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SUBCOMMITTEE ON DIGITAL ASSETS, FINANCIAL TECHNOLOGY, AND ARTIFICIAL INTELLIGENCE

"Unlocking the Next Generation of AI in the U.S. Financial System for Consumers, Businesses, and Competitiveness"

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Thank you, Chairman Steil, Ranking Member Lynch, and members of the Subcommittee for the opportunity to testify before you today. I am the founder and CEO of Gattaca Horizons LLC, an advisory firm, an adjunct professor at the Georgetown University Law Center, and the former chief innovation officer and director of LabCFTC at the U.S. Commodity Futures Trading Commission (CFTC).[1]

The topic of today's discussion is "Unlocking the Next Generation of AI in the U.S. Financial System for Consumers, Businesses, and Competitiveness." This is an important topic and one that has gained renewed and prominent interest given recent technological developments and advances in the field, including with respect to generative AI ("GenAI") and so-called "Agentic AI." It is an area of global innovation and fierce competition where the U.S. holds a number of competitive and first-mover advantages,[2] and an area that should be responsibly fostered through thoughtful policy approaches. While U.S. markets and financial services have long led the world, there are ample opportunities to further expand access, lower costs, increase efficiencies and competitiveness, enhance compliance and regulatory oversight, and improve customer choice, satisfaction, and opportunity. I accordingly commend the Subcommittee for engaging on this topic, and support deliberative and grounded efforts to understand the longstanding role of AI in financial services, recent technological developments, existing legal and regulatory frameworks, and potential policy approaches that can foster the tremendous opportunity presented, while mitigating risks.

My testimony will track these key topics. I will begin by briefly discussing the evolution of AI in financial services, including a discussion of opportunities and risks, and touch on recent advances. I will then provide an overview of existing legal and regulatory frameworks that have long governed the development and adoption of emerging technologies, including AI, in the financial services sector. And I will conclude by offering policy recommendations that can help to inform this Committee's important work and enhance the capabilities of our financial regulators and competitiveness of our financial system.[3]

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[1] My professional associations are set out in my biography attached as Appendix A.

[2] *See* Kahl, C.H and Mitre, J. (2025) 'The Real AI Race: America Needs More Than Innovation to Compete With China', *Foreign Affairs*. Available at: https://www.foreignaffairs.com/united-states/china-real-artificial-intelligence-race-innovation; *See also* Schechner, S., MacMillan, D., and Lin, L. (2018) *U.S. and Chinese Companies Race to Dominate AI*. Available at: https://www.wsj.com/articles/why-u-s-companies-may-lose-the-ai-race-1516280677.

[3] Content in the first two sections below is derived from my prior testimony on "AI in Financial Services" before the U.S. Senate Banking Committee in 2023.

I. AI in Financial Services: A Story of Increasing Impact

To level set, AI in financial services is not new,[4] and instead should be thought of as part of a steady progression of using computers and advanced analytics systems to increase automation in the sector.[5] Adoption of AI in financial services became clearly identifiable in the 1980s with early applications focusing on investment data analytics,[6] fraud detection in the 1990s,[7] and a number of use cases in the 2000s, including around consumer underwriting, risk management, compliance, and cybersecurity.[8]

Over the decades, AI-related technologies have continued to develop, as have potential financial services applications—most recently, we have witnessed the public, open source roll-out of AI models referred to as large language models (LLMs), which are capable of ingesting and learning from large natural language data sets. LLMs are a subset of generative AI models (or "GenAI"), which are capable of creating different forms of new content by publishing probabilistic answers to queries based on prior and ongoing learnings.[9]

Even more recently, public mindshare has become increasingly captivated by the potential of Agentic AI. Agentic AI is built on a foundation of GenAI, but is focused on empowering the AI to proactively plan, make decisions, and execute on such planning and decisions.[10]

AI applications in financial services have already yielded tremendous benefits to consumers, small businesses, market participants, and service providers, and regulators tasked with supervising financial institutions, protecting consumers, and ensuring market integrity. By processing large data sets, AI tools can offer predictive insights and analytics that allow for more accurate, efficient, and low-cost decision-making, including in the context of determining

[4] There is no single, agreed definition of Artificial Intelligence (AI). The OCC defined AI as "the application of computational tools to address tasks traditionally requiring human analysis." It further noted that "[m]achine learning, a subcategory of artificial intelligence, is a method of designing a sequence of actions to solve a problem that optimizes automatically through experience and with limited or no human intervention." *See* Office of the Comptroller of the Currency (OCC) (2021), *Model Risk Management Version 1.0*. Available at: https://www.occ.gov/publications-and-resources/publications/comptrollers-handbook/files/model-risk-management/index-model-risk-management.html (Citing Financial Stability Board (2017) *Artificial Intelligence and Machine Learning in Financial Services: Market Developments and Financial Stability Implications*.)

[5] Gorfine, D. (2019) *Remarks of Daniel Gorfine, Director of LabCFTC at ISDA, LabCFTC: Developments and Discoveries*. Available at: https://www.cftc.gov/PressRoom/SpeechesTestimony/opagorfine3.

[6] *See* Stevens, P. (2019) *The secret behind the greatest modern day moneymaker on Wall Street: Remove all emotion*. Available at: https://www.cnbc.com/2019/11/05/how-jim-simons-founder-of-renaissance-technologies-beats-the-market.html.

[7] Christy, C. (1990) *Impact of Artificial Intelligence on Banking.* Available at: https://www.latimes.com/archives/la-xpm-1990-01-17-fi-233-story.html.

[8] Oliver Wyman (2019) *Artificial Intelligence Applications in Financial Services: Asset Management, Banking and Insurance*. Available at: https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2019/dec/ai-app-in-fs.pdf.

[9] Nield, D. (2023) *How ChatGPT and Other LLMs Work—and Where They Could Go Next*. Available at: https://www.wired.com/story/how-chatgpt-works-large-language-model/.

[10] Google Cloud (no date) *What is agentic AI?* Available at: https://cloud.google.com/discover/what-is-agentic-ai

creditworthiness when a traditional credit score may preclude access.[11] Importantly, especially in higher-risk applications, humans are often "in the loop," with AI helping to inform, augment, and improve their work or decision-making.

AI is further capable of identifying patterns and anomalies that traditional approaches would be incapable of detecting, including in the context of identifying potential financial crime, fraud, or detecting illegal trading behaviors. Responsibly developing and adopting these tools can help ensure that the U.S. maintains the deepest and best-regulated markets in the world, as well as remains at the forefront of financial services innovation capable of serving our national economic needs and those of American consumers and businesses.

Today, all stakeholders in the financial services space, including banks, fintechs, financial markets firms, and regulators, use different forms of AI in their activities and operations. AI tools are being used to support risk management, compliance and transaction monitoring, trade surveillance, cybersecurity and intrusion detection, trading activity, market intelligence, digital investment advisory, financial crime/AML detection, customer service, and consumer finance underwriting. Increasingly, these same functions are leveraging GenAI and Agentic AI technologies, especially in the context of customer services, fraud detection, cybersecurity monitoring, intelligent document processing, internal coding, and information analysis.[12]

More broadly, consumer underwriting is one of the most prominently discussed areas for AI application given its potential to increase financial inclusion and its risk of perpetuating or creating new forms of bias—though, as noted further below, it is an area that has important consumer protections in place that must be followed regardless of the technology being deployed. It is well known that many legacy scoring systems contain embedded bias and are known to correlate with protected class characteristics.[13] AI-based underwriting holds substantial promise in—and already is—unlocking more fair and accurate scoring that can expand access to financial services for historically underserved populations. Depending on model design, these models can be more fair and transparent than legacy scoring by quantifying the relative significance of data inputs and assisting the search for less discriminatory models.[14]

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[11] *See* Oliver Wyman (2019)
[12] Levitt, K. (2025) 'AI On: How Financial Services Companies Use Agentic AI to Enhance Productivity, Efficiency and Security', *Nvidia.* Available at: https://blogs.nvidia.com/blog/financial-services-agentic-ai/#:~:text=With%20advancements%20in%20agentic%20AI,cost%20savings%20and%20operational%20efficiency
[13] Klein, A. (2020) *Reducing bias in AI-based financial services*. Available at: https://www.brookings.edu/articles/reducing-bias-in-ai-based-financial-services/
[14] *See generally* FinRegLab (2023) *Explainability & Fairness in Machine Learning for Credit Underwriting: Policy & Empirical Findings*. Available at: https://finreglab.org/wp-content/uploads/2023/07/FinRegLab-Machine-Learning-Research-Policy_Empirical-Overview-FACT-SHEET_July-2023_FINAL-1.pdf

This example is helpful in highlighting a key guiding principle that I would encourage the Subcommittee and regulators to consider when assessing new AI-based models: such models should be judged based on whether they improve off of a highly imperfect—and entrenched—status quo.[15] This principle should apply across AI applications and use cases since a singular focus on risk can blind us to the greater benefits that may be present as compared to legacy approaches.

AI is also benefiting consumers, investors, and market participants with respect to investment activity and financial advice. While the use of algorithms by institutional investors is not new, many new entrants and fintech firms are leveraging AI technologies to make financial advice more accessible, transparent, and lower cost. For example, digital investment advisors can efficiently allocate an investor's portfolio across low-cost, passive ETFs,[16] and financial advisory services can help consumers identify how to optimize paying down debts in order to minimize interest expenses. All of these services rely on analyzing broad sets of financial data in order to improve investor and consumer choice and outcomes. The development of GenAI and Agentic AI tools are expanding access to such services, and hold promise in providing even more insightful and actionable recommendations, as well as automated execution.

Another promising area of AI development in financial services involves a broad range of compliance, reporting, security and fraud detection, and trade and transaction monitoring functions (collectively referred to as "RegTech"). As noted above, a key strength of AI is its ability to ingest large volumes of data and identify patterns, anomalies, and insights that traditional approaches would be incapable of processing or detecting. AI can accordingly improve the efficiency, effectiveness, and capabilities of financial institutions and their regulators to the benefit of consumers, law enforcement, and market integrity. GenAI and Agentic AI are rapidly expanding RegTech capabilities, which as discussed further below in more detail, will require financial regulators to keep pace and adopt such tools themselves.

Examples of RegTech applications in financial services include improved AML monitoring, enhancing trade surveillance capable of identifying fraudulent and manipulative practices, and various forms of risk analysis, including with respect to market behavior and even economic indicators. As discussed further below, regulators are also leveraging these technologies—which should be supported by Congress—to better supervise markets and regulated entities, as well as to keep pace with combatting new technology-enabled threats.[17]

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[15] Of course, as discussed further below, not all models are well-designed and the quality and fairness of an output will be heavily dependent on the quality of the data input.

[16] Beketov, M., Lehmann, K., and Wittke, M. (2018) 'Robo Advisors: quantitative methods inside the robots', *Journal of Asset Management*, 19(6), pp. 363-370. Available at: https://link.springer.com/article/10.1057/s41260-018-0092-9

[17] FINRA (2022) *Deep Learning: The Future of the Market Manipulation Surveillance Program.* Available at: https://www.finra.org/media-center/finra-unscripted/deep-learning-market-surveillance.

As with any area of technological innovation, there are important risks that AI technology poses. For example, AI risks include the potential for embedding and perpetuating bias, processing and training on poor quality data, failing to operate as expected, helping bad actors engage in fraudulent and illegal conduct, and driving herd behaviors.

More specifically, certain "black box" and other poorly designed models run the risk of inadvertently embedding or even reinforcing bias by failing to test or understand outcomes, search for less discriminatory alternatives, and/or properly consider the input data driving the model results. As we have seen, models can also misfire or fail to perform as expected, resulting in a potential market "flash crash," and divergence from our broader values. And, models that are not subject to proper governance, ongoing testing, and controls can drift from their prior performance and begin yielding faulty or flawed results based on changes in the data or underlying model conditions. I will discuss how these risks can and are being mitigated in the sections below.

Additionally, bad actors are increasingly able to use technology to engage in more sophisticated forms of fraud and illegal conduct, including through ID and voice cloning.[18] These developments warrant focused law enforcement attention, continued development of new tools to combat these new threat vectors, and open collaboration between government, regulators, and industry to share information and best practices. As has consistently been the case, the best way to fight constantly evolving forms of crime is to ensure that law enforcement, regulators, and firms have the resources, information, and tools to confront bad actors.

Despite risks, the mere speculative potential or fear of future harm should not broadly block or disincentivize development and adoption of AI and emerging technologies in financial services, including by those small firms and community banks seeking to remain competitive in an increasingly digital economy. Global competitors are actively investing in AI technologies given their potential to transform most sectors and operations of our economies. This is an area that the U.S. must invest and lead, not just for the overall economic competitiveness of the country, but for all Americans who demand and deserve access to the most sophisticated financial markets and services in the world.

II. Financial Services Laws and Regulations: Capable of Integrating AI Tools and Technologies.

As noted above, financial services law, regulations, and risk management frameworks have long governed the adoption of emerging technologies in the sector, whether through rules to ensure consumer protection or principles-based guidance to ensure safety and soundness. These laws,

[18] Brown, S. *et al* (2023) *Letter from Chairman Brown and Senators Menendez, Smith and Reed to Director Rohit Chopra*, United States Senate Committee on Banking, Housing, and Urban Affairs. Available at: https://www.banking.senate.gov/imo/media/doc/voice_cloning_financial_scams.pdf.

regulations, and risk management principles largely apply to conduct and activities regardless of the technological tools used by the regulated entity—in this way they are appropriately technology-neutral. It is accordingly appropriate to focus attention on how to apply these existing laws and regulations in a manner that clarifies regulatory expectations, protects consumers and markets, and *encourages* firms to continue developing and adopting AI tools that improve their performance, safety, efficiency, and customer outcomes.

More specifically, when it comes to consumer protection, important safeguards apply when firms use AI tools. In the consumer finance space, lenders are subject to the Equal Credit Opportunity Act (ECOA), the Truth in Lending Act (TILA), the Fair Housing Act (FHAct), the Fair Credit Reporting Act (FCRA), and prohibitions against unfair and deceptive acts and practices, amongst others. ECOA and the FHAct specifically bar discrimination in lending for consumer credit, including in the context of residential transactions, and FCRA ensures key protections regarding credit bureau data use and access.

In the context of AI-based underwriting models, lenders must comply with fair lending regulations and search for less discriminatory alternatives (LDA) if a model results in a disparate impact on certain populations. To this end, AI can help raise the bar when it comes to understanding how certain variables may correlate with protected class characteristics, how that reliance can be reduced, and how less discriminatory alternative models can be deployed. Of course, not all models are well-built and governed. Regulators have authority, however, to examine fair lending compliance, including when lenders adopt new models or partner with third-party non-bank technology providers.

In other financial services contexts, consumer protection regulations require financial firms to provide consumers with viable avenues for lodging complaints, seeking recourse, and receiving broader customer support. Regulators have previously emphasized that consumer protections already apply to AI technologies in the context of chatbots, noting that "[d]epending on the facts and circumstances, entities may be subject to liability under federal consumer financial laws when chatbots fail to meet relevant requirements."[19] An example may be if a chatbot precludes a customer from being able to report and seek recourse on a fraudulent or incorrect payment transaction.[20]

Beyond the consumer finance space, important safeguards also apply to applications of AI technologies in the capital markets. For example, following the 2010 flash crash, stronger protections were put in place by Congress to enforce against fraud and manipulation in trading

[19] CFPB (2023) *Chatbots in consumer finance.* Available at: https://www.consumerfinance.gov/data-research/research-reports/chatbots-in-consumer-finance/chatbots-in-consumer-finance/.
[20] *See, e.g.,* 12 CFR Part 1005 (Regulation E).

activity, including with respect to algorithms that may engage in wash trading or spoofing.[21] Regulators and market participants have also adopted increasingly powerful trade surveillance technologies, often underpinned by AI technologies, to detect potential wrongdoing.[22] Additionally, financial market regulators have updated and imposed new circuit breaker programs, systems compliance and integrity, and electronic trading risk rules to mitigate flash crash risks, trading volatility, and market disruptions.[23]

In the investment advisory space, the SEC has existing conflicts of interest requirements in place that ensure that investment advice and recommendations made by broker-dealers or investment advisors are in the "best interest" of the investor.[24] Additionally, the SEC and FINRA have marketing rules that govern forms of investor advertising and engagement. These requirements apply equally to digital investment advisors, including those leveraging AI technologies, and as discussed further below have proven fully capable of providing the SEC with the tools it needs to ensure compliance and enforce against violations.[25]

The above consumer and investor protection laws and regulations are by no means exhaustive, but are intended to give a broad overview of the existing frameworks that apply in financial services to adoption of AI and other emerging technologies. Additionally, beyond these consumer and investor protection laws, financial regulators have developed robust risk management principles and guidance to ensure the prudent, safe, and sound adoption of new technology-based models and systems.

More specifically, in addition to third-party and other risk management frameworks, financial institutions have long adhered to "Model Risk Management" (MRM) practices that apply to adoption of AI-based models. In 2011, the federal banking regulators released "SR 11-7: Guidance on Model Risk Management" (the "MRM Guidance"), which governs adoption of models and ways to mitigate associated risks. The MRM Guidance covers model design, documentation, governance, data use, performance, conceptual soundness, and ongoing monitoring, testing, and reporting considerations and expectations. The MRM Guidance is a

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[21] King & Spalding LLP (2019) *Spoofing: US Law and Enforcement*. Available at https://www.kslaw.com/attachments/000/007/109/original/Spoofing_US_Law_and_Enforcement.pdf?1564767398 ("In 2010, the Dodd-Frank Act amended the CEA to include spoofing as a disruptive practice. The anti-spoofing provision, CEA Section 4c(a)(5)(C), makes it unlawful for any person to engage in spoofing . . .")

[22] FINRA (2022) *Deep Learning: The Future of the Market Manipulation Surveillance Program.* Available at: https://www.finra.org/media-center/finra-unscripted/deep-learning-market-surveillance.

[23] SEC (2011) *Investor Alerts and Bulletins Investor Bulletin: New Stock-by-Stock Circuit Breakers*. Available at: https://www.sec.gov/oiea/investor-alerts-bulletins/investor-alerts-circuitbreakers; *See also* CFTC (2021) *Electronic Trading Risk Principles Final Rule*, 86 Fed. Reg. 2048; *See also* SEC (2020) *Staff Report on Algorithmic Trading in U.S. Capital Markets*. Available at: https://www.sec.gov/files/algo_trading_report_2020.pdf.

[24] SEC (2022) *Staff Bulletin: Standards of Conduct for Broker-Dealers and Investment Advisers Conflicts of Interest*. Available at: https://www.sec.gov/tm/iabd-staff-bulletin-conflicts-interest.

[25] *See, e.g.,* SEC (2021) *Schwab Subsidiaries Misled Robo-Adviser Clients about Absence of Hidden Fees*. Available at: https://www.sec.gov/news/press-release/2022-104.

primary framework governing adoption of models by financial institutions, including those developed by third parties.

In 2021, the OCC adopted updated MRM Guidance and specifically discussed its coverage of AI models; the SEC, FINRA, and the CFTC require similar risk management practices to be implemented by regulated entities.[26] Beyond imposition of general MRM frameworks, financial regulators will frequently issue regulations that govern related cybersecurity and system safeguards and integrity requirements, as well as guidance on issue-specific areas, including in the context of AI development and adoption.

Importantly, in the context of criminal conduct and scams that may also impact consumers, criminal laws are well-established that allow law enforcement and regulators to pursue bad actors. Additionally, law enforcement and intelligence agencies are actively investigating the use of new technologies to engage in criminal conduct and offering constructive guidance to the industry. In recent years, the NSA, FBI, and CISA published a report titled "Contextualizing Deepfake Threats to Organizations," in which these agencies recommended to organizations that they pursue a multi-prong strategy of adopting new technologies to defend against bad actors, engage in information sharing, train personnel, and conduct scenario and contingency planning exercises.[27]

III. Policy Recommendations to Ensure U.S. Leadership in AI Technologies that Can Advance and Improve Financial Markets and Services.

The above discussion makes clear that advances in the use of AI in financial services are developing within robust financial services legal and regulatory frameworks generally designed to mitigate risks associated with the use of emerging technologies, while enabling innovation that will benefit consumers, investors, economic dynamism, compliance, and U.S. competitiveness. That said, this discussion also makes clear that as with any area of technological advancement, we will need to evolve how we apply governing frameworks and be vigilant in identifying novel risks that might require tailored and specific regulatory interventions. The following are principles and recommendations that can help to strike the appropriate balance:

[26] FINRA (2020) *AI in the Securities Industry: Key Challenges and Regulatory Considerations*. Available at: https://www.finra.org/rules-guidance/key-topics/fintech/report/artificial-intelligence-in-the-securities-industry/key-challenges.
[27] NSA, FBI, and CISA (2023) *Contextualizing Deepfake Threats to Organizations.* Available at: https://media.defense.gov/2023/Sep/12/2003298925/-1/-1/0/CSI-DEEPFAKE-THREATS.PDF.

1. ***Regulators Should Ensure that AI Adoption is not Blocked at the Examination Level and Should Use 'Soft' Power to Support Further Development and Applications.***

American financial institutions frequently report that innovation, including the adoption of AI technologies, is blocked by regulators at the examination level due to vague and endless inquiries and expectations that lack clear paths to compliance or conclusion.[28] Federal Reserve Vice Chair for Supervision Bowman recently highlighted the risk of regulators using the "'soft' power of supervision to discourage [the] use" of new technologies.[29] As discussed further below, examiners should accordingly be well-versed in the benefits and risks of AI technologies, but specifically directed to avoid behaviors that unnecessarily chill adoption. The "tone at the top" of financial regulators must similarly create clear expectations for examination teams and market participants, encouraging appropriate safeguards without deterring further AI development and use. As Vice Chair Bowman aptly noted, a regulator's soft power plays a significant role in creating an environment that fosters and advances responsible innovation.

With respect to rulemakings, since existing regulatory frameworks are largely fit-for-purpose in identifying and mitigating risks associated with AI technologies, it is important for regulators to avoid hasty and prescriptive rules based on speculative or hypothetical future risks. Instead, as discussed in more detail in the next section, policymakers and regulators should work to understand AI-related advances, how they are actually being adopted in the sector, benefits they are generating, and potential new risks they may pose. Only once actual risks that threaten to materially undermine consumer protection or broader safety and soundness are identified should targeted policy or regulatory interventions be considered. An approach of scatter-shot preemptive policies will otherwise deter or box-in further innovation and adoption, increase costs for firms, especially small financial institutions and community banks, and squander the first-mover and competitive advantages U.S. companies currently hold.

An example of a regulatory proposal that was overbroad and premature in its requirements related to AI-technologies was the SEC's proposed rulemaking regarding "Conflicts of Interest Associated with the Use of Predictive Data Analytics by Broker Dealers and Investment Advisers" during the past Biden Administration. The proposed rule offered an overbroad definition of covered technologies, including AI technologies that have long been in existence, implied and asserted that such technologies pose a greater risk of harm to investors and going undetected (despite clear historical evidence

[28] Bank Policy Institute (BPI) (2025) *Request for Information on the Development of an Artificial Intelligence (AI) Action Plan*. Available at: https://bpi.com/wp-content/uploads/2025/03/BPI-AI-Action-Plan-RFI-Mar.-2025.pdf.
[29] Bowman, M. (2025) 'Bank Regulation in 2025 and Beyond', *Speech by Governor Bowman at the Kansas Bankers Association Government Relations Conference, Federal Reserve*. Available at: https://www.federalreserve.gov/newsevents/speech/bowman20250205a.htm.

of misconduct made harder to trace by legacy tools, such as unscrupulous brokers targeting investors by telephone),[30] and then sought to treat firms using these technologies differently from those relying on legacy systems by subjecting them to a more punitive conflict of interest framework.

By specifically targeting emerging technologies largely based on conduct already subject to regulation or speculative conduct that may (or may not) occur in the future, the proposal was inherently not technology-neutral and would have deterred adoption of such technologies, especially for smaller firms that lack large compliance teams capable of parsing ambiguous regulatory expectations.[31] Fortunately, this proposed rule has been withdrawn.

2. *Financial Regulators Require the Expertise, Tools, and Culture to Keep Pace with Increasingly Digital and Technology-Driven Financial Markets and Services.*

I had the distinct honor of serving as the first U.S. CFTC Chief Innovation Officer and Director of LabCFTC, the Agency's bipartisan financial technology innovation initiative that became an office within the Agency. The mission of LabCFTC was to "facilitate market-enhancing innovation, inform policy, and ensure that the Agency [had] the technological and regulatory tools and understanding to keep pace with changes to our markets." Efforts like LabCFTC should not be mere public relations efforts, but rather should play a critical and substantive external and internal role within an Agency.

More specifically, innovation offices can serve as an external door to the public—and an entry point where the public, startups, incumbents, and other interested stakeholders alike can engage with an Agency. Through engagement—and proper coordination with Agency operating divisions and staff—an innovation office can help an Agency keep up with a rapidly changing external environment. Such an office should work across the Agency to be responsive to the marketplace, offering clear expectations when ambiguity is identified or helping to inform rulemakings. It should further help to internalize learnings to improve the Agency's overall understanding of new technologies, including AI.

This is not a regulatory race to the bottom—it is the opposite: it is a means to modernize and support regulatory excellence. A recent GAO report underscores this point given its finding of a significant lack of relevant technology skills and understanding across

[30] SEC (no date) *Boiler room schemes*. Available at: https://www.investor.gov/introduction-investing/investing-basics/glossary/boiler-room-schemes.
[31] Gorfine (2019)

federal financial regulators.[32] A better informed Agency can perform all functions more effectively, ranging from avoiding scenarios where examiners block regulated entities because they simply don't know or understand whether a new technology or application is appropriate to scenarios where enforcement teams miss new categories of crime due to a lack of awareness.

In addition, innovation offices can be key hubs focused on attracting the best and brightest in a technological field and can help an Agency acquire leading-edge technologies. Indeed, in a world where markets and services are increasingly digital, quantitative, and technology-driven, a regulator must be increasingly digital, quantitative, and technology-driven as well. Only by adopting leading technologies, including AI, can regulators properly regulate, surveil, and monitor their proper jurisdictions.[33] AI tools will prove increasingly critical in combatting fraud, ensuring market integrity, analyzing financial information—including real-time information about the economy or even individual firms—and identifying concentrations of risk.

I applaud this Subcommittee for past bipartisan legislative efforts to codify innovation offices like LabCFTC, and encourage getting these efforts across the finish line. American taxpayers deserve financial regulators built for the second half of the 21st century, and Agency modernization, which must include retaining critical internal subject matter expertise and technology capabilities, should be a top priority.

3. ***Establish a Federal Data Privacy Framework that Contemplates the Evolution of AI and Ensure Open Access to Quality, Permissioned Financial Data.***

As previously discussed, the quality of AI model outputs and predictions is inherently tied to the quality of data inputs used to train and operate such models. Policymakers, regulators, and the broader public are right to be concerned about whether we have appropriate safeguards in place regarding how data is being generated, sourced, secured, shared and consumed for use in AI models.[34] To this end, it is imperative that Congress work to establish a national framework that governs data privacy, advances cybersecurity, and ensures that consumers have control over—and trust and confidence in—how their data and information is being used.

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[32] GAO (2023) 'FINANCIAL TECHNOLOGY: Agencies Can Better Support Workforce Expertise and Measure the Performance of Innovation Offices', *Report to the Chairman, Committee on Financial Services, House of Representatives*. Available at: https://www.gao.gov/assets/gao-23-106168.pdf

[33] Giancarlo, J.C. (2018) 'Quantitative Regulation: Effective Market Regulation in a Digital Era,' *Keynote Address of Chairman J. Christopher Giancarlo at Fintech Week, Georgetown University Law School*. Available at: https://www.cftc.gov/PressRoom/SpeechesTestimony/opagiancarlo59.

[34] Zakrzewski, C., Lima, C., and DiMolfetta, D. (2023) *Tech leaders including Musk, Zuckerberg call for government action on AI*. Available at: https://www.washingtonpost.com/technology/2023/09/13/senate-ai-hearing-musk-zuckerburg-schumer/.

The Gramm-Leach-Bliley Act (GLBA) provides a baseline for how a broad range of financial firms must explain their information-sharing practices and safeguard consumer data. This law may provide a good starting point for the regulation of data use and security in financial services, but is due for modernization given market developments, including with respect to AI and the increasing role played by nonbanks and technology providers. Key areas for legislative updating include increased consumer transparency and control over the use of personal data, implementation of data minimization principles so that data is used for clear and stated purposes, opt-out rights for nonessential data collection, broader coverage, and consumer rights to withdraw consents or delete personal data, as appropriate.

On the latter point of data deletion rights, it will be important for policymakers to consider how a consumer's invocation of this right could impact his or her future access to certain services, including lending or insurance, that may be limited by a lack of data access or availability. The law will need to balance the notion that a consumer should not ever be penalized or targeted for exercising a data control right with the reality that future underwriting models may require (or prefer) access to certain types of data. For this reason, consumers need to be fully informed of the implications in electing certain data treatment, including potential downstream effects in securing future services.

As discussed further below, it is also important to note that a modernized national framework over data privacy and use should preempt overlapping state-based efforts. Our economy is increasingly digital, which inherently means that Internet and mobile-based platforms will increasingly be leveraged in the financial services context. These platforms (and the data moving on them) operate on a national (if not global) basis, which renders state-based frameworks inefficient, costly, confusing, and potentially unworkable. A patchwork approach to data regulation may accordingly undermine AI development in the U.S., result in market fragmentation, and also result in consumers, small and community banks, and other market participants in certain states being excluded from the benefits of such innovation.

As a final matter relating to the centrality of data in AI development, it is important that the CFPB confirm a robust open banking rule that allows consumers the ability to share their data with other financial services providers. Open banking is predicated on the notion that consumers have a right to control the sharing and use of their financial data, and that such data should not be subject to anti-competitive restrictions on its transfer. In addition to upholding these principles, the CFPB should amend the prior Administration's final rule that imposed overbroad limitations on secondary use of permissioned consumer

data since it unnecessarily treats open banking data differently from all other data and will impede AI model development, including in the context of countering fraud.

Overall, GenAI and Agentic AI are still in their early stages of development and in many applications will heavily rely on the ingestion of high-quality, real-time, and permissioned consumer data to unlock consumer benefits. For example, Agentic AI will increasingly be able to offer a consumer constant financial health monitoring based on real-time information and be able to recommend and execute optimal financial decisions, ranging from paying off high-cost debt to shifting savings to a high-yield account.[35] This requires the seamless flow of high-quality data subject to appropriate safeguards. For this reason, national data privacy, open banking, and data security frameworks in the U.S. must be crafted with the future of AI development in mind.

4. ***Prevent the Interference of State Laws and Regulations with the Federal Framework for Regulating Financial Services.***

As detailed above, there is a longstanding and robust federal framework for the regulation of financial services and markets in the U.S.—a framework that contemplates a role for state banking regulators and that has successfully allowed for the integration of emerging technologies over the decades. Indeed, the financial industry should be looked at as an example for how other sectors can safely adopt emerging technologies, including AI.

Unfortunately, at the state level, there have been numerous legislative efforts in recent years to regulate AI technologies or the data they require without careful consideration of the interplay or impact on overarching financial regulation.[36] This raises significant risks of conflict, ambiguity, redundancy, and confusion—any one of which will impede AI development and adoption in financial services. It is accordingly important that Congress act at the federal level to ensure a consistent and unified national approach given the inherently national nature of AI development and use in financial services. Failure to act will inevitably chill adoption and undermine compliance efforts across the industry.

[35] Zhang, B. and Garvey, K. (2025) 'From automation to autonomy: the agentic AI era of financial services', *University of Cambridge, Judge Business School.* Available at: https://www.jbs.cam.ac.uk/2025/from-automation-to-autonomy-the-agentic-ai-era-of-financial-services/.
[36] Welle, L.J. *et al*. (2025) *The Evolving Landscape of AI Regulation in Financial Services*. Available at: https://www.goodwinlaw.com/en/insights/publications/2025/06/alerts-finance-fs-the-evolving-landscape-of-ai-regulation.

5. ***Further Clarify and Update Risk Management Frameworks and Promote the Value of Well-Crafted Standards through Regulatory Recognition and Safe Harbors.***

As discussed above, the financial services industry is subject to longstanding risk mitigation frameworks that have been applied to the adoption of emerging technologies for decades. These frameworks are appropriate for advances in AI in financial services, but will require updates, clarifications, and further guidance that address emerging risks and provide the industry with the clarity required to confidently build and adopt such technologies.

For example, it is useful and appropriate for regulators to alert and reinforce that the use of AI in customer service applications must provide customers with proper recourse and paths to resolution; such notice should underscore that there is a tremendous opportunity to improve on legacy customer service models, which historically have included long waits for accessing live representatives, painful dropped calls or endless routing loops, and failure to achieve proper resolution. As financial providers develop, test, and gradually implement new AI-powered models with greater functionality that can improve on the status quo, it would be appropriate for regulators to emphasize the importance of risk mitigants, such as ensuring proper audits and performance monitoring of such models.

Other key areas for clarifying or enhancing guidance and regulatory expectations in the context of AI models include MRM Guidance and third-party risk management with a focus on specific consumer finance and financial market applications. For example, while the banking MRM Guidance and 2021 OCC updates noted above provide the appropriate framework for assessing and mitigating risk with AI models, regulators should look for opportunities to clarify how the Guidance should be applied in the context of AI. Confirmation that establishes that the mere use of AI—even GenAI—does not inherently make an activity higher-risk would be especially valuable, including for smaller financial institutions.

Additionally, regulators should look for opportunities to make clear to the market which specific applications should be viewed as low, moderate, or high-risk in order to help providers tailor compliance requirements. To this end, regulators should look for opportunities to make clear that degrees of explainability that are required will vary depending on the risk of the application and availability of other risk mitigants, including ongoing performance testing or the presence of a "human in the loop."[37] And in the financial markets context, market regulators should further clarify expectations for

[37] Google Cloud and AIR (2024) *Adapting Model Risk Management for Financial Institutions in the Generative AI Era*. Available at: https://regulationinnovation.org/adapting-model-risk-management-for-financial-institutions-in-the-generative-ai-era/

exchanges and trading firms relying on AI technologies, including proper risk controls that can mitigate herding behavior, new forms of manipulation, or excessive trading volatility caused by technology failures.

Finally, policymakers and regulators should encourage and help foster the development of standards that can enhance safety, security, and adoption of AI technologies. The National Institute of Standards and Technology (NIST) previously released its "Artificial Intelligence Risk Management Framework 1.0," which provides for approaches to mitigating risks associated with the use of AI.[38] Private sector and industry organizations often build on NIST and similar standards efforts to create even more tailored frameworks that can help ensure compliance in the financial services context. For example, the Cyber Risk Institute (CRI) Profile was developed by a "not-for-profit coalition of financial institutions and trade associations working to protect the global economy by enhancing cybersecurity through standardization. Through consensus among the financial sector ecosystem… [the Profile] and related guidance help firms better manage cyber compliance programs."

Such industry-led efforts to develop standards in the AI context should be strongly supported by regulators. Indeed, I recently argued that regulators will inevitably need to rely on external standards development given the speed of technological change and the lack of internal capabilities to keep pace with all technology-driven developments.[39] To this end, regulators can advance standards development—including in the context of AI—by formally recognizing standards setting organizations and crafting explicit compliance safe harbors that encourage adherence to such standards.

* * *

As detailed in my testimony, the development and adoption of AI in financial services is not only inevitable, but it holds tremendous promise. This technology can improve the delivery, accessibility, and cost of financial services, while also better serving consumers and businesses. This evolution is also vital to ensuring the global competitiveness of our financial firms and the enduring appeal of U.S. financial markets in a world of increasing competition.

While it is wholly appropriate for regulators to closely monitor these developments and target interventions when specific risks are identified, it is equally important to enhance clarity and encourage the industry to continue developing and responsibly adopting AI. Given existing financial services regulatory frameworks, the adoption of complex models in higher-risk

[38] Crossman, P. (2023) *How banks should deal with AI's risks, according to NIST*. Available at: https://www.americanbanker.com/news/how-banks-should-deal-with-ais-risks-according-to-nist.
[39] Gorfine, D. and Bailey, N. (2025) 'The Case for Recognition of Technology Standards in Financial Regulation,' *Open Banker*. Available at: https://openbanker.beehiiv.com/p/techstandards.

functions will naturally be gradual and subject to robust governance requirements. We should avoid creating redundancies, conflicts, or ambiguity that could inadvertently chill innovation, especially among small firms and community banks.

AI will be at the center of the second half of the 21st century. It is a technology that the U.S. must lead in, and by carefully balancing a focus on safeguards with a clear pro-innovation philosophy, we can ensure that American ingenuity thrives.

Thank you. I am happy to answer any questions that you have.

Appendix A

Daniel Gorfine Biography

My name is Daniel Gorfine, and I am the founder and CEO of Gattaca Horizons LLC, a boutique advisory firm. I am also a co-founder and director of the non-profit Digital Dollar Project and an adjunct professor at the Georgetown University Law Center. I am honored to have previously served as Chief Innovation Officer at the U.S. Commodity Futures Trading Commission (CFTC) and Director of LabCFTC.

In my advisory capacity, I work with a range of clients, including financial firms, technology companies, fintech and digital asset-related firms, industry trade associations, and startups. As an adjunct professor at Georgetown, I teach a course titled "Fintech law and policy." I am a graduate of Brown University (A.B.), hold a J.D. from the George Washington University Law School and an M.A. from the Paul H. Nitze School for Advanced International Studies (SAIS) at Johns Hopkins University.