Paul, Weiss

Client Memorandum

November 19, 2026

Increased SEC Scrutiny of AI-Industry Relationship Risk Disclosures

Recent statements by senior officials in the Divisions of Enforcement and Corporation Finance indicate that the SEC is bringing renewed focus to AI-related disclosures and the accounting treatment of financing arrangements and other transactions between AI companies, particularly in the context of supplier-customer relationships. On October 30, 2026, SEC Enforcement Director David Woodcock told Reuters that the agency is examining AI companies' corporate disclosures, stating that the agency's "principal concern is that people are making accurate disclosures about material information so that investors know what they're getting into" amid, as described by Reuters, "investor concern over a potential AI bubble that may have been fueled by circular deals."[1]

These arrangements—where "one company provides financial support to another based on a commitment or an expectation that the beneficiary will buy goods and/or services from the other"[2]—are increasingly prevalent among companies in the AI industry. While such deals pose no inherent SEC issue (provided they are accurately disclosed to the investing public), the Enforcement Director's comments appear to reflect a broader concern within the SEC about the extent and nature of corporate disclosures on this topic. On November 12, Bloomberg reported that the Deputy Chief Accountant in the Division of Corporation Finance ("Corp. Fin.") commented at an industry conference that Corp. Fin. was "focused more on disclosures such as describing [circular] relationships," including the consolidation conclusions and related party relationships.[3] For Enforcement, the focus on accounting disclosures aligns with the Division's creation of a "Financial Reporting and Accounting Unit" in August, and the Director's recent comments thus underscore increasing SEC-wide scrutiny on disclosures related to AI and AI-related companies.

The SEC's Focus on AI Industry Corporate Disclosures

On October 30th, Director Woodcock stated that the SEC does not want to stand in the way of tech innovation, but that it is the agency's job to ensure issuers are giving investors the full picture on potential risks: "Our principal concern is that people are making accurate disclosures about material information so that investors know what they're getting into," and where such disclosure does not happen, "then enforcement will be present."[4]

To date, the SEC's charged cases involving AI cases have involved "AI washing": public companies or investment advisors misstating their incorporation of AI into their investment process or misrepresenting the AI capabilities of its products or services. For example, the SEC brought charges against Presto Automation Inc., a restaurant-technology company listed on

[1] Chris Prentice, *US SEC's Top Cop Says Agency Is Monitoring AI Corporate Disclosures*, Reuters (Oct. 30, 2026), available here.

[2] *See* Paul Tierno, *The Role of Circular Finance in Funding AI Investment*, Cong. Rsch. Serv., IF 13349 (Nov. 16, 2026), available here.

[3] Amanda Iacone, *Relationships Among AI Companies, Suppliers Draw SEC Scrutiny*, Bloomberg Law (Nov. 12, 2026), available here.

[4] Prentice, *supra*, note 1.

© 2026 Paul, Weiss, Rifkind, Wharton & Garrison LLP. In some jurisdictions, this publication may be considered attorney advertising. Past representations are no guarantee of future outcomes.

Nasdaq until September 2024, over statements about its drive-thru voice ordering product, Presto Voice.[5] The SEC alleged that Presto told investors that Presto Voice eliminated human order-taking, when in fact the product relied heavily on off-site human agents, primarily in the Philippines and India, to process orders. Presto ultimately disclosed that more than 70% of orders at the locations piloting its most advanced version required human intervention, and that all orders at certain other locations also did.[6]

The SEC's focus on emerging technologies is not new. In February 2025, the Enforcement Division created the Cyber and Emerging Technologies Unit ("CETU"), one part of whose mission was to focus on AI-related fraudulent disclosures. [7] Among CETU's seven identified priority areas are fraud committed using emerging technologies, such as AI and machine learning.[8] But the SEC has not previously publicly stated that it is scrutinizing disclosures of related-party transactions in the AI industry.

Current Director of Enforcement Woodcock, who has a background in accounting, established the Financial Reporting and Accounting Unit in August 2026 to pursue accounting and financial reporting fraud and misconduct by accountants and auditors.[9] Director Woodcock described the Unit as building on the Division's efforts to "crack down on bad actors in the accounting and auditing profession."[10] Considered in light of the Director's October 2026 comments about public company AI disclosures, the SEC's focus on related-party transactions and other AI disclosures by public companies is perhaps an inevitable next step in the Director's Enforcement agenda.

It is important to note that, in reviewing AI company disclosures, the SEC may bring misrepresentation claims under Section 17(a) of the 1933 Act and Section 10(b) of the 1934 Act, but those are not its only tools. The SEC can also bring cases based on a failure to implement appropriate disclosure controls,[11] and in remarks at the 26th Annual A.A. Sommer Lecture at Fordham Law School on November 10, 2026, the Director confirmed that such cases remain on the table in appropriate circumstances.

Key Takeaways

The fact that both the Director of Enforcement and Deputy Chief Accountant of Corp. Fin. have highlighted disclosures pertaining to AI and AI-related companies warrants special attention. While the SEC's AI enforcement to date has centered on AI washing, these recent statements point to a new area of focus: the disclosure and accounting treatment of financing arrangements among AI companies. In light of these developments, public companies should consider the following steps:

- **Review existing disclosures for related-party arrangements**. Identify related-party arrangements such as inventory investments, loans, guarantees, prepayments, and other financial support provided to or received from customers and suppliers, particularly where that support is tied to a commitment or expectation that the recipient will purchase goods or services from the provider.
- **Revisit the accounting conclusions**. Confirm that consolidation, related-party and revenue recognition conclusions for these arrangements are well supported and documented, given Corp. Fin.'s stated focus on these issues and the creation of the Financial Reporting and Accounting Unit.
- **Describe the relationships and dependencies clearly**. Disclose the nature and terms of these arrangements and the extent to which revenue, demand, or capital commitments depend on counterparties with overlapping economic interests. Risk factors under Item 105 should be tailored to the company's actual circumstances, including concentration and counterparty risk, rather than relying on generic statements about the risks of emerging technology. The arrangements should be described consistently, in all material respects, across SEC filings, earnings calls, investor presentations, and other public statements.

[5] SEC, AP Summary, *SEC Charges Restaurant-Technology Company Presto Automation for Misleading Statements About AI Product* (Jan. 14, 2025), available here.

[6] In the Matter of Presto Automation, Inc., File No. 3-22413, available here.

[7] SEC, Press Release, *SEC Announces Cyber and Emerging Technologies Unit to Protect Retail Investors* (Feb. 20, 2025), available here.

[8] *Id.*; *see also* Paul, Weiss, *2025 Year in Review: Cybersecurity and Data Protection* (Jan. 7, 2026), available here.

[9] Press Release, *SEC Establishes Financial Reporting and Accounting Unit in Enforcement Division*, SEC (Aug. 5, 2026), available here.

[10] *Id.*

[11] Exchange Act Rule 13a-15(a) requires publicly traded companies to maintain disclosure controls and procedures that, as defined in Rule 13a-15(e), "are designed to ensure that information required to be disclosed by the issuer" in reports it files with the SEC are "recorded, processed, summarized and reported" in a timely fashion. 17 C.F.R. § 240.13a-15(e).

- **Confirm that disclosure controls capture these arrangements**. Controls should identify new or modified financing arrangements as they arise and route them to legal, finance, and accounting personnel for disclosure review, particularly in light of the Director's comments that disclosure controls cases remain on the table.
- **Continue to review existing AI disclosures**. Confirm that AI-related statements in filings, offering documents, earnings calls, websites, and executive remarks accurately describe related capabilities. Clearly separate technology that is already deployed from products still in development, capabilities the company expects to achieve, and its longer-term aspirations.

* * *

This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

Antonia M. Apps
+1-212-373-3230
aapps@paulweiss.com

John P. Carlin
+1-202-223-7372
jcarlin@paulweiss.com

David S. Huntington
+1-212-373-3124
dhuntington@paulweiss.com

Ian C. Richardson
+1-202-223-7405
irichardson@paulweiss.com

Associates Corey J. Goldstein and Samuel Rebo contributed to this Client Memorandum.