119TH CONGRESS
2D SESSION

S. _____

To require the Securities and Exchange Commission to issue rules relating to the use of artificial intelligence by public companies, and for other purposes.

IN THE SENATE OF THE UNITED STATES

Mr. WARNER (for himself, Mr. KENNEDY, Ms. ALSOBROOKS, and Mr. ROUNDS) introduced the following bill; which was read twice and referred to the Committee on _____

A BILL

To require the Securities and Exchange Commission to issue rules relating to the use of artificial intelligence by public companies, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ''Advancing Uniform Disclosure of Investments and Transparency of Artificial Intelligence Act''.

SEC. 2. DEFINITIONS.

In this Act:

(1) ARTIFICIAL INTELLIGENCE.—The term ''artificial intelligence'' has the meaning given the term in section 5002 of the National Artificial Intelligence Initiative Act of 2020 (15 U.S.C. 9401).

(2) COMMISSION.—The term ''Commission'' means the Securities and Exchange Commission.

(3) COVERED ENTITY.—The term ''covered entity'' means a joint venture, special purpose vehicle, variable interest entity, or other entity that is financed by, or affiliated with, a non-financial covered issuer, as determined by the Commission.

(4) COVERED ISSUER.—The term ''covered issuer'' means an issuer that is required to file an annual report under section 13 or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m, 78o(d)).

(5) FORM 10–K.—The term ''Form 10–K'' means the form described in section 249.310 of title 17, Code of Federal Regulations, or any successor regulation.

(6) ISSUER; SECURITY.—The terms ''issuer'' and ''security'' have the meanings given those terms in section 3(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)).

(7) NON-FINANCIAL COVERED ISSUER.—The term ''non-financial covered issuer'' means a covered issuer, the primary business activities of which do not involve providing a financial service, such as banking, insurance, lending, investment management, or securities trading.

SEC. 3. IMPROVING CORPORATE GOVERNANCE AND OVERSIGHT OVER ARTIFICIAL INTELLIGENCE.

(a) IN GENERAL.—Not later than 180 days after the date of enactment of this Act, the Commission shall issue rules requiring each covered issuer to disclose—

(1) whether the covered issuer maintains an artificial intelligence governance policy; and

(2) whether the covered issuer has an exclusively designated committee of the board of directors of the covered issuer (or the equivalent) dedicated to artificial intelligence.

(b) APPLICATION OF RULES.—The rules issued under subsection (a) shall apply as follows:

(1) If a covered issuer maintains an artificial intelligence governance policy, those rules shall require the covered issuer to make that policy publicly available.

(2) If a covered issuer does not maintain an artificial intelligence governance policy, those rules

shall require the covered issuer to disclose that fact and the reasons for not maintaining such a policy.

(3) If a covered issuer has an exclusively designated committee of the board of directors of the covered issuer (or the equivalent) dedicated to artificial intelligence, those rules shall require the covered issuer to—

(A) make the membership of that committee publicly available in proxy statements of the covered issuer;

(B) disclose whether that committee has a written charter; and

(C) if that committee has a written charter, file a copy of that charter with the Commission once every 3 years.

(4) If a covered issuer does not have an exclusively designated committee of the board of directors of the covered issuer (or the equivalent) dedicated to artificial intelligence, those rules shall require the covered issuer to disclose that fact and the reasons for not maintaining such a committee.

(c) ACCOMMODATION OF EXISTING COMMITTEES; CONSULTATION.—In issuing rules under this section, the Commission shall—

(1) with respect to a covered issuer to which the requirements of subsection (b)(4) apply, permit such a covered issuer to satisfy those requirements by identifying existing committees of the board of directors of the covered issuer (or the equivalent) that are responsible for oversight of artificial intelligence, including committees with broader responsibilities; and

(2) consult with covered issuers regarding the implementation of those rules, taking into consideration differences in corporate governance structures and applicable legal requirements across jurisdictions.

SEC. 4. IMPROVING TRANSPARENCY OF ARTIFICIAL INTELLIGENCE INFRASTRUCTURE FINANCING.

(a) IN GENERAL.—Not later than 180 days after the date of enactment of this Act, the Commission shall issue rules that require each Form 10–K, Form 10–Q, and offering statement submitted by a non-financial covered issuer to contain an identification of—

(1) covered entities financed by, or affiliated with, the non-financial covered issuer that relate to artificial intelligence infrastructure, which, at the discretion of the Commission, may include requiring the disclosure of ownership stakes, debt levels, major

counterparties, and contractual commitments with respect to certain such covered entities; and

(2) debt arrangements, or other contractual commitments of the non-financial covered issuer, that the non-financial covered issuer uses to finance artificial intelligence infrastructure (including leases, guarantees, servicing agreements, and other relevant commitments), as determined and defined by the Commission.

(b) APPLICATION OF RULES.—The rules issued under subsection (a) shall apply with respect to a covered entity created, or a debt arrangement or other contractual commitment entered into, on or after such date as the Commission may specify by rule.

(c) RULE OF CONSTRUCTION.—

(1) DEFINITION.—In this subsection, the term ''private fund'' has the meaning given the term in section 202(a) of the Investment Advisers Act of 1940 (15 U.S.C. 80b–2(a)).

(2) RULE.—Nothing in this section, or any rule issued pursuant to this section, may be construed to require a non-financial covered issuer to disclose the identity of an investor in a private fund (including any individual investor, accredited investor, qualified institutional buyer, or other person holding an inter-

est in a private fund) solely by reason of the investment of that investor in that private fund, unless that investor is a covered entity with respect to the non-financial covered issuer.

SEC. 5. STUDY ON CORPORATE FINANCIAL REPORTING RELATING TO ARTIFICIAL INTELLIGENCE.

(a) IN GENERAL.—The Commission shall conduct a study, which shall include the following:

(1) An analysis of what qualifies as research and development relating to artificial intelligence undertaken by covered issuers, which shall—

(A) include an analysis of costs relating to that research and development; and

(B) specifically address issues relating to data acquisition, model training, and the impairment of obsolete models.

(2) A cost-benefit analysis of—

(A) issuing non-binding guidance on the typical useful life of pieces of artificial intelligence infrastructure; and

(B) imposing a requirement that, if a covered issuer uses an assumption for the typical useful life of a piece of artificial intelligence infrastructure that substantially differs from guidance issued under subparagraph (A), the

covered issuer shall provide justification to the Commission for that assumption.

(3) A cost-benefit analysis of requiring a covered issuer to disaggregate revenues and capital expenditures of the covered issuer that are specific to artificial intelligence, which shall include—

(A) distinguishing between those revenues and capital expenditures that come from—

(i) existing products that later add artificial intelligence features to improve the experience with respect to those products; and

(ii) products that are initially built with artificial intelligence as a core component; and

(B) distinguishing between those revenues and capital expenditures that are assumed to be—

(i) recurring;

(ii) pilot-based or experimental; or

(iii) non-recurring.

(b) CONSULTATION.—In conducting the study required under subsection (a), the Commission shall consult with public companies, investors, accounting firms, stand-

ard-setting organizations, and other relevant entities in the private sector regarding—

(1) the feasibility and costs of any potential disclosure requirements considered as part of the study;

(2) the extent to which the requirements described in paragraph (1) could require the disclosure of proprietary, confidential, or competitively sensitive information; and

(3) whether the information described in paragraph (2) could be provided in a manner that is useful to investors while appropriately protecting proprietary or commercially sensitive information.

(c) RELEASE OF RESULTS.—Not later than 360 days after the date of enactment of this Act, the Commission shall publicly release the results of the study conducted under this section, which shall include any recommendations of the Commission.

SEC. 6. ARTIFICIAL INTELLIGENCE RISK DISCLOSURE.

(a) IN GENERAL.—Not later than 180 days after the date of enactment of this Act, the Commission shall issue rules that amend Form 10–K to include a dedicated, standardized artificial intelligence risk section to improve comparability across covered issuers that have significant artificial intelligence risk exposure, which shall include specific categories such as—

(1) dependence on third party foundation models;

(2) concentration of compute providers;

(3) volatility in inference and training costs;

(4) liabilities tied to data licensing or usage rights; and

(5) reliance on foreign frontier models.

(b) PROTECTION OF PRIVILEGED AND CONFIDENTIAL INFORMATION.—In issuing rules under subsection (a), the Commission shall, to the extent practicable, tailor the disclosures that are made pursuant to those rules to avoid the public disclosure of commercial or financial information that is privileged or confidential.

SEC. 7. ANNUAL REPORT ON IMPACT OF AUTOMATED INVESTMENT STRATEGIES ON PRICE DISCOVERY.

(a) IN GENERAL.—Not later than 120 days after the date of enactment of this Act, and annually thereafter, the Commission shall publicly publish a report that assesses, for the period covered by the report, the impact of automated investment strategies on price discovery and market efficiency, including with respect to the potential concentration of herding behavior among automated or technology-enabled market participants.

(b) CONTENTS.—Each report required under subsection (a) shall include—

(1) at a minimum, an assessment of, for the period covered by the report—

(A) the impact of automated or technology-enabled investment strategies or correlations among securities; and

(B) the extent to which the prices for securities reflect issuer-specific fundamentals; and

(2) legislative recommendations for Congress on how to—

(A) preserve fair, orderly, and efficient markets; and

(B) maintain the integrity of fundamental economic value disclosures as technology and investment strategies evolve.