currently governing traditional market players.[8]

Relying on AI for financial advice opens up a huge can of worms for market safety. The big issue is that regular investors often take whatever an AI bot says as solid truth and trade based on it. Right now, the law is completely clueless about how to handle this. Current financial regulations were written strictly for human advisors and firms that auditors can actually track and punish, so nobody really knows how to hold an AI accountable.

1.2 Research Problem

Generative AI is increasing rapidly while evolving how investors retain financial information. It interacts with users in a personalised conversational format, not following the basic non-interactive format of search engines. It can explain ideas, compare investment choices, talk about financial markets and provide its insights, consequently, shaping how retail investors think and decide. It is acting like a financial influencer or other market information provider.[9]

Regulatory rules were made for human finfluencers. In India, the Securities and Exchange Board of India (SEBI) regulates investment advisers, research analysts, brokers, portfolio managers and other intermediaries.[10] These rules were based on a traditional assumption that financial information can be disseminated only by recognisable human entities.

Generative AI breaks this assumption. Even though it is doing more work that was used to be done by regulated intermediaries, yet it does not fit in any current regulatory oversight category. It is not a registered investment adviser or a research analyst yet it can give advice that may influence the actions of investors. So, the legal status of financial guidance is ambiguous.[11]

Generative AI makes it hard to recognise the transition of content from teaching to giving

[7] Securities and Exchange Board of India Act 1992, s 11.
[8] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[9] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[10] SEBI (Investment Advisers) Regulations 2013; SEBI (Research Analysts) Regulations 2014.
[11] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).

ISSN: 2582-6433

investment advice because it mixes the two by giving personal contextual answers that look like professional advice even though it does not say it is. This makes it unclear whether current regulations apply to generative AI driven financial advice.[12]

Additionally, dependence of retail investors on AI raises concerns about accountability and protection. When generative AI pushes an investment choice, it is unclear that who is to be blamed. The issue is worse because securities rules focus on people while generative AI that can wield even greater influence is mostly outside those rules. This creates an imbalance i.e. heavily regulated market players compete with generative AI that does the same job but is not subjected to any such rules or regulations.[13]

Thus, the main question for this study is whether the current Indian securities rules can control AI which is acting like real financial influencers. The study will look at how to classify, supervise, hold accountable and protect investors when generative AI drives finance and will analyse if today's rules are enough, as technology changes.

1.3 Research Gap

The meeting point between Artificial Intelligence and rules has drawn a lot of attention from researchers and policy makers in recent years. Most of the existing writeups talk about how Artificial Intelligence is used in sectors like trading with algorithms, fast trading, automated advice for money, watching the market, analysing investment trends and helping with financial choices. Research scholars and policy makers have mostly talked about problems relating to accountability when decisions are made by algorithms, ensuring investor's safety and data privacy.[14]

Also, latest studies have looked at how people called finfluencers and Artificial Intelligence support in making investment choices are becoming more important in the money markets today. These studies usually check the dangers that come from unsupervised financial advice and analyse how efficient these rules are in dealing with these changes.[15] There are lot of works about advices given by AI, automated advice services and the problems that come from systems that make decisions on their own.

Still, there is a major unexplored section. Most of the writing looks at AI as a tool that people who work in financial sector use or as something that gives direct advice on investments, but

[12] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[13] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[14] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[15] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investing* (IOSCO 2024).

ISSN: 2582-6433

not much has been analysed when it comes to the rise of AI that can mess with financial market without actually being an officially recognised intermediary, which influences people's investment choices even though it is not an investment adviser, broker or another official in the market.

This difference is important because AI that can create things is different from the automated advice tools and the computer systems that can give advice. These systems are starting to change how people evaluate and make financial decisions without being any authorised agent.[16]

Also, the research works present have not critically analysed the usage of AI as a financial agent and advisor. Also, there are not much works regarding what happens when we think of Artificial Intelligence as a person who influences money matters. The idea of influence in India is based on an assumption that advises can be given only by human actors. Now, these systems are doing similar things by giving personalised money information, explaining investment choices and comparing different types of investments.

Another missing part is when it comes to the financial rules in India. Even though some recent studies have talked about rules for AI and new ways of doing business with money not much research has looked at how good the current rules are when it comes to managing AI systems that influence people who invest money but are not officially allowed to work in the financial world. So, there are still questions about how to classify these systems, how to watch over them, who is responsible and how to make sure people who invest are safe in the situation in India.[17]

Also, the writing that is out there usually focuses on who is at fault when the help given by AI is wrong or does harm. Even though those worries are important, yet not enough has been looked at when it comes to the problem that comes from influence that is done by Artificial Intelligence in the financial area. This problem is more than about whether the information given is correct. It includes how these systems can change how people invest affect the choices of people who invest and maybe even change how the market works without being under the rules that people who work in finance have to follow.

So, this study wants to fill that gap by looking at AI as a person who influences money matters and checking if the rules that are in place in India can handle that. In doing so, the study wants to help the discussion about how to control AI by looking at it not as a tool for money but as a person who is becoming more and more important, in the information world of the money

[16] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[17] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).

ISSN: 2582-6433

markets.

1.4 Research Questions

This research looks into the hurdles created by the growing use of generative AI to spread financial advice and sway everyday retail investors. As AI increasingly guides individual investment choices, it calls into question current laws originally designed for human advisors. Specifically, this paper explores whether current securities rules, built to oversee traditional middlemen, can actually handle AI-driven financial influence.

1.4.1 Primary Research Question

How well can current securities regulations control generative AI models that shape retail investor behaviour without being officially recognized as regulated financial intermediaries?

1.4.2 Secondary Research Question

a) Have generative AI tools effectively become de facto market influencers in today's financial landscape?
b) How does the current classification under Indian securities law including research analysts, investment advisors and brokers address the concept of AI generated financial recommendations?
c) Till what extent does the distinguishing line between AI generated financial advice and financial information gets blur?
d) What regulatory and accountability challenges arise when generative AI systems influence retail investor decision making without being recognized as regulated market participants?
e) Does the current regulatory framework of the Securities and Exchange Board of India (SEBI) adequately safeguard investor interests against the risks associated with AI driven financial influence?
f) What lessons may be drawn from approaches to the regulation of AI in financial markets for the purpose of strengthening the Indian regulatory framework?
g) What legal and policy reforms can be introduced to improve the classification, supervision, accountability and governance of AI systems operating within the financial information ecosystem?

1.4.3 Working Proposition

The study proceeds on the premise that generative AI increasingly performs functions, similar to those of financial intermediaries and influencers by shaping investor perceptions

ISSN: 2582-6433

and investment related decision making. However, existing securities regulations remain primarily structured around human actors thereby creating regulatory uncertainty regarding the classification, oversight and accountability of AI driven financial influence. The research questions outlined above are intended to evaluate the extent of this gap and explore potential pathways for reform.[18]

1.5 Research Goals

The quick rise of Artificial Intelligence (AI) in the financial information world has created big worries about protecting investors, making sure people are responsible and keeping the markets fair. As AI tools are starting to affect how regular people make investment choices even though they are not officially seen as middlemen, problems come up about whether the current rules about stocks and shares are good enough to handle this kind of influence. In this situation, this study wants to look at what generative AI is doing in current money market and see what this means for the securities law in India.

The study is based on these goals:

1.5.1 Goal

To look closely at whether the current securities law in India is good enough to control generative AI tools that affect regular investors even if these tools are not officially seen as financial middlemen.

1.5.2 Specific Goals

a) To look at how AI is changing its role in the financial world and see how these tools affect the way regular investors make choices.
b) To look at the effectiveness of rules that control financial advice, research and influence in India, especially the rules run by the Securities and Exchange Board of India (SEBI).
c) To see if generative AI tools do activities similar to what financial advisers, research experts and financial influencers usually do.
d) To look at how AI mixes up the difference between financial learning and actual financial advice in the existing rules.
e) To. look at the problem with classifying these AI tools and its responsibility.
f) To check if the current ways to protect investors are good enough for the risks that come from AI giving advice and information.

[18] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).

ISSN: 2582-6433

g) To compare the ways other countries are dealing with AI in financial markets and see what can be learned for India.

h) To come up with recommendations for the law and regulation of generative AI tools in a way that they can be used responsibly and ethically.

1.5.3 Expected Result

By addressing these goals, the study wants to add to the discussion about how to manage AI by not looking at it just as a tool but as a growing force in spreading financial information. The study also wants to see if the current rules, about stocks and shares can still handle this situation and suggest changes that help new technology grow while keeping investors safe and the markets fair**.**

1.6 Research Methodology

The approach used for this study is meant to look at how generative AI is changing the financial information world. It also checks if the current Indian securities regulatory system is good enough to handle AI's impact on finance. Since the problem is about laws and rules, the study mostly uses an analytical way to do research.

1.6.1 Nature of Research

This study is about research and mainly uses legal research that is based on existing laws. The research aims to look at laws, rules and ideas about securities regulation, protecting investors, financial helpers and AI. The study also uses a way of thinking to check if the old laws can handle the problems caused by AI.

1.6.2 Research Design

The research uses an analytical and comparative way to do the study. The descriptive part tries to explain how AI came into the world and how it is influencing the way regular people make investment choices. The analytical part looks at how the current rules can control the influence of AI in finance. The comparative part looks at how other countries are dealing with AI in financial markets. This helps to find ideas that India could use for its own rules.

1.6.3 Sources of Data

The study uses secondary sources of information.

- Primary Sources

The legal materials used in this study include:

- The Securities and Exchange Board of India Act, 1992.
- The Securities and Exchange Board of India (Investment Advisers) Regulations, 2013.
- The Securities and Exchange Board of India (Research Analysts) Regulations, 2014.

ISSN: 2582-6433

- SEBI circulars, discussion papers and other rules about investment advice, protecting investors, financial helpers and digital finance.

- Secondary Sources

Other sources include:

- Books, articles and studies about AI, finance rules, securities law and how to manage technology in finance.
- Reports from groups like IOSCO and OECD.

1.6.4 Method of Analysis

The study looks at the laws, rules and ideas that control how money is handled and how investors are protected in India. It checks if the current rules, like those for investment advisers, research analysts, brokers and financial helpers can handle AI that is changing the way regular people make choices.

Also, the study looks at how other countries deal with AI in markets. This helps to find ways to solve the problems that AI is bringing to India's financial system.

1.6.5 Scope of Analysis

The study is about AI systems that talk to people, help them make investment choices. The research does not look at how AI works in detail like how machines learn or how algorithms are made. It also does not look at rules for crypto money, fast trading or big technology issues unless they are directly linked to AI and stock market rules.

1.6.6 Limitations of the Methodology

The study has some limits. First, since it is based on laws it does not use surveys, interviews or numbers about how people invest. Second, AI is changing fast while the rules are still developing. So, some new rules might come after the study is done. Third, AI is new in finance, therefore, is not much writing about it in India.

With these limits the way the study was done is good for looking at the problems of AI and checking if the rules in India are enough to deal with its effect on finance.

1.7 Scope and Limitations of this Study

1.7.1 Scope of the Study

This study looks at the problems that come from the growing use of generative AI in the financial information world, especially how generative AI affects the behaviour of retail investors. The research sits where securities law, financial rules and new technologies meet and it focuses on the rules that control financial influence and protect investors.

The study mainly looks at the role of AI systems as new sources of financial influence. It

ISSN: 2582-6433

examines how generative AI-powered chat platforms, which can create financial information and investment guidance are taking on tasks that used to be done by human financial intermediaries. In this setting the study pays attention to whether generative AI systems can be seen as real financial influencers and what this means for the current securities rules.

The research looks at the rules set by the Securities and Exchange Board of India (SEBI) covering investment advisers, research analysts, investor protection and market behaviour. The study checks how well these current regulatory categories can handle financial influence and whether the existing legal tools are enough to deal with new worries about classification, supervision, accountability and investor protection.

Also, the study includes a short comparison of some international regulatory changes about artificial intelligence in financial markets. It looks at rules that have been adopted or suggested by bodies and other countries where relevant aiming to find good practices and lessons that could help the Indian regulatory system.

Further, the study looks at wider policy issues that come with AI-generated financial guidance. These include the difference between education and investment advice, the problem that regulations treat human intermediaries and technology differently and the difficulty of assigning responsibility when AI-generated information affects investment choices.

1.7.2 Limitations of the Study

Although the study aims to give a look at AI-driven financial influence under Indian securities law, there are some limits that must be noted.

First, the research uses a qualitative method and relies mainly on legal texts, regulatory papers, policy reports and academic studies. The study does not use tools like surveys, interviews, behavioural tests or numbers analysis of how investors react to AI-generated financial material.

Second, the research focuses on securities rules and investor protection. It does not deeply examine areas of law that could affect AI governance, such as data protection law, competition law, consumer protection law, intellectual property law or constitutional questions about free speech and online platforms unless those matters directly affect the rules on financial influence.

Third, the study mainly looks at AI systems that talk with retail investors through chat or information screens. Therefore, it does not give an analysis of algorithmic trading high-frequency trading tech, quantitative trading models or crypto-specific rules unless

ISSN: 2582-6433

those are directly relevant to AI-driven financial influence.

Fourth, the field of intelligence is changing fast and rules keep developing in many places. As a result, new legal and policy changes might appear after this research is finished, which could alter some of the observations and conclusions.

Finally, because generative AI is still new in markets there is not much India-specific legal research available. The study therefore uses, when needed reports, policy papers and comparison materials to fill gaps in domestic literature.

Despite these limits, the study hopes to give a clear and useful contribution to the new discussion on AI governance by checking whether India's current securities rules are enough to handle the growing influence of generative AI, in the financial information world.

1.8 Chapterisation

To reach the goals of this study and answer the research questions set out here, the research paper has divided the work into six chapters. Each chapter looks at a part of the research problem and together they help us judge whether the current Indian securities regulatory framework is enough to govern generative AI-driven financial influence.

1.8.1 Chapter I: Introduction

This chapter lays the groundwork for the study, where the research topic is introduced and why it matters in today's world of finance and regulation. Furthermore, it mentions the background of the study, states the problem and points out the research gap. The research questions, scope, limitations and objectives are listed alongside the methods used to do the research. Hereby, it presents structure of the work by giving a simple framework to help readers understand the issues that will appear in later chapters.

1.8.2 Chapter II: AI, Finfluencers and The Transformation of Investment Advice

This chapter looks at how generative AI has appeared and grown in markets. It examines how more retail investors use AI-powered chat systems and explores how these tools have moved from simple data processors to real sources of financial guidance. It also focuses on how generative AI has become a de facto financial influencer and how it shapes what investors think and how they decide to invest.

1.8.3 Chapter III: Regulatory Framework Governing AI-Generated Financial Advice in India

In this part, the regulatory rules that control financial influence in India's securities market have been reviewed. It looks at how the Securities and Exchange Board of India (SEBI) sets the rules for investment advisers and research analysts. It also analyses the assumptions that

ISSN: 2582-6433

the current securities rules are based on and judge how well the existing categories cover actors.

1.8.4 Chapter IV: International Regulatory Approaches to AI Driven Financial Advice

Here, it compares how a few key countries are dealing with AI in markets. It studies regulatory trends and best practices that can help protect investors and manage AI. Using the comparisons and the earlier chapters, it suggests policy changes that would make the Indian regulatory framework stronger and fill the gaps that have been found.

1.8.5 Chapter V: Liability and Regulatory Challenges of AI-Generated Financial Advice

This chapter is the core of the analysis. It looks closely at the problems that generative AI brings into the securities framework. It pays attention to how AI is classified, who is held accountable, how investors are protected, the role of educational warnings and the line between financial education and investment advice. It also asks whether the current rules can actually manage the influence that AI systems have on investors.

1.8.6 Chapter VI: Recommendations and Conclusion

The last chapter sums up what rest of the chapters have discovered and goes back to the research questions and goals using the analysis initially done. It assesses whether the current Indian securities regulatory framework is fit to govern AI-driven financial influence and it also highlights the main problems that have come up in this research. It ends by insisting on the need for a forward-looking approach that balances new technology, market efficiency, investor protection and accountability in an ever more AI-driven financial world**.**

CHAPTER II - AI, FINFLUENCERS AND THE TRANSFORMATION OF INVESTMENT ADVICE

2.1 Evolution of Finfluencers and Digital Investment Advice

The evolution of financial markets in form of digitalization as per technological advancements has drastically revolutionised the manner in which financial information is obtained and consumed. Historically, financial advices were given prominently by regulated and licensed market researchers and investment advisors, however, the rise of trends has led to financial awareness amongst youngsters and people with substantial following to influence these young investors.[19]

These people, commonly referred to as “finfluencers”, share market insights and recommendations through platforms such as YouTube, Instagram, X and so on. Unlike traditional intermediaries, finfluencers derive credibility and support from their digital presence

[19] OECD, *Finfluencers: Impacts on Retail Investors* (OECD 2024).

ISSN: 2582-6433

rather than qualifications. Their ability to influences large masses has led them to become significant players in modern financial markets.[20]

The rise of these finfluencers has led to the transition from authorised institution centric investment advice to digital financial influence. Retail investors, especially young and novice, rely majorly on these digital sources due to their easy access and simplicity. Though, this has increased market participation, it has raised concerns regarding misinformation and unregulated investment recommendations.[21]

Addressing these concerns, regulatory bodies around the world have constantly criticised unregulated finfluencers. In India, the Securities and Exchange Board of India (SEBI), has raised concerns regarding unsupervised financial advices and content propagated by unregistered individuals through digital platforms and has introduced certain measures to protect investors and market integrity.[22]

The increasing popularity of finfluencers is highly significant to determine the upcoming phase of digital financial influence. Recent advancements in Artificial Intelligence have enabled AI models to generate investment related information, answer such queries and provide refined recommendations to such an extent that even exceeds human capabilities. Consequently, the revolution in financial market isn't limited to human actors but has extended to systems capable of modelling investor choices based on some algorithms.

Therefore, the coming of finfluencers is more than just a technological change in communication mediums. It shows a structural transition in generation and distribution of investment advices. Addressing this transition is necessary to find out whether Generative AI is an upcoming significant form of finfluencer and whether the existing regulations are enough to address the challenges arising out of an AI generated financial advice.

2.2 Rise of Generative AI in Financial Services

As addressed in the previous section, the rapid transformation of Artificial Intelligence has evolved the finance as an industry. Unlike the conventional AI systems which were prominently used for prediction and pattern analyses through automation, data processing and algorithmic trading, Generative AI models have expanded its scope by producing human like

[20] International Organization of Securities Commissions (IOSCO), *Finfluencers and Retail Investing* (IOSCO 2024).
[21] CFA Institute, *The Finfluencer Appeal: Investing in the Age of Social Media* (CFA Institute Research Foundation 2023).
[22] Securities and Exchange Board of India (SEBI), *Consultation Paper on Association of SEBI Registered Intermediaries/Regulated Entities with Unregistered Entities* (2024).

ISSN: 2582-6433

texts, analyses and recommendations, establishing direct connection with the investors.[23]

Generative AI technologies are significantly used by financial institutions for customer interactions, portfolio management, market research and investment analysis. These systems can now provide real time responses to queries, analyse market developments and generate market insights with significant speed. Consequently, investors are not supposedly bound to financial professionals or online finfluencers for information but have wider space for help in form of personalized guidance by AI at any time.[24]

The coming of publicly accessible AI chatbots like ChatGPT, Gemini and others have accelerated this transition. These systems have the ability of presenting highly complex financial information in a very simple user-friendly format which offers a convenient alternative to conventional financial researching methods for any novice investor. This ability of AI has led it to have significant influence over investment decision making.[25]

However, the growing influence of Generative AI has raised substantial regulatory and ethical concerns. AI generated responses may be biased and may contain inaccurate data or generate responses without considering financial condition of the user. These systems work without any accountability, obligations, professional licensing or statutory mechanisms, consequently, providing no legal safeguards to any fraud or miscommunication made to the investors, placing them at a vulnerable position.

Also, the extent at which AI influences the financial decisions of the masses at a single point of time is highly incomparable to the influence of licensed advisors or finfluencers, additionally generating personalized responses influences investment decisions of every individual interacting. This characteristic of AI raises questions regarding classification of AI generated investment content and efficiency of regulatory frameworks governing securities market.

Consequently, AI is more than just an advancement in technology within financial sector. Gradually, these systems have started performing tasks conventionally associated with licensed advisors, therefore, necessitating the need for re-examination of existing statutory and regulatory framework to establish accountability, investor protection and burden of liability.

2.3 Generative AI as a De Facto Finfluencer

The coming of AI in financial field has blurred the line between a technological tool and a

[23] World Economic Forum, *The Future of Artificial Intelligence in Financial Services* (WEF 2024).
[24] International Monetary Fund, *Generative Artificial Intelligence in Finance: Risk and Opportunities* (IMF FinTech Notes 2024).
[25] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).

ISSN: 2582-6433

financial influencer. Conventionally, finfluencers derived their influence from their ability to communicate investment advices to masses through any digital platforms but AI is performing similar functions in a very personalized and conversational manner within seconds.[26]

Generative AI do not have any social identities or economic interests like human finfluencers. Yet, their capacity to influence masses and shape their perceptions allows it to perform functions similar to those of finfluencers. Their dominance lies in its ability to turn any complex concept into personalized and easily accessible format, often perceiving these responses as objective. Also, it provides personalised engagement at a very large scale. While a human finfluencer connects with general public through a certain medium, AI interacts with large number of people at a particular point of time.

Number of people addressing their queries in a personalised way which increases consumer confidence and greater reliance on AI generated information. Consequently, the impact asserted by AI is more than that of a human finfluencer. This influence becomes more significant when used by investors for stock selection, market analysis, portfolio management and risk assessment. Although the developers of these AI models explicitly mention that they are not made for any financial advice still novice investors keep reliance on AI generated information more than any other authorised source. This places a major concern as these activities of AI as a technological system is unregulated by any present legal or statutory framework

This lack of accountability raised major concerns regarding burden of liability in instances of misleading information or fraud which is directed and strictly regulated if done by a human. Existing frameworks were made in accordance to identifiable human actors not an algorithmic programme, which constitutes of a large number of players like developers, deployers and platform managers making it difficult to hold any specific person accountable.

Therefore, AI should not be merely seen as a generative information giving model, as by giving personalized financial advices and investment insight, it also works as a de facto finfluencer. This challenges conventional regulatory framework and forces one to reconsider whether AI as a finfluencer should be held liable under a similar regulatory framework.

2.4 Characteristics of AI Generated Financial Advice

The financial advice generated by AI is different from that of a human advisor in terms of

[26] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).

ISSN: 2582-6433

personalization and scale. Where a human advisor can address a general question to a general audience, generative AI can cater millions of people at the same time with personalized responses shaped as per the queries of the customers.[27]

The most distinguishing feature of AI generated responses is the way it tailors its responses in reference to customer's queries which makes it highly popular in retail investors due to its easy accessibility, provided its minimal operating cost, human like responses in easy language and recommendations provided as per the specific needs of the customer.

Still, these generated responses are not free from any challenges. Major challenges faced by AI constitute incomplete answer generation or response generation on insufficient information, assumptions embedded within training models. Also, lack of transparency raises questions regarding how a certain outcome is generated.[28]

These characteristics of AI not only makes it one of the most efficient tools in finance and investment but also raises concerns regarding the reliability, investor protection and accountability if a recommendation goes wrong.

2.5 Investor Reliance on AI

The gradually increasing sophistication of AI generated responses have led it to become a major player in retail investor's investment advices owing to its speed, accessibility and ability to generate comprehensive tailored responses. AI has become an attractive alternative to the conventional sources of financial information. [29]

Retail investors, especially with low experience perceive these AI generated responses as objective and answers generated by considering data. This assumption makes the dependence on AI more even when such outputs may be generated by incomplete information, biasness or may contain inaccuracies.[30] Furthermore, the conversational format of AI builds more trust and strengthens its significance.

While AI enhances flexibility and accessibility, excessive reliance on it still raises concerns regarding misinformation and investor vulnerability. Consequently, the increasing dependence on AI generated recommendations highlights the need for an efficient regulatory framework to preserve market integrity.

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[27] International Monetary Fund, *Generative Artificial Intelligence in Finance: Risks and Opportunities* (IMF FinTech Notes 2024).

[28] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).

[29] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).

[30] International Monetary Fund, *Generative Artificial Intelligence in Finance: Risks and Opportunities* (IMF FinTech Notes 2024).

ISSN: 2582-6433

2.6 Benefits and Risks of AI Generated Financial Advice

The collaboration of Generative AI and financial services can provide great opportunities to both investors and financial institution. These systems improve access to financial information through instant, cost-effective and tailored responses to investor's queries. They convert complex financial concepts into simple conversational format, improve financial literacy and allow retail investors to have access to financial information that was historically propagated by professional advisers.[31]

Despite this, AI-generated financial recommendations possess numerous risks and challenges as these models may produce inaccurate or misleading outputs because of differentiated data trainings and algorithmic designs. Furthermore, the process of AI decision making is very opaque rendering it to be an uninformed reliance.[32]

Another major concern is the absence of accountability. AI systems are not subject to penalties or obligations, market standards or regulatory oversight like licensed investment advisers. Therefore, there is difficulty in recognising the accountable party when investors suffer losses due to AI-generated recommendations.[33]

Hereafter, even though Generative AI has the potential to promote financial inclusion, its increasing influence also necessitates need for safeguards to ensure transparency, reliability and investor protection.

2.7 Emerging Regulatory Concerns Surrounding AI-Generated Financial Advice

The increased usage of AI in financial markets has reflected significant regulatory gaps. Existing regulatory framework was designed mainly to look after the conduct of recognised human actors such as investment advisers, research analysts and finfluencers. As a result, these frameworks often face challenges while addressing scenarios where content, which is related to investment, is generated by an autonomous AI system.

Accountability is one of the major concerns, where loss is born by the investor due to reliance on an AI generated recommendation whereas the actual burden of responsibility is to be borne by the developer, deployer or the customer remains highly ambiguous.[34] This uncertainty is furthermore extended by the lack of transparency in decision making process of AI systems.

[31] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[32] International Monetary Fund, *Generative Artificial Intelligence in Finance: Risks and Opportunities* (IMF FinTech Notes 2024).
[33] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).
[34] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).

ISSN: 2582-6433

Another major concern is regarding investor protection. The comprehensive, tailored and persuasive nature of AI-generated responses lead investors to have undisputed reliance on algorithmic outputs despite their potential discrepancies. AI systems are generally not bound to fiduciary duties, professional standards or supervision.[35]

These concerns show that the expanding influence of Generative AI is beyond just technological innovation and creativity, thereby, raising substantial questions regarding accountability, transparency and regulatory oversight. Consequently, since AI continues to mold investment decisions, the need for an effective legal framework becomes increasingly important.

2.8 Conclusion

The transition of financial advices from conventional method of intermediaries to contemporary digital finfluencers and, additionally, Generative AI reflecting a significant transformation in the financial information ecosystem by providing tailored investment recommendation and information, influencing investor behaviour, these systems have begun performing functions conventionally related with financial advisers and finfluencers. However, their increasing popularity has exposed significant concerns regarding accountability, investor protection and regulatory oversight. These concerns raise an urgent need for reconsidering whether existing Indian securities regulatory framework is capable of addressing the threats posed by AI generated financial recommendation.

CHAPTER III: REGULATORY FRAMEWORK GOVERNING AI-GENERATED FINANCIAL ADVICE IN INDIA

3.1 Introduction

The integration of Generative AI into financial markets has given rise to substantial legal and regulatory threats. As mentioned in the previous chapter, these models are no longer bound to only processing financial data but are now becoming capable of generating investment recommendations, conducting market analysis and influencing investor's choices through tailored responses.[36] As a result, AI has begun performing substantial functions conventionally associated with licensed investment advisers, research analysts and finfluencers.

This increase in reliance on AI generated financial information raises concerns relating to

[35] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).
[36] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).

ISSN: 2582-6433

investor's protection, market integrity and accountability. Existing laws contain comprehensive provisions to regulate investment advisers, research analysts and other intermediaries. However, this framework was developed mainly to address identifiable human actors and not algorithmic systems capable of generating financial recommendations.[37]

Lack of a focused framework concerned with AI generated financial recommendations raises non-negotiable legal uncertainties. Hereby, questions arise as to whether AI generated content constitutes investment recommendations, whether existing regulatory framework extends to developers of these systems and deployers, and who should bear liability when investors meet with losses after heavily relying on AI-generated recommendations.[38]

Against this background, this chapter looks after the existing Indian regulatory framework governing securities market. It also analyses the Securities and Exchange Board of India Act, 1992, the SEBI (Investment Advisers) Regulations, 2013, the SEBI (Research Analysts) Regulations, 2014, the Information Technology Act, 2000 and the Consumer Protection Act, 2019 to find out whether the existing legal framework is sufficient enough to address the challenges presented by AI generated financial content and digital financial influence.[39]

3.2 Applicability of the Securities and Exchange Board of India Act, 1992

The Securities and Exchange Board of India Act, 1992 is the most prominent legislation looking after the regulation of India's securities market. It empowers the Securities and Exchange Board of India (SEBI) to protect investor's interests, regulate and govern market intermediaries and ensure market integrity.[40]

Section 11 of the SEBI Act enforces an obligation upon SEBI to protect interests of investors and to regulate the market through suitable measures.[41] These features and powers are sufficient to enforce regulatory obligations where evolving technologies pose threat to investors or market functioning. Therefore, AI generated financial recommendations may fall indirectly within SEBI's regulatory mandate, where the content influences investment related decisions or affects market integrity.

However, a significant issue arises from the fact that the SEBI Act was enacted when financial recommendations were prominently provided by recognised human actors and licensed

[37] Securities and Exchange Board of India Act 1992; SEBI (Investment Advisers) Regulations 2013; SEBI (Research Analysts) Regulations 2014.
[38] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024)
[39] Information Technology Act 2000; Consumer Protection Act 2019.
[40] Securities and Exchange Board of India Act 1992, Preamble.
[41] Securities and Exchange Board of India Act 1992, s 11.

ISSN: 2582-6433

intermediaries. The Act does not contain any specific provisions addressing Artificial Intelligence, algorithmic financial influence or automated investment recommendations. As a result, the legal status of AI-generated financial advice remains uncertain.

Additionally, the obligatory framework under the SEBI Act largely works by recognising and regulating specific actors responsible for misconduct related to securities. In the context of AI, allocating responsibility becomes comparatively more complex as financial recommendations may be generated through a certain intersection of developers, deployers, operators and users.[42] This leads to uncertainty regarding whether liability should be borne by the creator of the system, the platform through which it is accessed or deployer.

Yet, the wider underlying objective of investor protection in the SEBI Act provides a strong basis for future regulatory intervention. If these systems continue to perform functions similar to those of investment advisers and finfluencers, SEBI may use its existing statutory powers to create a targeted regulatory framework aimed specifically at addressing risks arising from AI generated financial information and recommendations. However, the persisting legislation silence in form of lack of guidance regarding classification of AI generated content and liability allocation demonstrates a significant regulatory gap.

3.3 Applicability of the SEBI (Investment Advisers) Regulations, 2013

The SEBI (Investment Advisers) Regulations, 2013 was brought to regulate individuals engaged in providing investment related advices for consideration i.e. investment advisers. These regulations need these individuals to get registered from SEBI and work in accordance with disclosure obligations, suitability, fiduciary obligations and investor's protection.[43]

As per these regulations, "investment advice" includes advices in reference to investing, purchasing, selling or otherwise dealing in securities.[44] As per wide scope of this definition, AI generated recommendations regarding stocks, securities and investment strategies may be similar to investment advices in content.

However, the regulations initially consider human advisers and entities that can be registered, supervised and held accountable. These systems cannot get registered independently, comply with fiduciary obligations or regulatory framework. Resulting in ambiguity regarding whether liability should fall upon AI developers, platform operators or deployers.

[42] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024); International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).
[43] SEBI (Investment Advisers) Regulations 2013, regs 3, 15 and 16.
[44] SEBI (Investment Advisers) Regulations 2013, reg 2(1)(l).

ISSN: 2582-6433

Furthermore, most of these platforms generate financial information along with disclaimers regarding their outputs stating that the information provided does not refer to any professional investment advice. While such disclaimers may limit liability to some certain extent, it may not necessarily eliminate investor's reliance on AI generated information while taking financial decisions.[45]

Therefore, although the SEBI (Investment Advisers) Regulations, 2013 provides the closest available framework for regulating AI generated financial advices, it does not specifically address the status of AI systems and its obligations. This leads to a regulatory gap regarding the classification, supervision and accountability of AI driven financial influence within Indian securities market.

3.4 Applicability of the SEBI (Research Analysts) Regulations, 2014

The SEBI (Research Analysts) Regulations, 2014 were brought in order to regulate individuals and entities engaged in the preparation and distribution of researches regarding securities and investment opportunities. These regulations aim to provide transparency, objectivity and accountability in securities' research by enforcing registration and disclosure requirements on research analysts.[46]

With evolution in AI, its systems are gradually becoming capable of providing market analyses, stock analyses and investment reports that closely resonate conventional research outputs. This raise concerns in regards to whether AI generated outputs should be treated as research reports under the present regulatory framework.

However, the regulations were drafted mainly keeping human actors' and licensed entities' capability of working in accordance with disclosure and professional conduct requirements.[47] Since these systems cannot get them registered independently like research analysts or comply with statutory obligations, their status under these regulations remains uncertain.

Therefore, while AI platforms may perform functions reflecting to those of research analysts, the present framework does not regulate such systems. This leads to ambiguity in the supervision and accountability of AI generated researches that may substantially influence investment decisions.

[45] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).
[46] SEBI (Research Analysts) Regulations 2014, regs 3 and 24.
[47] SEBI (Research Analysts) Regulations 2014, regs 15 and 16.

ISSN: 2582-6433

3.5 Applicability of the Information Technology Act, 2000

The Information Technology Act, 2000 provides the statutory framework for regulation of electronic devices and its communication, online platforms and intermediary responsibility in India. This Act ensures protection of intermediaries for third-party content dissemination or transmission through their platforms, as per the suggested due diligence requirements.[48]

In this context, platform operators may take protection as per intermediary's liability provisions where misinformed or inaccurate financial information is provided through these AI systems. However, the Act does not especially address the burden of liability rising out of such outputs or enforce responsibility on someone for losses incurred by investors from such outputs.

Consequently, the Information Technology Act may regulate the platforms responsible for distribution of AI generated financial information but, it has very restricted information regarding the liability of AI developers, deployers and platform operators. This leaves ambiguity regarding liability for AI generated financial outputs.

3.6 Applicability of the Consumer Protection Act, 2019

The Consumer Protection Act, 2019 aims to protect consumers from unfair trade practices, misleading representations and deficient services.[49] As AI platforms have become increasingly accessible for financial advices, investors suffering losses from AI generated recommendations may seek redressal under this act's provisions.

However, the liability of the Act in such cases remains uncertain. Investment decisions prominently involve market risks, making it difficult to establish a direct relationship between an AI generated advice and losses incurred by investors. Additionally, finding out whether AI generated outcomes are constituted as "service" under this Act and the entity who will be held liable poses significant challenges.[50]

Therefore, even though the Consumer Protection Act may provide limited remedies in cases of deceptive AI driven financial services, it does not provide a specialised framework for managing AI generated investment recommendation or allocating liability for investor harm.

3.7 Regulatory Gaps in the Existing Framework

The above-mentioned analysis shows that even though present Indian statutory provisions provide an obligatory and regulatory framework for investment advisers, research analysts,

[48] Information Technology Act 2000, ss 2(w) and 79.
[49] Consumer Protection Act 2019, ss 2(11), 2(42) and 2(47).
[50] Consumer Protection Act 2019, s 2(42); see also International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).

ISSN: 2582-6433

intermediaries and digital platforms, still all these instruments fail to explicitly regulate AI systems generating financial recommendations. Consequently, the legal status of AI generated financial content remains ambiguous.

A prominent regulatory gap is classification. Present provisions were made to regulate recognised human actors and licensed entities, making it complex to find out whether these AI generated outputs are constituted as investment advices, research reports or just information.[51]

Another challenge is burden of accountability. When loss is suffered by an investor after relying on AI generated financial recommendations, existing laws are uncertain regarding upon whom should the liability should be imposed on from various development actors including developers, platform operators, deployers or users. The lack of a recognised regulatory subject further complicates investor protection.

Furthermore, present frameworks enforce disclosure, transparency and fiduciary obligations on licensed and recognised entities though comparative obligations are not present for Generative AI systems even after their expanding ability to influence investment decisions at a large scale.[52]

Therefore, even though the current statutory framework provides limited oversight, it is still insufficient to address the threats and challenges posed by AI generated financial recommendations. This regulatory gap necessities the need for legal reforms sufficient enough of balancing technology with investor's protection and market integrity.

3.8 Conclusion

The current regulatory framework governing Indian securities market offers limited regulation of AI generated financial outputs. While all the laws and regulatory framework addresses and manages human advisers, research analysts and online platforms, none of them explicitly addresses AI as an essential source of financial influence.

As a result of which uncertainties remain about the classification of AI generated financial outputs, liability allocation and efficiency of existing investor protection framework. The lack of specialised framework demonstrates the necessity to adapt an efficient regulatory framework to address the unsupervised functions of AI in financial field.

Following this, the next chapter examines comparative international approaches to regulate AI

[51] SEBI (Investment Advisers) Regulations 2013, reg 2(1)(l); SEBI (Research Analysts) Regulations 2014, reg 2(u).

[52] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024); International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).

ISSN: 2582-6433

driven financial recommendation and influence.

CHAPTER IV: INTERNATIONAL REGULATORY APPROACHES TO AI DRIVEN FINANCIAL ADVICE

4.1 Introduction

The increasing integration of AI into financial market has forced the policy makers worldwide to rethink about conventional models and diverting them towards investor's protection, market integrity and regulatory obligations. As AI systems have been constantly generating investment related information and shaping financial decision making, questions concerning reliability, liability and its regulations have become significant in global financial environment. Therefore, several jurisdictions have started analysing the legal implications of AI generated financial information and the efficiency of present securities regulations in addressing rising technological threats.[53]

Even though some jurisdictions have acknowledged and adopted AI concerned regulatory frameworks, others are still relying upon existing financial statutory provisions to keep an oversight on the usage of AI systems in financial markets. The approaches adopted across jurisdictions differ in various aspects like in terms of regulation capacity, liability allocation and the extent to which AI generated content is subject to legal scrutiny. However, the common concern amongst these frameworks is still the need to balance creativity with investor's protection.

The comparative analysis is mainly significant in the Indian context due to the non-regulatory nature of domestic statutory provisions in reference to AI generated content. Therefore, analysing international regulatory practices can provide significant guidance about the classification of AI-generated recommendations, the allocation of liability and the development of suitable investor protection mechanisms. This analysis may also help identify best practices capable of informing future regulatory reforms in India.

Accordingly, this chapter examines the approaches adopted by the United States, the European Union, the United Kingdom and Singapore towards the regulation of AI generated financial output. Through this comparative analysis, the chapter aims to recognise emerging regulatory trends and assess their relevance in the Indian Securities regulatory framework.[54]

[53] International Organization of Securities Commissions (IOSCO), *The Use of Artificial Intelligence and Machine Learning by Market Intermediaries and Asset Managers* (2021).
[54] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).

ISSN: 2582-6433

4.2 United States: Regulation of AI-Driven Financial Advice

The United States does not have an existing specialised legal framework regulating AI generated financial output. Instead, regulatory oversight is maintained through present securities laws administered mainly by the U.S. Securities and Exchange Commission (SEC).[55] Their regulatory approach focuses on investor's protection, disclosure obligations and fiduciary obligations rather than the regulation of AI systems itself.

Looking at the increasing influence of AI in financial markets, the U.S. Securities and Exchange Commission (SEC), suggested rules regarding conflicts of interest related with the use of predictive data analytics and similar technologies by brokers and investment advisers. The proposal aimed to make firms use technology efficient enough of analysing, guiding or shaping investor's behaviour in a manner that it eliminates or rationalises conflicts that may put the firm's interests above those of investors.[56]

This approach shows regulation of the conduct of financial institutions deploying AI as a preference than giving AI systems an independent regulatory status. Consequently, liability, regulatory compliance and fiduciary obligations rests upon investment advisers, brokers and firms using such technologies.

Even though this approach provides adaptability and promotes innovation and creativity, it does provide complete solutions to concerns regarding accountability for AI generated financial outputs. However, the focus on fiduciary obligations, transparency and conflict resolution provides valuable lessons for jurisdictions aiming to regulate AI derived financial influence.[57]

4.3 European Union: Regulating Artificial Intelligence through a Risk-Based Approach

The European Union has incorporated one of the most detailed and focused approaches towards the governance of Artificial Intelligence through the AI Act. Unlike conventional financial regulation methods that addressed market participants mainly, the AI Act regulates these models on the basis of the extent of threat they pose to the society.[58]

Its framework places major focus on reasonability, accountability and human oversight. Under the AI Act, AI systems with greater risk are supposed to comply with strict regulatory

[55] Securities Exchange Act of 1934; Investment Advisers Act of 1940
[56] U.S. Securities and Exchange Commission, *Conflicts of Interest Associated with the Use of Predictive Data Analytics by Broker-Dealers and Investment Advisers* (Release No 34-97990, 2023).
[57] U.S. Securities and Exchange Commission, *Conflicts of Interest Associated with the Use of Predictive Data Analytics by Broker-Dealers and Investment Advisers* (2023).
[58] European Parliament and Council, Regulation (EU) 2024/1689 (Artificial Intelligence Act).

ISSN: 2582-6433

requirements relating to risk management, documentation, data governance and monitoring.[59] Even though the Act specifically does not regulate AI generated financial information, its risk-based approach has significant consequences for AI systems influencing financial decision-making process.

Additionally, financial services in the European Union are governed by present securities regulations, especially the Markets in Financial Instruments Directive (MiFID II), which enforces the obligation for investor's protection and disclosure upon financial service providers.[60] Consequently, firms installing AI in financial markets must abide by both fiduciary obligations and rising AI governance standards.

This approach shows an attempt to strike balance between technological innovation with accountability and responsibility through a combination of AI focused regulatory compliance and conventional financial oversight. This model provides essential insights for jurisdictions aiming to address the threats related with AI generated financial recommendations while safeguarding investors.

4.4 United Kingdom: Principles-Based Regulation of Artificial Intelligence

The United Kingdom has incorporated a more versatile approach for the governance of Artificial Intelligence. Its framework relies upon the existing securities regulations to govern AI in certain specific domains rather than imposing new AI focused statutory provisions.[61] In finance, efficient regulation is mainly exercised by the Financial Conduct Authority (FCA), which aims to ensure consumer protection, market integrity and ethical innovation.

The FCA has addressed both the advantages and threats related with AI usage in financial services, especially in regards to algorithmic decision-making, accountability and consumer protection.[62] Firms allocating AI in financial market are bound to the present regulatory directions relating to transparency, accountability and risk mitigation.

Its approach showcases an edge towards adapting present financial regulations to rising innovations than a complete different set of specific rules for AI-generated financial outcomes. On one side, this model encourages creativity and regulatory adaptability, while on the other hand, the concerns regarding reliability and accountability continue to exist.

Consequently, this model demonstrates the necessity of technology regulation which may neutralise the effect of AI on financial markets, while regulatory framework anchor to financial

[59] Artificial Intelligence Act, arts 8-15.
[60] Directive 2014/65/EU on Markets in Financial Instruments (MiFID II).
[61] UK Government, *A Pro-Innovation Approach to AI Regulation* (2023).
[62] Financial Conduct Authority, *Artificial Intelligence Update* (FCA 2024).

ISSN: 2582-6433

functions and recommendations rather than the technology used to perform them. This approach may present useful guidance for jurisdictions seeking to regulate AI generated financial output without hampering creativity.

4.5 Singapore: A Governance Oriented Approach towards Artificial Intelligence

Singapore has one of the most developing frameworks for Artificial Intelligence governance. It aims at encouraging making AI responsible through regulatory guidance, ethical usage and selective oversight than enforcing rigorous AI targeted restrictions.[63]

In finance, the Monetary Authority of Singapore (MAS) has focused on the principles of ethical use, fairness of task, accountability regarding any fault and transparency of the decision-making process in the allocation of AI models. Through such initiatives, institutions are motivated to check that decision making process of AI remains descriptive and simple, these models are accountable and are accordance with consumer's interests.[64]

Singapore adopts a comparatively more adaptable and tech friendly approach than EU's risk-based model. Accountability and responsibility rests mostly on the deployers than the AI systems themselves. This promotes technological development along with firm's accountability for the AI generated outcomes.

Their approach shows that comprehensive and targeted approach is not a necessity for effective regulation of AI based outcomes. However, a standardised governance with institutional accountability can significantly lead to investor's protection and ethical AI usage.

4.6 Comparative Lessons for India

A comparative analysis of the United States, European Union, United Kingdom and Singapore shows that there is no particular method of governing AI usage in financial field. However, some common principles emerge across different jurisdictional approaches, including, a special focus on investor's protection, transparency, accountability and responsibility of institution for AI generated outputs.[65]

The United States primarily regulates the deployers of AI, while the European Union regulates AI in financial sector with specialised risk-based AI framework. The United Kingdom adopted an approach based on principles through already existing regulators, while Singapore primarily

[63] Monetary Authority of Singapore, *Artificial Intelligence and Data Analytics in Financial Services* (MAS 2018).
[64] Monetary Authority of Singapore, *FEAT Principles for Fairness, Ethics, Accountability and Transparency in the Use of Artificial Intelligence and Data Analytics* (MAS 2018).
[65] U.S. Securities and Exchange Commission, *Conflicts of Interest Associated with the Use of Predictive Data Analytics by Broker-Dealers and Investment Advisers* (2023); Regulation (EU) 2024/1689 (Artificial Intelligence Act).

ISSN: 2582-6433

aims at standardised governance and deployment of AI in responsible manner.[66] Despite these differences, all these jurisdictions acknowledge the requirement for regulatory oversight over decision making process of AI.

For India, these approaches provide essential lessons. Firstly, regulation must be focused towards the unethical functions done by AI rather than its nature. Secondly, deployers of financial AI tools must be held accountable. Finally, transparency and disclosure obligations must be encouraged to make sure that limitations and risks of AI generated financial advice are known by the investors and risks.

Therefore, India may consider imposing existing securities law while including standards for AI relating to its accountability, transparency and investor's protection rather than making an entirely new framework for AI regulation. This would enable innovation and technology to persist while securing market's integrity and investor's interests.

4.7 Chapter Conclusion

The comparative analysis shows that different jurisdictions across the world have acknowledged the challenges posed by AI in financial services by bringing solutions to all the challenges emphasising majorly on its accountability, transparency and investor's protection.

The analysis further shows that focus for regulation is more inclined towards the risks and functions performed by AI than the technology itself. These developments showcase the urgent need for India to adopt a regulatory approach that preserves innovation while ensuring adequate safeguards against the risks related with AI generated financial advice.

The comparatives identified in this chapter offer an essential basis for examining the issue of liability and accountability for financial advices generated by AI, which establishes the subject for the following chapter.

CHAPTER V: LIABILITY AND REGULATORY CHALLENGES OF AI-GENERATED FINANCIAL ADVICE

5.1 Introduction

The increasing effect of Generative AI in financial markets has revolutionised the way investors use the investment related information. As mentioned in the previous chapters, work

[66] UK Government, *A Pro-Innovation Approach to AI Regulation* (2023); Monetary Authority of Singapore, *FEAT Principles for Fairness, Ethics, Accountability and Transparency in the Use of Artificial Intelligence and Data Analytics* (2018).

ISSN: 2582-6433

done conventionally by finfluencers, research analysts and investment advisors is now being done by AI. However, it doesn't work in a clearly defined area of a certain legal identity and regulations like the conventional actors which has led to significant challenges regarding liability, accountability and investor's protection.[67]

The issue becomes particularly significant when harm is suffered by investors due to AI generated advices. Current legal frameworks are mainly designed to manage and govern recognisable humans and legal entities, therefore, finding out the liable factor for misleading, inaccurate and harmful AI responses is still a major regulatory challenge.[68]

This chapter evaluates the legal and practical challenges related with liability allocation for AI generated financial advice. It analyses the responsibilities of AI developers and deployers as well as concerns regarding accountability, transparency and regulatory oversight. Therefore, this chapter aims at identifying the main obstacles that are needed to be addressed in order to make an effective regulatory framework for AI generated information.

5.2 The Problem of Identifying the Responsible Party

One of the major problems with the financial advice given by AI is liability allocation if any misleading and harmful information is generated, given that AI models are produced through complex processes involving various stakeholders including developers, deployers, platform operators and users.[69] These complex processes make it difficult to recognise the responsible party while the traditional methods included identifiable human entities which could be held liable directly for the misinformation spread by them.

When an investor incurs loss due to any financial recommendation provided by AI, it becomes difficult to find out the responsible party as AI developers design and train the model, operators give access to the users while investors have the choice whether to take the AI generated advice or not. Therefore, liability for any misleading and inaccurate recommendation cannot be attributed independently on any single actor with certainty.[70]

This issue is further aggravated by autonomous nature of AI as many responses of AI are generated without direct human intervention complicating to find the liable actor as per the legal principles established traditionally which aims at determining fault based on human

[67] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[68] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).
[69] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[70] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).

ISSN: 2582-6433

conduct and decision-making process. Consequently, current legal frameworks struggle to establish liability when AI causes financial harm due to its advices.

The lack of any clearly identifiable party to be held accountable creates crucial concerns for investor's protection and enforcement of regulatory obligations. Remedies cannot be asked by the investors in absence of any clearly identifiable liable part while it would also be difficult for regulators to enforce any specific obligations and accountability standards.

Therefore, the problem of recognising the liable party lies in the middle of the regulatory debate circle regarding financial recommendations given by AI. Resolving this ambiguity is necessary for creating an effective framework with the ability to balance technological creativity with investor's protection.

5.3 Liability of AI Developers

The question regarding AI developers of whether they should be held responsible for any wrongful financial advice generated by AI is one of the most conflicting issues in contemporary technology and its regulation. AI developers create, train and manage the main underlying model of AI systems; therefore, they might be held liable for any issues in the systems that leads to inaccurate or harmful investment recommendations.[71]

However, making developers liable is not entirely correct. Although, the results may be affected by the systems being deployed across multiple sectors as these systems are general purpose technologies yet the developers are also not aware of how their systems are being used by third parties. Moreover, most AI developers explicitly express that their systems are not intended to provide any professional financial advices, rather they are just for informational assistance.[72]

Despite these limitations, complete exemption of developers may affect investor's protection. Where negligent model design, insufficient and improper safeguards or foreseeable risks that could have been mitigated may lead to harm, limited liability can be imposed upon developers. Such accountability would lead to responsible and ethical AI development with incorporation of preventive measures against the generation of misleading financial information.[73]

On the other hand, excessive liability may discourage creativity and restrict the creation of helpful AI technologies. Therefore, a balanced approach is preferred, where developers can be held accountable for the degree of failures and foreseeable defects in AI systems but not

[71] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[72] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).
[73] Regulation (EU) 2024/1689 (Artificial Intelligence Act).

ISSN: 2582-6433

entirely liable for decisions made by users based on AI recommendations despite having choice.

Furthermore, while AI developers are not in the ambit of conventional investment advisers, their role as creators and deployers of AI systems cannot be ignored. Any upcoming framework regarding regulation of AI must clearly distinguish the circumstances under which developers may be held liable for any harm incurred by an investor due to any financial recommendation generated by AI.

5.4 Liability of Platform Operators and Deployers

Like developers create, train and maintain AI systems, platform operators and deployers play an essential role in finding out how such systems are being used and accessed by investors. Platform operators control the deployment, integration and dissemination of AI generated financial information and include actors like AI service providers, financial institutions and digital trading platforms. As a result, they may be at a better position than developers to mitigate risks and incorporate safeguards against misleading financial content.[74]

Hence, greater accountability can be imposed upon platform operators who actively deploy AI tools within financial services. Platform operators are expected to provide adequate disclosures and risk warnings along with efficient oversight mechanisms to protect investors, wherever AI is generating any financial content. Failure to implement all the above-mentioned safeguards may lead to imposition of liability.[75]

Alongside, imposing unlimited liability on platform operators may not be practical and entirely correct, given the absence of above-mentioned failures, especially where AI models generate responses autonomously and investors have choice over investment decisions. Therefore, liability should not be allocated merely because of the role as a stakeholder, but rather where there is negligence in their roles leading to substantial harm and losses.

From the perspective of a regulator, platform operators are at a unique position between developers and investors i.e. users. Unlike developers, they directly help in intersection of human's queries with AI system while having greater operational control than the end users. Accordingly, allocating necessary compliance obligations to deployers and platform operators may offer a practical approach for maintaining accountability without hindering innovation and growth.

[74] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[75] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).

ISSN: 2582-6433

Therefore, amongst all the stakeholders involved in AI and generation of financial outputs by it, platform operators and deployers are the most suitable for subjecting to regulations in order to ensure transparency, investor's protection and responsible AI deployment.

5.5 Investor Responsibility and Assumption of Risk

While majority of the liability has been assigned to AI developers and platform operators, keeping investors outside this analysis will be incorrect as they are the end users with opportunity to discard themselves of any harm by not blindly following AI generated financial outputs. Though, financial sector inherently involves risk, investors are supposed to exercise reasonable judgment before acting upon financial recommendation obtained from any source.[76] Most AI platforms explicitly mention that the outputs generated are informational in nature and should not be taken as a professional advice. As a result, investors who blindly rely on AI without any verification may bear a degree of responsibility for incurred harm.[77]

However, assigning excessive responsibility to investors may question the objective of investor protection. The extremely sophisticated and targeted nature of AI outputs may create an illusion of expertise, especially for new investors. Consequently, they may trust AI generated recommendations more than any finfluencer.

Moreover, investor's responsibility must be considered as one part of a broader area of accountability framework rather than an entirely complete defence against liability. While investors are supposed to exercise rational decision making and independent judgment, it should not exempt developers and platform operators from liability if they fail to fulfil their obligations. Therefore, an effective framework for AI regulation must strike a balance between investor's responsibility and stakeholder's accountability.

5.6 Explainability and the Black-Box Problem

Another challenge regarding AI generated financial recommendation is the absence of transparency in the decision-making process. These models often work as "black boxes," producing responses without unveiling the process and sources underlying their results.[78]

The absence of any explanation and reasoning creates complexities for both investors and regulators. Investors might use AI generated recommendations without verifying the underlying factors that influenced them, while regulators might find it difficult to recognise a

[76] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[77] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).
[78] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).

ISSN: 2582-6433

particular output as misleading, inaccurate or harmful. This issue becomes highly significant when investor suffers constant financial losses and seeks to establish liability.

This nature of AI also creates challenges regarding compliance with conventional legal principles of accountability. Current regulatory frameworks work on an assumption that decisions made are in accordance with transparency standards and can be attributed to human entities. However, where outputs are produced through opaque algorithms of AI models, assigning regulatory obligations and liability becomes more difficult. Therefore, increasing transparency standards is necessary for ensuring accountability in AI generated financial recommendations. Greater disclosure about the risks of AI systems would enhance investor's confidence along with effective regulatory oversight.

5.7 Challenges in Regulatory Enforcement

The management and governance of AI driven financial output poses significant challenges for regulators. AI systems operate across multiple sectors, interact with users and generate targeted financial outputs at a very large scale. As a result, regulation of AI generated financial outputs becomes more difficult than regulating human entities.[79]

Another challenge is the cross-border nature of AI. Many AI systems are developed, hosted and deployed across different countries, complexing the process of determining the applicable legal framework and enforcing obligations. This may create cross-border conflicts and restrict effective investor's protection.[80]

This is further made difficult by the dynamic and changing nature of AI. These models constantly process new information and generate personalised outputs. This makes it complex for the regulators to recognise and evaluate inaccurate and harmful financial outputs before they affect investor's behaviour.

Moreover, the current regulatory mechanisms are made for humans while in AI, there are many stakeholders including developers, deployers and platform operators, which often creates ambiguity about the most suitable actor for regulatory obligations.[81]

Therefore, effective governance of AI generated financial outputs require not only rules and legal framework but also an enforcement mechanism with the ability to address cross-border operations, complexity and issues regarding accountability. Without it, safeguards may also not be enough to protect investors from the harms that might be caused by AI generated

[79] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[80] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).
[81] Regulation (EU) 2024/1689 (Artificial Intelligence Act)

ISSN: 2582-6433

financial outputs.

5.8 Chapter Conclusion

The increasing use of AI in financial field has exposed significant challenges relating to liability, accountability and investor's protection. AI systems work through complex mechanisms involving developers, deployers and users, which is very different from conventional wat of financial influence, making the whole identification of responsibility bearer process complex.[82]

The detailed analysis in this chapter shows that not any particular single entity can be held liable exclusively for harm incurred by investors due to AI generated financial recommendation. Even though developers design systems, platform operators control deployment, yet investors are liable for their investment decisions. On the other hand, issues regarding reasonability, transparency and regulatory obligations complicate the liability allocation even more.

The mentioned issues divert the attention towards failure of existing laws in addressing unique risks presented by AI and its influence. As a result, there is a necessity for a regulatory framework that distinguishes between liability of different actors and allocate responsibility accordingly.

Therefore, the upcoming chapter offers various recommendations aimed at governing AI in a way that strengthens accountability, transparency and protection of investors along with market integrity.

CHAPTER VI: RECOMMENDATIONS AND CONCLUSION

6.1 Introduction

The accelerating usage of Artificial Intelligence in financial markets has brought new regulatory challenges along with flourishing opportunities. As mentioned above, AI systems are highly capable of influencing users in financial field by generating recommendations, however, there is no adequate mechanism to address these challenges.

This analysis of the existing regulatory framework shows significant concerns related to liability allocation, accountability and investor's protection. Likewise, the comparative study of various foreign jurisdictions demonstrates recognition of these issues and highlights the need for an appropriate regulatory framework.

[82] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).

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Against this backdrop, this chapter offers a set of recommendations directed towards ensuring greater transparency, reliability and investor's protection alongside encouraging technological innovation. With the help of these recommendations, the following chapter aims at presenting a practical roadmap for regulating financial advice given by AI in the Indian context.

6.2 Recognising AI-Generated Financial Advice as a Distinct Regulatory Category

Current financial regulations simply don't know what to do with AI. As we saw earlier, Generative AI tools are stepping right into the shoes of traditional investment advisers, analysts, and social media finfluencers. They're dishing out market tips and quietly steering everyday investment choices, yet Indian securities laws still completely ignore them.[83]

Because of this, lawmakers should officially carve out AI-generated financial advice as its own distinct category under securities regulations. Crucially, this classification ought to be based on the role the AI plays, rather than the underlying technology powering it. Whenever an AI setup starts generating pointers that actually mould how people invest, the rules become a necessity, no matter how or where that advice is beamed to the user.[84]

Furthermore, carving out a specific legal category for AI financial advice is long overdue, which would have cleared up complex legal grey zones overnight. Suddenly, lawmakers actually have a practical runway to set up proper rules for transparency, keeping investors safe, and holding people accountable. Additionally, it stops confusion over whether traditional regulations even apply to modern AI tools.

Upcoming policies shouldn't view these systems as harmless tech gadgets. Instead, they need to judge them purely by the impact they have on the market.

6.3 Accountability of AI Deployers and Platform Operators

Figuring out who is actually responsible for AI-generated financial advice is one of the major challenges. As Chapter V pointed out, putting all the blame on AI developers isn't valid since they usually have zero control over how people end up using their tech. Because of that, the burden of liability should mostly fall on the platform operators and companies actually rolling these tools out in finance.

Platforms operators act as the bridge between the AI and everyday investors. They control how

[83] SEBI (Investment Advisers) Regulations 2013, reg 2(1)(l); SEBI (Research Analysts) Regulations 2014, reg 2(u).

[84] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024); International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).

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the tech is plugged in, what features are turned on, and what safety rails are installed. So, if an AI is generating market tips, the platform operators need to be on the hook for proper risk controls, clear user warnings, and active monitoring.[85]

Furthermore, these platform operators should be forced to attach clear warnings about the AI's limitations, alongside having a fast way to fix bogus or misleading info. It's about keeping things safe without tying developers' hands or killing innovation.

Therefore, future rules should split the responsibility. The heavy compliance burden should land on the deployers and platforms operators, while developers should only face liability if there's actual negligence, bad design, or obvious harm. This would protect investors without making the legal rules an absolute maze.

6.4 Strengthening Transparency and Disclosure Requirements

Transparency in AI finance is far beyond just a framework; it is the core foundation for keeping retail investors safe. The study makes one thing clear that investors fall into a common trap of taking AI outputs at face value, assuming market recommendations are objective or professionally verified simply because no one explains how the software operates under the hood. Imposing tight disclosure requirements isn't about loading firms with extra administrative red tape. It is about closing a massive knowledge gap before people end up making costly financial mistakes.[86]

This issue can be fixed only when financial firms come completely upfront with their user base. If an AI system generates a financial recommendation, that output needs to be labelled so users know a machine produced it, but it still isn't enough alone. Investors also need straightforward information regarding limitations of AI, including its habit of creating data without complete information, missing market trends, or lacking considering an individual's personal financial health to generate recommendations.[87]

Additionally, a clear disclaimer regarding the fact that code is not a substitute for human advice must be displayed to the users. Also, wherever the existing technology allows, platform operators should break down the key variables that pushed the algorithm to generate a specific output.

Strengthening these transparency and disclosure standards does more than just forcing

[85] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).
[86] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024).
[87] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).

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unnecessary or broader compliance framework. It serves as a necessary safety net against irrational user trust while ensuring growth of true technological innovation.

6.5 Recommendations for the Securities and Exchange Board of India (SEBI)

SEBI is already in the driver's seat of Indian financial markets, making them the obvious authority to handle this AI as a de facto financial advisor situation. Current rules covering traditional analysts and investment advisors give us a decent starting point. But practically, they just aren't built for a world where code constantly dictates where money moves.

What SEBI needs right now are sharp, targeted rules. They should step up and roll out specific guidelines governing automated financial content. That means clearing up the legal grey zone i.e. setting hard disclaimers, forcing transparency, and giving everyday investors an actual safety net.[88]

But rules on paper mean nothing without platform accountability. Any firm using AI to push investment tips must carry real operational weight. This is regarding mandatory audit logs of generated advice, strict risk-management setups, and constant accuracy checks. It gives regulators a clear view under the hood while keeping platform operators honest.

Setting up a dedicated AI sandbox would be another rational move. It gives developers a safe, controlled sandbox to test out tools without throwing investor protection out the window.[89]

Hereby, a new framework from the scratch isn’t needed, the existing framework with some modifications regarding the contemporary legal issues in context of AI in financial world would bring the much-needed regulation. The SEBI still has to encourage innovation while maintaining market integrity and protecting investors.

6.6 Conclusion

Generative AI has totally rewritten the rules of how market data gets created, shared, and consumed. Algorithms are actively driving financial choices today, stepping straight into the shoes of traditional analysts and online finfluencers. The problem is simple: India's regulatory framework is completely stuck on human actors, leaving a massive legal vacuum around machine-led advice.[90]

[88] SEBI (Investment Advisers) Regulations 2013; SEBI (Research Analysts) Regulations 2014.
[89] International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024); OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024).
[90] Securities and Exchange Board of India Act 1992; SEBI (Investment Advisers) Regulations 2013; SEBI (Research Analysts) Regulations 2014.

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Current laws offer a weak safety net at best. Massive grey areas still hang over liability allocation, legal classification, and investor defence. Look at international trends and the message is loud and clear that transparency and accountability are non-negotiable.[91]

Basically, India has no choice but to pivot. Instead of considering AI as just another tool, authorities need to treat it as a distinct market force which requires direct deployer accountability and disclosures to protect everyday investors. That's the only real way to keep market integrity intact while still leaving room for tech innovation.

Ultimately, regulating this space isn't about auditing complex code. It is about controlling immense financial power. Establishing a crystal-clear framework right now is the only guarantee that rapid technological growth will coexist with basic fairness and investor protection.

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[91] OECD, *Artificial Intelligence in Finance: Opportunities and Challenges for Investors* (OECD 2024); International Organization of Securities Commissions (IOSCO), *Artificial Intelligence and Retail Investor Protection* (IOSCO 2024); Regulation (EU) 2024/1689 (Artificial Intelligence Act).