

Podcast with Craig Phillips, Counselor to the Secretary of the Treasury

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- Jo Ann Barefoot: [00:01](#) We have an amazing show today because my guest is Craig Phillips, who is the counselor to the secretary of the treasury. Welcome and thank you for joining me.
- Craig Phillips: [00:09](#) I'm glad to be here.
- Jo Ann Barefoot: [00:11](#) I'm thrilled to have you on the show. We have a lot of ground that I'd love to cover, and I know you've got limited time, so let's plunge right in. Why don't we start by having you tell people what the Counselor to the Secretary of the Treasury does? What's your role?
- Craig Phillips: [00:27](#) Oh sure. As Counselor, I work with the Secretary across a wide range of activities that support fiscal operations and debt management for the country. I also oversee teams that develop financial institution and capital markets policy, office of domestic finance has broad responsibilities supporting the sector on actuating programs and policies that focus on our overall domestic economy. So it's a fairly broad mandate.
- Jo Ann Barefoot: [00:51](#) That's great. And we're meeting here in your office in the Treasury building, which is wonderful. You have an incredible background. Could you just tell us a little bit about the background that brought you into this role? Prepared you for it?
- Craig Phillips: [01:03](#) Sure. I, you know, moved to New York City following graduation from college and got immediately involved in what were then the fairly young structured finance fixed income markets. I was one of the early movers in the securitized products business, which at the start of my career, was only mortgages. And now has moved on to many, many other asset classes. That activity took me around the world as securitization became a global product and I led global groups for leading investment banks. More recently, immediately before joining Treasury I ran a risk consulting practice as part of a risk technology effort within a global asset management firm. My focus was helping [inaudible 00:01:45] private sector clients work through issues arising from the financial crisis and also to adapt to the new rigorous regulatory environment that arose thereafter. Throughout my career, we're going to talk about innovation, I have to say innovation, electronic trading, product innovation and speed of data has characterized the major shifts in my career. So as I come to Treasury and think about innovation and technology and how to align that with a pro growth economic policy, it's

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been an exciting experience to see that have unfolded under my private sector career.

Jo Ann Barefoot: [02:19](#)

That's great. That's a good segue to talking with you about the fact that the administration, early on undertook a project to look at the framework of our financial regulatory system in the United States. Why did President Trump made that a priority? And tell us about the process.

Craig Phillips: [02:39](#)

Well, look, the administration is committed to creating sustained US economic growth, and jobs, and jobs with better wages. So, really at the top of the priority, we believe that proper tailored regulation in all sectors of the economy, including financial services, is required to meet that goal. So, in early 2017 president Trump issued executive order 13-7-7-2 which set forth core principles for regulating the financial system. And it really directed treasury to review the entire financial system for areas where current guidance, statute, regulation, or other regulatory procedures didn't match the core principles. Those core principles are things such as empowering Americans that make independent financial decisions, preventing taxpayer funded bailouts, fostering growth through vibrant financial markets, making regulation efficient, effective and more appropriately tailored and really restoring public accountability within the financial regulatory framework. So it was a really broad remit. And to canvas input on this, we met with a lot of stakeholders from industry trade groups, academics, advocacies, advocates of various types in both individual and in group meetings, to really understand truly how all these factors were impacting the operation of the financial system. So that work started, as I mentioned, in the first quarter of 2017 and then folded thereafter vigorously. It was such a broad review, we decided to segment our report back to the president into four reports. The first was released in June of 2017 and covered the depository systems, which are banks and credit unions. The second was released in October of 2017 and covered capital markets, which also related to a lot of the investment products that investor recognize in the market. The third report was also in October '17 and covered asset management insurance industries. And finally, in July of 2018, we released our final report, we call it the fintech report, but it really covered non-bank financial companies, fintech and the topic of innovation itself.

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- Jo Ann Barefoot: [04:53](#) Great. So we're going to talk about the fintech one in more depth, but first, in terms of the four reports, what would you point to as the major themes in innovation and technology that are running across the whole thing framework?
- Craig Phillips: [05:07](#) Well, I think the biggest thing is change, that the financial services industry is changing rapidly, not just here in the United States, but globally. And that the regulatory environment has to keep pace with the implications of that change. So first of all, technology creates a lot of opportunities in the system that can help reduce costs of services. And through introducing operational efficiencies, it also can really advance access and the nature of the speed and quality of product. Secondly data, you know, digitization of finances is becoming a reality and that's combined with sort of the preference of consumers and businesses to use mobile computing techniques. So really incorporating large data sets that could move and be accessed very quickly into the financial sector is a very high priority. Data combined with increased content activity through mobile devices really provides an opportunity to revolutionize the low rate of financial services. Third, there's just a huge amount of capital now chasing these changes.
- Craig Phillips: [06:15](#) So, following the crisis, the banking system in particular, has operated under increased regulation, rules, increasing liquidity, and capital, but at the same time as they were investing in those changes and also investing in, what I call, more risk oriented technologies, people in the non bank sector were investing in tremendous changes in data analytics and other competitive technologies like cloud, artificial intelligence, and distributed ledger technologies. That investment capital, which is provided by some of the largest companies in the world, comes to bear on the financial services industry complementing the large infrastructure we already have. And lastly, the use of data, speed of communication, and proliferation of mobile devices has really broken down barriers for entry. So there's a very wide range of non-traditional financial institutions to partner with directly. In some cases, they offer services directly to the marketplace. So it's an opportunity not only for the services to be accessed through these new innovative companies, but also for existing institutions to use those institutions as counterparties and vendors and partners.

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- Jo Ann Barefoot: [07:27](#) So you've already touched on this somewhat, but talk about why you called out the topic of fintech as a subject for one of the reports.
- Craig Phillips: [07:38](#) Well, as we went through the reports, we realized that, as I just mentioned, that technology changes were interwoven through the whole system. And as we probed regulations, that impacted different activities and services in a unique fashion. So we thought it was really important to bring it all together in the end. Really, a large amount of innovation is occurring in fintechs, which we define as as independent companies providing some element of product service or technology's relevance to the financial services sector. So really, how we license and regulate those companies is a very important topic that we wanted to explore. At the same time, many of the companies that we had covered in the prior report such as banks, credit unions, asset managers insurance companies are partnering with these companies, which is a turn the Treasury very much supports. So how those partnerships operate and sort of the regulatory model to allow them to exist was also a very high priority. So we thought that pulling that all together and focusing on the concept of data, technology, and innovation in the American and global economy was important. One goal in all these reports was to level set how the world works. So, this report was particularly exciting to really talk about elements of technology and how it's changing and then relate it back to the financial services markets.
- Jo Ann Barefoot: [08:56](#) Great. I've had the opportunity to be at a number of forums where you've talked about these findings and as I know you know, the report has been very, very well received. It was incredibly well done. It talks about the digitization of finance, as you've mentioned, and the impacts of mobile access and also emerging technologies like artificial intelligence and machine learning. How do you evaluate these state of adoption of these kinds of technologies in the United States, both in the industry and with the regulators?
- Craig Phillips: [09:28](#) Sure. Well, I think the prospect of artificial intelligence is just one example of an emergent technology being adopted successfully in the financial services and involves, first of all, seamless and scalable access to and use of data. So that basic change presents several dimensions that raises challenges and

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was the basis of a lot of our recommendations. So first of all, improvements in digital legal identity standards will help support innovation. Better digital identity holds promise for improving the trustworthiness, security, privacy, and convenience of identifying individuals and entities that are then interacting with a financial provider through electronic means. This'll strengthen processes in our economy and financial services as we race deeper into the digital age. One of the key regulatory requirements for financial service providers is to know your customer. So effective customer identification procedures are absolutely critical in properly assessing credit decisions in the case of lending, but also and enabling compliance with important statutes such as anti-money laundering requirements.

Craig Phillips:

[10:37](#)

Secondly, it's really critical that we promote a modernization of effective data aggregation and support of the delivery of financial services to consumers and small businesses. There is an industry that's arisen that focuses on data aggregation and they're composed real identities that help customers quickly assemble data from disparate sources to support a financial services' decision. Really, it's one of the key elements of speed, of why fintech companies may appear to do things quicker and more efficiently than a traditional provider. So these aggregators operate with the permissions of customers as to whom the data pertains, by getting access to their various accounts or other information. So an appropriate interface with these is also required to create the benefits of speed and scale. So, regulators should both support and encourage the movement towards that aggregation through the most secure means possible, such as use of API's, which involves higher security standards, but also the ability to define liabilities.

Craig Phillips:

[11:36](#)

So the appropriate disclosure, consent, termination of consent and other features are really important to make this work. But it's really part of the improvement in the consumer experience resulting from the use of their data. And finally, protection of consumer data is critical. This doesn't arise just because of fintechs. It's an issue with all financial services companies. But currently, a financial services company that experiences a data breach could be subject to 50 different state breach notification laws, many with inconsistent provisions. So we did put forward principles for a federal statute that would better protect consumer financial data and ensure technology neutral on

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scalable standards, recognizing the federal data security requirements for financial institutions and also establish uniform federal requirements that preempt inconsistent state laws. So that last piece is really important to protect the consumer, but also to define the responsibilities of the institutions that are working with them.

Jo Ann Barefoot: [12:30](#) Yeah, I don't think anything is more crucial to all of this than figuring out how to protect data, but let it be used for good. So I know you have a global lens on this. I've had the opportunity to do a lot of international work as well. How do you think the United States is standing in terms of global competitiveness in this kind of innovation?

Craig Phillips: [12:52](#) Well, we're the largest economy in the world. We're growing at a rapid rate, so there's a lot of good news on the US competitiveness, but the relation to this topic: One of our challenges is the nature of our fragmented regulatory system. So first of all, we have at both a federal and state level, regulation that impacts innovation in the non bank fintech sector. At the federal level, our regulatory agencies in some cases have overlapping mandates for existing institutions and that overlap has to be defined for these new segments. So for instance, a bank or other deposit institution may have as its federal regulator, the Federal Reserve, the office of the control of currency, the FDIC or the National Credit Union administration. This overlap and fragmentation is exacerbated as statutes establish prescriptive approaches to rulemaking. Complications definitely rise when certain roles have multiple rule writing agencies.

Craig Phillips: [13:46](#) For instance, by statute, the Volcker rule has five rule writing agencies and the risk retention rule pertaining to securitized product has six rule writing agencies. At the same time, states also regulate many financial services business. This regulation is usually overseen by a specialized regulatory entity within each state, which may be either a standalone regulator or operate as a division within a consolidated entity. So many of the financial service companies are subject to both state and federal oversight and examination. So this is a unique issue with our system versus many, many other countries that have a more consolidated system and wouldn't have really a parallel to the state regulatory system at all. So for fintechs that are operating nationally, oversight by potentially 50 states has become a very

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challenging ordeal and a barrier to grow. So embracing the protection of consumers or businesses within a state is a very sensible role for state regulators and regulation.

Craig Phillips: [14:41](#)

However, the proposition of a company having 50 prudential regulators is untenable proposition and really represents a challenge to innovation. So, in addition to the nature of the delivery of financial services, the Internet has brought other players in that aren't traditionally banking regulators. For instance, the federal communication commission or FCC and the Federal Trade Commission, the FTC and various aspects of activity based regulation oversight. One example is the FCC's enforcement of the Telephone Consumer Protection Act, a 1991 statute that governs interactions with consumers by financial services providers through text or voice communications. So whenever you hear that other countries are better enabling innovation in financial services than the United States, the implication of this fragmented regulatory system may be a root cause. So re-engineering the entire system is not a practical reality. As a result our fintech report focused on some key areas and recommendations that could enhance the rate of innovation in financial service, the regulatory harmonization and embracing the issues that we have in the nature of our system.

Jo Ann Barefoot: [15:47](#)

So let's talk about some of those. Our listeners know I'm a former bank regulator and I could not agree more that this fragmentation issue, it holds us back. It slows us down. It's not anybody's fault. It just does. So when you talk about the regulatory fragmentation, talk about the issue of federal preemption or federal chartering of financial institutions such as what the Controller of the currency has proposed with a fintech charter for national banks.

Craig Phillips: [16:16](#)

Well, as I mentioned, our goal was to try to advocate for achievable goals and addressing the nature of fragmentation and overlap. And we laid out a few things. So we definitely laid out support for the OCC's effort to move forward with a special purpose national bank charter. We think that this charter can provide a useful federal approach to reducing some of the regulatory fragmentation that hurts innovation. There's some opposition to this on a variety of different means. We really look forward to the OCC and possibly the FDIC receiving and moving forward with, you know, special applications in this

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area. This would probably be for the largest fintechs. It doesn't address the whole sector, but certainly for a company operating nationwide, we would think it would be a very constructive step. We, at the same time, because many companies will not pursue this charter, think that the ongoing harmonization with state regulators is critical. So we have really identified an opportunity for federal regulators to facilitate the main fintech partnerships and vendor arrangements, which are means of accelerating innovation. So in a case where there are state chartered entities, how they partner with a federal entity, which in some cases that use federal preemption, is a really critical element to get right. So I guess what we want to do is balance all these things and have a level playing field so firms that are providing similar services are regulated in a similar way. So we think these ideas of either a federal charter and better enabling partnerships with mature institutions will be a way to get increased flexibility in the system.

Jo Ann Barefoot: [17:53](#)

Our listeners know I'm strongly in favor of that as well. So we've been talking about regulatory modernization, what can be done at the level of the agencies. Talk about what you've thought about and looked at in terms of statutory, where do we need statutory change as well?

Craig Phillips: [18:12](#)

Sure. Well, it's short. It's not a criticism, just an observation that there's just a huge amount of activity-based regulation that was developed in and for a different era. In fact, before any of the things that we're now talking even existed. Obviously, our securities laws, as an example, and our commodities and futures laws, you know, date back to the 1930s in many cases. So the regulations that are built on top of them, reach way back to an original statute that wouldn't have even contemplated the fascinating opportunities that we now have to pursue. So areas of that include things such as the use of data in general, customer contact, of the implications of mobile device communication, the possible use of automated underwriting systems and data aggregation which increases speed, but also the nature of how machine learning and other techniques are integrated. Other factors are how banks partner with these vendors, you know, as defined by the banking regulators, which also are in need of harmonization or adjustment in the context of the unique services that fintechs now provide institutions.

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- Craig Phillips: [19:19](#) So key emergent technologies are generally not specifically allowed or disallow, but do raise questions. These include, really, key trends such as moving to the cloud, something that every other industry does. But in the US most banks have not fully moved to the cloud. So that's a step that has yet to be taken. How you use large data and emerging techniques such as machine learning and AI. You know, again, rapidly unfolding in other industries but fairly new to the financial services in traditional banking sector. And also tactical approaches to such things as credit practices and the modeling of credit scores. So, in our report we dedicated about 70 pages to a discussion of these points. They cover a very wide range of topics defined by asset classes such as student loans or mortgage loans, and other activities such as loan servicing, addressing kind of the regulations and policies that are our frame.
- Craig Phillips: [20:17](#) So you know, many of our solutions can be addressed by regulation change. However, a number of them do involve statutory changes, which would be very helpful. So we've identified in our report whether the issue can... [whether] an activity base can be addressed by the regulator or require a statutory changes. So we're really satisfied with how the report has been received. You know, across all our reports, I think the lead regulator sort of embraced the concept of what we're doing and of course the states, you know, have a right to oversee their state environment. I think they're attempting to really embrace this input as well and sort of come up with a path of harmonization and coordination that will be very constructive. So there's a lot of work to do, but we're happy with the reception so far and the feedback that we've identified, issues that need to be addressed.
- Jo Ann Barefoot: [21:07](#) You've definitely identified the key issues. So if we think about when fintech began to emerge, I think there was a lot of assumption that it was challenging or threatening the traditional institutions and that there was going to be a lot of competition between them. But in more recent years we're seeing more partnering and more synergy between the two sectors. What thoughts do you have on how fintechs and traditional companies and banks might be able to work together?

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Craig Phillips: [21:38](#) I would agree with you. I think there's the opportunity for a very high level of collaboration. I think in the earliest days there was a perception that fintech platforms would go directly to customers. And I think there's an increasing recognition that mature companies have established customer relationships but also a multiproduct environment that makes them, you know, having durable importance. So the partnering is actually a good outlet. So really if you think about that, you know, lending or any other service, the key thing is how a firm, a bank, asset manager or other firm can sort of engage third party providers that sort of leverage their activities but still allow them to fulfill their regulatory responsibilities. So we called for better tailoring and clarification around the guidance regarding bank partnerships with non bank financial firms, particularly fintechs and emerging, newer companies. This was identified consistently in our outreach as being a topic that needed clarification and modernization, but also requires collaboration between the institutions and their various regulators.

Craig Phillips: [22:45](#) And one of the big topics was that there's inconsistent guidance between the different regulators on this point, which can result in redundancy. This hurts, in particular, smaller firms. So if you're a community bank and there's a very rigorous procurement activity, it's less economic for the fintech to go through that activity with a smaller institution than a larger institution based on the size of the contract. So this is really important to get right when we look at our whole system, which involves a tremendous number of community organizations. So there's some other factors... You know, the permissible activities and investments under the Bank Holding Company Act and the National Bank Act and the FDIC Act present several interrelated challenges to innovation. So the regulators are responding to these market developments as to what's allowed and it's really important. Banking organizations are increasingly required to deploy new technology as their customer needs and can do this through acquisitions, partnerships or internal development.

Craig Phillips: [23:47](#) But as I mentioned, community banks really don't have the option of building out all these services. So partnering or, you know, having a vendor relationship is really critical for them to stay competitive with their larger peers. So the very dynamic nature of financial technology, really requires regulators to

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adapt. So, how regulation operates has to basically modernize to really appreciate the nature of these vendor partnerships and kind of what opportunities they present, but also what risks should be evaluated. So we recommended the Federal Reserve reconsider how they assess the definition of BHC or bank holding company controlled and provide firms with a simple more transparent standard to facilitate innovation-related investments. There's a tremendous amount of seed and other capital coming from banks to invest in the sector, and in addition to bank regulation, interpret banking organizations permitted scope of activities in a harmonized manner as permitted by law whenever possible in a manner that allows them to recognize the positive impact that changes in technology and data can have in the delivery of services by those that they regulate.

Jo Ann Barefoot: [24:54](#)

One area of fintech innovation that's been very mold breaking and that did not get a lot of attention in the report is the innovation in blockchain's distributed ledger technology and digital assets. Talk about where treasury stands on those issues and also how the US regulators are trying to coordinate their approach to them.

Craig Phillips: [25:16](#)

Well, that's an interesting question and we didn't comment a lot on it other than to recognize it's an emergent technology. First and foremost, when we say we're not trying to regulate technology per se, all this discussion is about how banks access and use technology rather than technology itself being regulated. But this topic of blockchain required special focus because alongside it arose digital assets or crypto currency that had become an asset class that had a focus other than the technology. So Secretary Mnuchin announced a working group of [inaudible 00:25:50] members all the way back in late 2017 to explore the developing market for digital assets and sort of a [inaudible 00:25:58] inter-agency education coordination. Recall that there was quite a bubble evaluation at that time, which had attracted a lot of attention and raised the question, how is this market regulated and how are investors protected and what are the issues?

Craig Phillips: [26:12](#)

So that working group was composed of two parts of treasury, our office at domestic finance, but also our office of terrorism and financial intelligence, which focuses on illicit activities, but in particular money laundering and other activities that arise

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from a currency like a market, which digital assets are. But the other members were the Federal Reserve Board, the CFPB, the FDIC, the OCC, the CFTC, and the SEC. And this met at both the principal levels and at deputy level. So, we also included the Department of Justice, given their important role in law enforcement aspects of digital asset holdings and markets and their relevance in the context of understanding how digital assets were presenting themselves at crime scenes effectively, but also the context of implementing any money laundering statutes. So we really had kind of three big efforts there. One was mutual education and information sharing. This was a very, very new market that didn't have any traditional characteristics that banking regulators in particular would be useful, familiar with. So this was really critical, to pull all this information together and kind of understand what was going on. And the second was, we did a stock take of all the existing current authorities pertaining to digital assets and this sort of related to each of the agencies. And you know, I pointed out the fact that depending on how you determined the nature of what these assets were, that there was actually unclear or limited authority. And the last was looking at the international landscape. You know, we were getting a lot of feedback that other countries were sort of treating this differently than we were. And so we, very quickly, you know, ourselves studied, but also with the multilateral agencies, started exploring how other countries were sort of evaluating this change or challenge. So to be clear, the working group was not there to regulate distributed ledger technology or blockchain itself, or even evaluate the feasibility of the various use cases.

Craig Phillips:

[28:11](#)

But instead we had, you know, a focus on understanding the market for these assets and sort of what the implications were. So I guess, several things we reached a conclusion on was that digital assets vary widely in both structure and use, some act like fiat currencies, other more bond like or have equity like characteristics. Even so, in our regulatory system, there's already established regulatory approaches for each of these different types of instruments. So you saw a trend arose where there was a definition of whether it was a commodity or security with the SEC or CFTC than invoking their authorities given that definition. Treasury, I think, on our side was most vigilant about taking steps to mitigate the role that digital assets have in illicit finance. Unfortunately, it had attracted a lot of

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unattractive sorts, that view this as a new way of moving money around.

Craig Phillips: [29:06](#) You know, at the end of the day if you want to wire money, in large or even small volumes, you have to end up in a bank and these types of assets can be moved around without sort of interacting with a traditional financial system. So I guess where we are as we really support the actions that have been taken by the market regulators, the SEC and the CFTC to appropriately monitor these markets, detect and punish fraud and market manipulation, and establish mechanisms for fair and transparent disclosures. Very importantly, the SEC took action to address the unregistered offerings of these coins or ICO's, initial coin offerings, in the case where the coins are security, and they deem that virtually all of these are securities. The CFTC on the other hand, has also advocated for the launch of futures contracts, which play the large role in having a more transparent market and allowing institutional investors that take long or short positions, which we think had a big factor in calibrating the rate of appreciation, kind of bursting the bubble, if you will, that had existed when this all started.

Craig Phillips: [30:05](#) So we really aren't advocating at this point, new statutes or regulations, but instead an ongoing monitoring and that, so this is an ongoing activity amongst the regulators. We think we've made progress today in understanding the market. We continue to exchange information, in no way do we want to deter emerging technologies, but the presence of these coins and the establishment of an asset class presented some tremendous challenges and obviously, many investors were hurt through their investments in this asset class. So it ended up being a pretty big deal and something we're going to monitor very quickly on an ongoing basis.

Jo Ann Barefoot: [30:42](#) I should say, we have another episode coming up with the chairman of the CFTC Chris Giancarlo, a second program with him actually, and I know he wants to talk about some of these issues as well. So in our show notes we'll cross link the two. So, this is so interesting. I have a few more questions if you have a little bit more time. One of them is there've been hearings in recent months focused on credit scores and vendors in that industry that have really looked at the issues of control of consumer data, how to protect consumers from data breaches and also the impact of confidential inclusion. Does Treasury

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have thoughts on these issues and specifically on improving how credit scores and data are managed?

Craig Phillips: [31:28](#)

Sure. I think there are a lot of topics being discussed in the hearings on the hill, but kind of the cornerstone of them was how are credit score companies regulated and what are the implications of data vulnerability. And there was one significant breach couple of years ago in the industry. So we think that's an appropriate focus. The 2017 Equifax data breach was extremely large and it put a lot of focus on the industry. So we support the ongoing effort for the FTC and the CFPB to standardize how they're overseeing these firms, because the nature of the regulatory environment, their authorities are slightly unclear. So we continue to work with both of those departments to talk this through. And the key of data breach and risk, the reason these represent such important targets is that they have all of a consumer's data.

Craig Phillips: [32:22](#)

So while they're not more vulnerable inherently, by virtue of maybe their systems or other activities, as a target, they're very provocative. So it's important that they have very high standards. So I would just go back to our original proposition that we really do favor a national data breach notification law, with that law would come the definition of liabilities and other requirements and we think that that would actually supercede a very wide range of state laws that are very difficult to reconcile and navigate. So that's one of the most important aspects that are being talked about on the hill. The other elements are, you know, topics such as inclusion of the use of non-traditional data to incorporate the number of people that can access credit by having a credit score if they start with a thin file. Our team is staying on top of all these issues. It's a little beyond the fintech report per se, but we think it's an important further development and there are a number of fintechs that are focused on this exact topic and we would applaud that effort to not only change the way they think about the use of data, but also create more competition in the credit scoring business, which we think would be helpful to the market.

Jo Ann Barefoot: [33:32](#)

Yeah, absolutely. So two more questions. When you think about the international environment, what do you think are the most important elements? What should the US be taking from looking at that?

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- Craig Phillips: [33:44](#) Well, it's kind of a tired phrase, but one of the topics is the concept of the regulatory sandbox, which is, you know, best described as a solution that kind of coordinates regulatory relief under applicable laws and regulations to enable meaningful experimentation for innovative products, services, or processes. So, you know, the concept of the regulatory sandbox really promotes responsible innovation by identifying the steps you can take and relief from current regulation to try new techniques, frequently run in parallel with existing techniques. And I think in general, I go back to our existing state here of regulatory fragmentation and overlap. It's just harder to do that here than other countries because we don't have unified regulators that have to effectively agree on this. So if the FDIC is fine with one aspect of innovation and the CFPB is not fine with it, that institution can't really proceed until they get consensus.
- Craig Phillips: [34:42](#) So we're spending a lot of time on this, with our agencies, to talk through the reality of how we really make this happen. So internationally, particularly with a low degree of regulatory fragmentation such as Singapore or the United Kingdom, there's been notable success stories arising from sandbox cases. So, we study those. You know, solutions here could be things such as no action letters or exemptive relief, but that's going to only be a limited assistance unless we find a way to get the various regulators to coordinate. So this is a high priority. We encourage regulators at the federal and state level to find timely and practical solutions to give this relief to help enable innovation.
- Jo Ann Barefoot: [35:26](#) That is music to the ears. Again, our listeners know I'm a big advocate for sandboxes and labs and I really have come to the conclusion that regulators need them. It's not just a nice to have, it's really the best way to learn rapidly. So I want to thank you for sharing your ideas. Let me just ask any final thoughts on what is next for Treasury and following up on this impressive, exciting agenda?
- Craig Phillips: [35:53](#) Well look, I think we've seen, even since we started to work on the executive order, an acceleration of the recognition that technology is important or you know, you see it every day in traditional banks but also fintechs. So I think the change is there and I think most of our regulators have now launched innovation hubs and networks within their agencies to recognize that, not only did they have to be receptive to these

Podcast with Craig Phillips, Counselor to the Secretary of the Treasury

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new ideas, they themselves have to modernize their regulatory techniques. So I'd say I think it's an exciting place where we've got to. We're glad to play the role of laying out a vision. But I'd say, all the regulators in the US now focus on this as a priority. And again, with the states, I think we can move forward. So we're happy with the focus and the reception to the ideas put forward and we're optimistic about the future of the US financial system.

Jo Ann Barefoot: [36:39](#) Fantastic. So we will link in our show notes to the Treasury reports, and I assume that people can also get them at treasury.gov. They're really very, very worth reading and I want to thank you, Craig Phillips. Thank you for being my guest today. It's been a fantastic conversation.

Craig Phillips: [36:57](#) Terrific, thanks for coming in Jo Ann.