Remarks of Gary Gensler
Chair, U.S. Securities and Exchange Commission
Before the European Parliament
Committee on Economic and Monetary Affairs
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Thank you, Chair Tinagli and Members of the Committee. I'm honored to appear before this Committee for the fourth time, and for the first time as Chair of the U.S. Securities and Exchange Commission. As is customary, I'd like to note that my views are my own, and I'm not speaking on behalf of the Commission or the SEC staff.

The last time I appeared before this Committee, in 2012, as Chair of the Commodity Futures Trading Commission, I was recovering from four broken ribs and a punctured lung.[1] On doctor's orders, I wasn't allowed to fly, so I was grateful then, as now, that you permitted me to appear by video.

In some ways, together, we were ahead of our time — "video-testifying" before it was common. I think that speaks to the strong spirit of collaboration between the U.S. and Europe.

When I was last in government, we came together to address one of the central components of the financial crisis: how to reform the swaps market.

I look forward to continuing that strong relationship at the SEC.

At the SEC, we're tasked with protecting investors, facilitating capital formation, and maintaining fair, orderly, and efficient markets.

Our global markets are inextricably linked, with money flowing between them in microseconds. New financial technologies continue to change the face of finance for investors and businesses. I know that topic interests this Committee, particularly as you consider a significant digital finance package.

Today, I'd like to discuss a few areas where technology and finance are evolving. I'll borrow from the Financial Stability Board and define fintech as technologies that may have a material effect on how finance is delivered.[2]

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[1] *See* Gary Gensler, Sept. 24, 2012, *available at* https://www.cftc.gov/sites/default/files/idc/groups/public/@newsroom/documents/speechandtestimony/opagensler-121.pdf.

[2] "The FSB defines FinTech as technologically enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services." See here: https://www.fsb.org/work-of-the-fsb/financial-innovation-and-structural-change/fintech/

These technologies are being used by startups, financial incumbents, and big tech firms alike to change the shape of finance.

Predictive Data Analytics, Digital Engagement Practices, and Financial Stability

Whether we're working out or watching a movie on a streaming app, we see things like prompts and leaderboards to increase our engagement. Underlying many of these features is predictive data analytics.

For example, the streaming apps figured out a while ago that I'm kind of a romantic comedy guy. I'm more likely to watch a movie if they recommend a romcom than if they recommend a horror film.

Many features — such as individualized marketing and behavioral prompts — encourage users to engage more with a digital platform. In the last few years we've seen a proliferation of trading apps, wealth management apps, and robo-advisers that use these practices to develop and provide investment advice to retail investors.

While new financial technologies can bring increased efficiencies in finance and greater access, in many cases these individualized features may encourage investors to trade more often, invest in different products, or change their investment strategy. Predictive analytics and other digital engagement practices (DEPs) often are designed, in part, to increase platform revenues, data collection, and customer engagement, leading to potential conflicts between the platform and investors.

This raises some key questions:

How are investors protected in light of the potential conflicts of interest that may exist when DEPs optimize for platform revenues, data collection, or investor behavior?

How does that affect whether DEPs are making a recommendation or providing investment advice, which has implications in our securities laws?

How do these new business models ensure for fairness of access and pricing, particularly given underlying data used in the analytic models could reflect historical biases that may be proxies for protected characteristics, like race and gender?[3]

Last week, the Commission published a request for public comment on the use of new and emerging technologies by financial industry firms.[4]

Furthermore, when new financial technologies come along, we need to be sure we protect financial stability and resiliency.

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[3] *See* Gary Gensler and Lily Bailey, "Deep Learning and Financial Stability," *available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3723132.
[4] *See* https://www.sec.gov/rules/other/2021/34-92766.pdf.

I know this is a topic of interest to this Committee as it considers the Digital Operational Resilience Act.

As I wrote while researching and teaching about these issues at the Massachusetts Institute of Technology, broad adoption of a subset of artificial intelligence called deep learning "may over time increase uniformity, interconnectedness, and regulatory gaps."[5]

I am concerned about whether the broad adoption of deep learning models could contribute to a future crisis. For example, these models could lead to systemic risk by encouraging herding into certain datasets, providers, or investments. We're taking a look at these issues as part of a broader examination of predictive data analytics.

Crypto Assets

I'd like to turn to another area of financial technology: the field of crypto assets. This $2.1 trillion asset class is truly global.[6] It has no borders or boundaries. It operates 24 hours a day, 7 days a week.

This innovation has been and could continue to be a catalyst for change in the fields of finance and money.[7]

While I'm technology-neutral, I am anything but public policy-neutral. As new technologies come along, we need to be sure we're achieving our core public policy goals.

Further, for those who want to encourage innovations in crypto, I'd like to note that financial innovations throughout history don't long thrive outside of public policy frameworks.

In finance, that's about protecting investors and consumers, guarding against illicit activity, and ensuring financial stability.

There's much I'll leave to your questions, but there are two areas I'd like to mention briefly.

First are the platforms for crypto trading and lending — an area I understand this Committee shares an interest in. The bulk of this market takes place on these crypto platforms, whether they be centralized or so-called decentralized finance (DeFi) platforms.

Unlike traditional exchanges, like the Frankfurt Stock Exchange, crypto platforms provide direct access to millions of investors. There's no broker in between the public and the platform.

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[5] Gensler and Bailey.
[6] Value as of Aug. 30. *See* https://coinmarketcap.com/.
[7] *See* Michael Casey, Jonah Crane, Gary Gensler, Simon Johnson, and Neha Narula, "The Impact of Blockchain Technology on Finance: A Catalyst for Change" (2018), *available at* https://www.sipotra.it/wp-content/uploads/2018/07/The-Impact-of-Blockchain-Technology-on-Finance-A-Catalyst-for-Change.pdf.

Therefore, absent clear investor protection obligations on these platforms, the investing public is left vulnerable. Unfortunately, this asset class has been rife with fraud, scams, and abuse in certain applications.

The second area I'll highlight is the centrality of stablecoins — crypto tokens pegged to the value of fiat currencies — to this market. You've heard about Facebook Diem, but we already have an existing stablecoin market worth $116 billion.[8]

These tokens are embedded in crypto trading and lending platforms.

In July, nearly three-quarters of trading on all crypto trading platforms occurred between a stablecoin and some other token.[9]

Thus, the use of stablecoins on these platforms may facilitate those seeking to sidestep a host of public policy goals connected to our traditional banking and financial system: anti-money laundering, sanctions, and more.

Issuer Disclosures

Finally, I'd like to turn to disclosures. Much like we have to update our rules for new technologies, from time to time we freshen up our disclosure regimes to reflect investor demands — on both sides of the Atlantic.

Today, investors in our markets increasingly want to understand the climate risks, workforces, and cybersecurity risks of the companies whose stock they own or might buy.

Thus, I have asked SEC staff to develop a proposal for climate risk disclosure requirements for the Commission's consideration.

In considering climate-risk disclosures, I've asked staff to learn from other frameworks and standards, including the Task Force on Climate-related Financial Disclosures (TCFD) framework.

On the other side of the equation are funds. Many funds these days brand themselves as "green," "sustainable," "low-carbon," and so on.

I've directed staff to review current practices and consider recommendations about whether fund managers should disclose the criteria and underlying data they use to market themselves as such.

[8] Numbers as of Aug. 27. *See* The Block, "Total Stablecoin Supply," *available at* https://www.theblockcrypto.com/data/decentralized-finance/stablecoins.
[9] *See* The Block, "Share of Trade Volume by Pair Denomination," *available at* https://www.theblockcrypto.com/data/crypto-markets/spot.

I also have asked staff to pursue similar disclosure requirements with respect to human capital and board diversity.

Additionally, staff are developing a proposal for the Commission's consideration on cybersecurity risk governance, which could address issues such as cyber hygiene and incident reporting.

Conclusion

While I wanted to keep my remarks brief, we at the SEC are working on dozens of projects, along with a robust enforcement and examinations agenda. I am happy to answer questions on topics discussed in this testimony or on any other parts of our agenda, such as Treasury and equity market structure.

As we move forward, I look forward to keeping the dialogue open with the European Parliament and those of you on this Committee. Though I've been in my role only since April, I've seen evidence of EU-U.S. cooperation already, with newly implemented substituted compliance relationships in the swaps area. We're grateful for the collaborations we've had with securities regulators in many of your home jurisdictions, as well as with the European Central Bank and European Commission.

Thank you.