

Testimony on “Fostering Financial Innovation: How Agencies Can Leverage Technology to Shape the Future of Financial Services”

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Subcommittee on Digital Assets, Financial Technology, and Inclusion**

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Chairman Hill, Ranking Member Lynch, and Members of the Subcommittee:

Thank you for inviting me to testify before you today about the work of the U.S. Securities and Exchange Commission’s Strategic Hub for Innovation and Financial Technology (FinHub). I am testifying in my official capacity as the Director of FinHub, but my testimony does not necessarily reflect the views of the Commission, the Commissioners, or other members of the SEC staff. I am honored to appear before you and pleased that the Subcommittee is holding this hearing to foster the use of technological innovation in financial services. I am also pleased to see in attendance those who represent similar roles as my own from among the SEC’s regulatory partners as we continue to closely collaborate in these efforts.

FinHub supports the SEC’s mission—to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation—by serving as a central hub for issues and initiatives related to innovations in financial technology. FinHub was established in 2018 as part of the SEC’s Division of Corporation Finance, and was designated as a standalone office in 2020, to strengthen the SEC’s ability to continue fostering innovation in emerging technologies in our markets, while protecting investors and the strength of the U.S. markets. FinHub is staffed with eight full time employees and has delegates from across the SEC’s divisions and offices who have expertise and involvement in FinTech-related issues. In this way, FinHub utilizes and augments the agency’s expertise concerning leading-edge technologies and innovation, which foreshadow the future direction of the financial industry.

FinHub helps coordinate the agency’s oversight of, and responses to, emerging financial technologies across numerous areas, including distributed ledger technology and digital assets, automated investment advice, digital marketplace financing, and artificial intelligence/machine learning. FinHub was directed to lead the agency’s work to identify and analyze emerging financial technologies affecting the future of the securities industry, and to engage with market participants, as technologies develop. In addition, part of FinHub’s mandate is to coordinate the analysis of emerging financial innovations and technologies across the agency’s divisions and offices and with global regulators and to advise the Commission and its staff as they develop and implement policies in this area. FinHub staff work with a wide range of market participants, policymakers, regulators, and organizations to advance the SEC’s mission.

I am pleased to explain FinHub’s multi-faceted approach.

FinHub provides a portal for industry and the public to engage directly with SEC staff on innovative ideas and technological developments.

As financial technologies, methods of capital formation, market structures, and investor interfaces evolve, FinHub plays an important role in the SEC’s active engagement with industry and the public. Through FinHub’s web portal, entrepreneurs, innovators, and their advisors routinely request meetings with the staff, and we continuously provide one-on-one engagement with industry participants and other members of the public, providing opportunities to discuss technology, business models, and regulatory issues. While FinHub staff cannot give legal advice, we can provide helpful resources and feedback. We also leverage this discourse to help us be more innovative as regulators.

FinHub also organizes events through which the public can participate in FinHub’s work.

FinHub has implemented a number of ways—and will continue to proactively explore new ways—to engage with the public. For example, as I mentioned, we actively invite engagement with FinHub staff through our web portal and, as a result, continuously host calls and in-person meetings with the public, including industry participants. Since FinHub launched, we have conducted active outreach to engage with FinTech communities across the country through, for example, what we call “P2P meet-ups.” These meet-ups offer members of the public the opportunity to speak in person with FinHub and other SEC staff to discuss a general issue or specific question, or to give a presentation about a particular project. FinHub also has hosted a series of virtual, thematically based P2P events, exploring the role of FinTech in such activities as connecting with investors, capital formation, and financial infrastructure. FinHub staff also participates in various other types of outreach events, such as conferences, classes, and techsprints.

FinHub acts as a clearinghouse of information regarding the SEC’s activities and initiatives involving FinTech.

On FinHub’s web portal, we link to publications, statements, speeches, testimony, requests for public input, and agency actions relevant to each area of technological innovation we feature.¹ One area on which we have been focusing a significant amount of attention and resources relates to distributed ledger technology and digital assets—issues that implicate many SEC divisions and offices. In order to assist those seeking to comply with the U.S. federal securities laws, FinHub staff published a framework to aid market participants in analyzing whether a digital asset is an investment contract, and, therefore, is a security.² We encourage market participants to use the materials on FinHub’s website as a resource, to consider consulting with securities counsel, and to reach out to staff if questions remain.

¹ See <https://www.sec.gov/finhub>.

² See Framework for “Investment Contract” Analysis of Digital Assets, available at <https://www.sec.gov/corpfin/framework-investment-contract-analysis-digital-assets>.

FinHub acts as a platform for SEC staff to acquire and disseminate information and FinTech-related knowledge within the agency.

When evaluating the impact of rapidly evolving and often unpredictable new technologies, it is critical to on-board knowledge, and necessary tools, data, and expertise. As evidenced through recent developments in emerging technologies, the skillset regulators need becomes increasingly multi-disciplinary. Innovations in today's markets require knowledge of finance, law, market structure, economics, computer science, cryptography, and more. FinHub staff continually seeks to stay abreast of new developments and to acquire and deploy expertise where needed within the SEC's various divisions and offices. We are committed to understanding the technologies that impact our markets and we are taking proactive steps through FinHub to ensure that SEC staff has hands-on opportunities to work with these technologies.

FinHub serves as a liaison to other domestic and international regulators regarding emerging technologies in financial, regulatory, and supervisory systems.

In the FinTech space, just as in the broader financial space, it is not uncommon for a particular activity to implicate one or more of the respective jurisdictions of the SEC and other federal and/or state financial regulators. Accordingly, it is important for the SEC to work together with other regulators and to coordinate our activities to the extent possible and appropriate under the circumstances.

FinHub staff actively monitors domestic and international developments related to FinTech, and has ongoing engagement, domestic and foreign, on a bilateral and multilateral basis, to actively monitor, understand, and respond to emerging issues. Bilaterally, SEC staff regularly meets with domestic and foreign counterparts to share experiences and lessons learned on a wide range of FinTech topics. Multilaterally, staff directly participates in a number of ongoing initiatives by international bodies such as the Financial Stability Board (FSB), International Organization of Securities Commissions (IOSCO), Financial Action Task Force (FATF), and Global Financial Innovation Network (GFIN).

FinHub's role is to help the agency understand new technologies and their implications as it endeavors to strike the right balance between fostering beneficial and responsible innovations in our capital markets, on the one hand, and preventing potentially harmful and illicit practices against investors, on the other. The aim is to get this balance right, which will help investors and enable our capital markets to continue to flourish. Investor and market harms and other adverse developments in using new technologies can negatively impact the acceptance of such technologies and potentially curtail investment in them or arrest their development altogether. The goal is to promote and maintain investor confidence and integrity in our markets as the markets incorporate financial innovations. We hope that through thoughtful engagement with innovators and practitioners, the right balance can be struck.

FinHub anticipates that financial technology will continue to evolve at an accelerating pace and grow increasingly complex. These developments and innovations will continue to present challenges to regulators and the Commission, as they tend to raise new or heightened concerns

and introduce new technological hurdles. As such, FinHub will continue to identify, study, and build expertise on innovative financial technologies that impact the Commission's mission, as well as help Commission staff understand these advancements and overcome any challenges that they present.

We are eager to see new beneficial technologies succeed, and do not view them as inconsistent with the SEC's core mission of protecting investors; maintaining fair, orderly and efficient markets; and facilitating capital formation. However, the long-term promise of these technologies will be achieved only if those developing and implementing them comply with the laws, regulations, and rules that Congress and the SEC has put in place to further the agency's core mission.

I believe that industry participants and others who take the time and effort to engage with the SEC staff, and with the staff of our fellow regulatory agencies who have their own innovation initiatives and statutory mandates, play a critical role in shaping the future of FinTech and in assuring that the U.S. capital markets continue to adhere to the high standards that have made them so deep, liquid, fair, and attractive for decades. The possibilities for developers and entrepreneurs who want to create products and systems in a responsible way are theirs to imagine and build. We encourage them to do so.

If I may conclude on a personal note, I have had the honor and privilege to serve in the federal government for most of my professional career. Before I became a lawyer, I earned my degree in engineering. It has been my great fortune to bring together my passion for science, the law, and public service in my current role. I am particularly grateful for the opportunity to serve with extraordinarily dedicated members of my staff and the delegates to the FinHub from across the Commission. I cannot overstate the level of thought, effort, and teamwork that these public servants devote to evaluating financial technologies and potential benefits and risks to investors and the markets associated with technological developments. These colleagues are fully committed to serving their country and to the agency's mission and they are a source of daily inspiration to me.

Thank you for the opportunity to testify before you today about the work of the SEC's FinHub and for your support of FinTech innovations. I look forward to answering any questions you may have.