

SEBI chief says AI/ML rules will mandate kill switches and human oversight

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Invest Sebi to Issue AI/ML Guidelines for Capital Markets: Mandatory 'Kill Switch' and Human Oversight Framework Explained In his speech, Pandey outlined a vision aimed at balancing technological advancement with necessary investor protection

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Summary of this article

Sebi will introduce tiered AI and machine learning regulations.

New framework mandates human oversight and emergency kill switches.

Regulated entities remain fully liable for deployed AI tools.

Securities and Exchange Board of India (Sebi) Chairman Tuhin Kanta Pandey addressed industry leaders and market participants at Federation of Indian Chambers of Commerce and Industry's (FICCI) 23rd Annual Capital Markets Conference on August 19.

In his speech, Pandey outlined a vision aimed at balancing technological advancement with necessary investor protection. Addressing the challenge, the chairman announced that the market regulator plans to issue guidelines for artificial intelligence (AI) and machine learning (ML) for the capital market.

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"Our next phase of growth must use technology intelligently, widen investment opportunities, deepen financing channels and make regulation more future-ready," Pandey said.

Detailing the specific regulations the market watchdog seeks to bring in, Pandey explained that technological advancements must serve a dual purpose.

"Technology must strengthen both market infrastructure and regulatory oversight," Pandey said.

Sebi's New AI Rules To achieve a robust infrastructure, the regulator is examining an IT Resilience Index for Market Infrastructure Institutions, designed to provide an objective framework for assessing the resilience of critical systems.

Additionally, Sebi is also working to expand API-based connectivity and interoperability to create a seamless financial ecosystem. He also explained the structural methodology and stringent requirements of upcoming regulations for AI/ML usage in the market.

"These guidelines will provide for a tiered approach, with emphasis on clear accountability and governance controls," Pandey said.

Further elaborating on the technological safety mechanisms that will be mandated for market participants using automated systems, the chairman stressed the importance of human oversight.

"The framework shall require 'Kill Switch' and 'Humans in the Loop' controls, along with data controls," Pandey said.

For everyday retail investors, these guidelines are expected to offer financial security. The mandate of an "AI kill switch" means that if an automated system used by a broker or financial institution behaves unexpectedly or produces unsafe results, it can be immediately suspended. This mechanism prevents faulty automated actions from spreading across investor accounts and causing widespread financial damage before anyone notices.

Additionally, the "humans in the loop" requirement guarantees that real people provide meaningful oversight over AI-driven processes, preventing computer models from making critical financial decisions completely unchecked. This ensures that there is always human accountability, protecting investors from automated errors, discriminatory outcomes, and harmful financial advice.

Highlighting the objective behind introducing these comprehensive technological safeguards, the regulator focused on maintaining market equilibrium.

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BY Outlook Money

"The aim is to balance innovation with investor protection," Pandey added.

Sebi's Existing Measures To Regulate AI Use Pandey also talked about existing innovations and the uncompromising responsibilities of market participants regarding modern technology.

"Every Sebi -regulated entity remains fully responsible for any AI or machine-learning tool it uses, whether developed in-house or procured from a third party," Pandey said.

Clarifying the scope of this institutional responsibility, Pandey stated that it comprehensively covers multiple aspects of data management. Demonstrating that the regulator itself is already adopting advanced technologies, Pandey pointed to ongoing internal initiatives designed to closely monitor the market environment.

"Through Project SUDARSAN and R(AI)DAR, SEBI has leveraged AI to identify suspicious financial promotions and potentially misleading advertisements," SEBI said.

Alongside these proactive monitoring tools, the regulator has established a dedicated digital infrastructure to aggressively combat online threats in the form of the Cyber Suraksha Portal.

"We have also created a Cyber Suraksha Portal to strengthen information-sharing and cyber resilience across the market ecosystem," Pandey said.

Pandey concluded his address by underscoring that technology and market expansion are interconnected forces that rely entirely on steadfast market confidence.

"AI, financialisation and new investment frontiers are not separate themes. Together, they can make markets smarter, widen participation and connect capital with new businesses, assets and opportunities. But all of this rests on one foundation, Trust," Pandey said.

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