

# PETITION FOR RULEMAKING

Pursuant to Rule 192(a) of the Commission's Rules of Practice  
17 CFR § 201.192(a)

**June 7<sup>th</sup>, 2026**

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The Honorable Vanessa A. Countryman

Secretary

U.S. Securities and Exchange Commission

100 F Street, NE

Washington, DC 20549-1090

**Re: Petition for Rulemaking to Require Disaggregated Disclosure of Cloud Revenue and Unrealized Gains from Commercially Entangled Entities in the AI Infrastructure Sector**

Dear Chair Atkins and Commissioners:

## **I. Introduction**

Under Rule 192(a) of the Commission's Rules of Practice, the undersigned respectfully petitions the Securities and Exchange Commission to begin rulemaking on a set of disclosure gaps that have opened where three things meet: equity investments between companies that also do business with one another, cloud credit arrangements, and fair-value accounting in the artificial intelligence infrastructure sector.

The petition asks for three actions. First, an amendment to Regulation S-K requiring companies to break out cloud computing revenue that comes from entities in which the reporting company holds equity, debt, or convertible instruments. Second, interpretive guidance on how ASU 2016-01 applies to equity holdings in entities with which the holder has a material commercial relationship. Third, a staff recommendation to the Financial Stability Oversight Council to study whether the interaction among cloud credit investments, mark-to-market accounting, and passive index fund flows is becoming a systemic risk.

## **II. Statement of the Problem**

## **A. The Cloud Credit Circuit**

The Federal Trade Commission's January 2025 report on partnerships between cloud service providers and AI developers described a pattern of investment that is now built into the structure of the industry. The three largest cloud providers, Amazon Web Services, Microsoft Azure, and Google Cloud, have each put multi-billion-dollar investments into AI foundation model companies: Microsoft into OpenAI, and both Amazon and Google into Anthropic. A meaningful share of these investments comes in the form of credits for the investor's own cloud platform.

The structure works as a circuit. The cloud provider invests in the AI company, often partly through cloud credits. The AI company spends those credits training models on the investor's infrastructure. Anthropic, for example, spent \$1.35 billion on AWS in 2024 and \$2.66 billion from January through September 2025. The investor records that usage as cloud revenue. The revenue growth supports a stock price that helps justify the next round of investment. The circuit has four steps: invest, spend, book, justify.

For securities disclosure, the difficulty is that revenue produced this way looks the same in a filing as cloud revenue earned from an independent customer at arm's length. Regulation S-K does not require a company to separate cloud revenue by the nature of the customer relationship, and in particular by whether the customer's spending was funded in whole or in part by the reporting company's own investment.

## **B. The Mark-to-Market Circuit**

Earnings disclosures for the first quarter of 2026 brought a second circuit into view, running alongside the first. Under ASU 2016-01, a company that holds equity in another firm has to carry that stake at fair value and update it each quarter, with the changes running straight through net income.

In the first quarter of 2026, Amazon reported a pre-tax gain of \$16.8 billion in non-operating income from the revaluation of its Anthropic stake. That single line was larger than the company's entire increase in operating income for the quarter. Alphabet reported about \$37.7 billion in net gains within other income for the same quarter, driven mostly by unrealized gains on its private equity holdings, including its stake in Anthropic. In each case, the largest single contributor to the bottom line was a paper gain on a private company that has never paid the investor a dividend.

The accounting follows GAAP. The question for the Commission is whether the present disclosure framework tells investors enough about where these earnings come from. When the company whose revaluation drives the gain is also a major customer whose spending the investor books as revenue, current disclosure does not let an investor separate operating performance from earnings produced by the circuit.

The Berkshire Hathaway comparison is useful, and it shows the difference. Berkshire's quarterly swings under ASU 2016-01 come from holdings in public companies whose values are set by liquid markets and whose results do not depend on any commercial dealings with Berkshire. Berkshire does not sell cloud services to Apple, record Apple's spending as revenue, and then book a gain when Apple's stock rises. The AI infrastructure circuit is different because the investor has a material commercial relationship with the company whose revaluation produces the gain. The investor helps create the conditions for the revaluation and benefits from it at the same time.

### **C. Passive Index Transmission and Household Exposure**

The earnings produced by these two circuits flow into the index funds and target-date funds that hold most American retirement savings. Since the Pension Protection Act of 2006, automatic enrollment in 401(k) plans and the use of target-date funds as the default investment have steered most retirement contributions into market-cap-weighted index funds. By 2025, 69 percent of participants in Vanguard-administered plans held a professionally managed allocation, most of them in a single target-date fund.

Because the S&P 500 weights companies by market capitalization, earnings growth from any source increases a company's share of the index. Every target-date fund, every passively managed 401(k), and every index-tracking ETF adjusts to match. The earnings described above reach household retirement accounts mechanically, with no choice on the part of the saver.

The Commission's investor protection mandate calls for asking whether current disclosure lets a reasonable investor see how much of the reported earnings of major index constituents comes from these internal financial circuits and how much comes from arm's-length business.

## **III. Requested Actions**

### **A. Regulation S-K Amendment: Disaggregation of Related-Party Cloud Revenue**

The Commission should amend Regulation S-K to require a company that earns cloud computing revenue to disclose, in its annual and quarterly filings, the share of that revenue coming from entities in which the company holds equity, debt, or convertible instruments. This is the heart of the petition. The equity gains discussed in Part II.B already appear as discrete line items in current filings, and analysts repriced the relevant quarters on the strength of those line items within hours of release. Related-party cloud revenue gets no comparable treatment. It sits inside a segment total with no marker, so an investor cannot tell how much of a cloud segment's growth reflects outside demand and how much reflects spending that the reporting company funded.

To keep the requirement targeted, the Commission could tie it to a clear threshold: disclosure would apply where the customer is both a source of revenue above a stated percentage

of segment revenue and an investment held above a stated cost basis. A threshold of this kind would capture the structurally significant relationships at issue here and leave ordinary corporate venture investing untouched.

The Commission already has authority under Regulation S-K to require segment disclosures, so this is a matter for agency rulemaking and would not require legislation. The precedent for narrow disaggregation requirements is well settled. The Commission has required added disclosure for stock-based compensation, non-GAAP measures, and cybersecurity risk. The proposed requirement fits the same pattern and would give investors what they need to judge whether growth in a cloud segment reflects real outside demand or pre-funded spending by a connected counterparty.

### **B. Interpretive Guidance on ASU 2016-01 Application to Commercially Entangled Holdings**

The Commission should issue a targeted interpretive release, or guidance through the comment-letter process, asking companies to present separately the unrealized gains and losses on equity holdings in entities with which they have a material commercial relationship. At a minimum, such gains should appear below the operating income line and carry a clear label as gains from commercially related entities. This keeps the information value of fair-value measurement while preventing these gains from blending into operating results.

This guidance would leave ASU 2016-01 in place and would not return anyone to historical-cost accounting. The aim is narrower: to preserve the benefits of fair-value reporting while keeping circuit-generated revaluations out of operating income. The same threshold proposed in Part III.A could define which holdings fall within the guidance, so the two measures rest on one consistent test. The Commission's authority to issue interpretive guidance on presentation and disclosure is well established and would not require coordination with the Financial Accounting Standards Board.

### **C. Referral to the Financial Stability Oversight Council**

As a discretionary third step, and one the Commission may take up on its own and apart from the first two, the Commission should recommend that the Financial Stability Oversight Council examine whether the interaction among cloud credit investments, mark-to-market accounting, and passive index fund flows is becoming a systemic risk. Each piece is regulated on its own. The combination is not.

FSOC exists to find risks that arise where separately regulated components interact. The specific concern is the reverse case. A flat or down funding round for a major AI company would produce mark-to-market losses that run through the same income statements, lower the same

earnings-per-share figures, shrink the same market capitalizations, and pass through the same index funds that now carry the gains. When a large share of passive retirement assets sits in a handful of companies whose earnings depend on this kind of internal investment circuit, the result is the correlated exposure that FSOC was created after the 2008 financial crisis to spot early.

#### **IV. Legal Authority**

The Commission has ample authority for each requested action. Amendments to Regulation S-K fall within the Commission's general rulemaking authority under Sections 7, 10, and 19(a) of the Securities Act of 1933 and Sections 12, 13, 15(d), and 23(a) of the Securities Exchange Act of 1934. Interpretive releases and comment-letter guidance on financial statement presentation fall within the Commission's long-standing authority over disclosure. A referral to FSOC is within the Commission's discretion as a member agency.

#### **V. Conclusion**

The financial structure behind the AI industry now has a self-supporting quality, where investment, revenue, earnings, valuation, and household wealth each feed the next. The cloud credit circuit turns investment into revenue. The mark-to-market circuit turns investment into reported earnings. Passive index funds carry both into household retirement accounts. Each step complies with current law, and each is reasonable on its own terms. Taken together, they form a system whose parts reinforce one another even where the underlying technology has yet to produce returns of a matching size.

The question before the Commission is whether current disclosure lets investors see how this works. I respectfully submit that it does not, and that the measures proposed here would close the most important gaps without placing an undue burden on reporting companies.

Respectfully submitted,

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## **Appendix: Supporting Publications**

*The following publications by the petitioner provide the empirical and analytical basis for this petition.*

1. Lee, H. (2026). “How a 2016 Accounting Rule Fueled Big Tech’s Investments in AI Startups.” *ProMarket* (Stigler Center, University of Chicago Booth School of Business), May 2026. <https://www.promarket.org/2026/05/19/how-a-2016-accounting-rule-fueled-big-techs-investments-in-ai-startups/>
2. Lee, H. (2026). “Your 401(k) Is Propping Up the AI Bubble.” *ProMarket*, May 5, 2026. <https://www.promarket.org/2026/05/05/your-401k-is-propping-up-the-ai-bubble/>
3. Lee, H. (2026). “What Regulators Should Do About the AI Industry’s Hidden Financial Loop.” *Tech Policy Press*, April 13, 2026. <https://www.techpolicy.press/what-regulators-should-do-about-the-ai-industrys-hidden-financial-loop-/>
4. Lee, H. (2026). “Subsidize, Build, Export, Repeat.” *The American Prospect*, May 1, 2026. <https://prospect.org/2026/05/01/subsidize-build-export-repeat-ai-stack-national-security/>
5. Lee, H. (2026). Public Comment on Competitor Collaboration Guidance, Docket No. ATR-2026-0001-0015, U.S. Department of Justice and Federal Trade Commission, April 2026. <https://www.regulations.gov/comment/ATR-2026-0001-0015>