

## Barefoot Innovation Podcast: Hester M. Peirce, Commissioner, U.S. Securities and Exchange Commission (SEC)

**\*Note that transcripts may sometimes contain errors and that transcript timing notations do not match the posted podcast**

Jo Ann Barefoot:	<a href="#">00:02</a>	We are honored to have as our guest today, Hester Peirce, Commissioner of the US Securities and Exchange Commission. Thank you so much for joining me.
Commissioner Pe...:	<a href="#">00:11</a>	Jo Ann, it's great to be with you. I'm delighted to be here. And of course, I have to start with my disclaimer, which is my views are my own as a commissioner, not necessarily those of the SEC or my fellow commissioners.
Jo Ann Barefoot:	<a href="#">00:20</a>	Understood. I'm especially excited to have you joining us today because you've been leading the SEC's work on crypto and digital assets, [00:00:30] the digital assets task force, and we also happen to be recording this the day after the White House put out its report, yesterday's report, on crypto and digital assets. Really interested to explore what you're thinking.
	<a href="#">00:46</a>	Let me start just by asking you to tell us about yourself a little bit. What's your own background and the journey that brought you to what you're doing now?
Commissioner Pe...:	<a href="#">00:55</a>	Sure. Well, I did not know that I wanted to be a lawyer, but [00:01:00] I studied economics undergrad and then went to law school without really much of a plan or a purpose, but I did like the idea of marrying the two economics, which I loved, and law, which I also thought was very interesting. And securities law seemed like a natural place. And so I ended up going to a firm to do securities law, and lots of my colleagues there had worked at the SEC. And they talked me into the idea that it would be a wonderful place to work, and so I came over here [00:01:30] pretty early on and worked in the division of investment management, and I reviewed or worked on rulemaking related to mutual funds. Certainly not what I had imagined that I would end up doing as a lawyer, but I was working with great colleagues. I learned a tremendous amount. I found the work interesting.
	<a href="#">01:50</a>	Eventually found my way to working for now Chairman Atkins, who was then a commissioner, and so I got a little bit broader view of the SEC and then, after that, [00:02:00] spent some time on the hill, spent some time in a research center where the work was around financial regulation, and then found my way

back. Again, not something I'd ever envisioned doing, to be a commissioner, but the opportunity to really shape policy after having spent a lot of time thinking about it was quite attractive to me. That's how I got here.

Jo Ann Barefoot: [02:21](#)

Good. Perfect background. You have been leading, again, the task force on digital assets. Can you just share with our listeners [00:02:30] the goal of the task force, the approach you're taking, learning, thus far? Highlights?

Commissioner Pe...: [02:37](#)

The task force was created right after President Trump was sworn in. Acting Chairman Ueda created the task force with the idea that we would really take a fresh look at how the SEC had been approaching crypto.

[02:52](#)

I've been here now for seven years in this role, and there had been a lot of complaints over [00:03:00] that time about how unproductive the interactions with the SEC were. It was very difficult to get anyone here to engage productively with the industry to say, "Let's look at where the securities laws touch, what the industry is doing, what people are trying to do, and let's figure out where it makes sense to make modifications, if it does make sense to make modifications." Instead, it was very much an enforcement-first [00:03:30] approach to say, "We're going to use enforcement as our first and, really, only tool when we engage with this industry."

[03:38](#)

The idea of the task force was to take a breath, try to figure out how we can achieve the objectives of the securities laws, but also enable projects to achieve commercial viability. That's not our job to make sure that they're commercially viable, but it is our job to create a framework within which they can see whether the market [00:04:00] wants what they have to offer.

[04:03](#)

That's really what we've been working on for the past six months is trying to provide guidance where we can and then build toward rulemaking, which is the goal. We have a lot of authority under existing rules. There's work, which I'm sure we'll talk about, that's going on outside the SEC in Congress, and you mentioned the report that just came out. We're doing our work within the context of that but using the authority that we already [00:04:30] have.

Jo Ann Barefoot: [04:31](#)

Great. As I say, the White House report came out yesterday. We will link to that in the show notes. And then, as you referenced, we've had activity on Capitol Hill. We've just had passage of the Genius Act on stablecoins, which we'll circle back to, but we also

have pending the Clarity Act to try to sort out jurisdictions and responsibilities between the SEC, the CFTC, and others.

[05:00](#)

[00:05:00] Speak to us about, at least thematically, what you see as the critical issues that this set of work is aiming to achieve and what you think is most important to be sure it comes out right.

Commissioner Pe...:

[05:16](#)

Well, I think one thing, which is the question that's befuddled a lot of people for a long time, which is, when do the securities laws actually apply? When are we talking about either an asset that is a security or something that is not [00:05:30] a security but is offered in a transaction that is a securities transaction? That's one area where we are striving to provide guidance and do some rulemaking.

[05:42](#)

And then a lot of questions revolve around custody. What does it mean for a regulated entity, whether it's a broker dealer or an investment advisor, to custody these assets? There are questions around what existing entities [00:06:00] that we regulate can do in terms of trading of these types of assets as well. Those are some of the big areas that we're working on. There are a lot of people who are coming in to try to ask us to provide some more guidance about what types of entities our regulations apply to, and so we're working with them on those things too. When does something become a clearing agency, a transfer agent, or a broker-dealer, or when does something [00:06:30] need to register as an exchange?

[06:33](#)

I'd say another big area that really has emerged, there's been a lot of attention on it now, is tokenization of securities. It's something that there had been interest in before, but I think, given the climate at the SEC, people weren't really willing to jump in because, if you're going to do an experiment around tokenization, it's going to be costly. It's going to be quite an undertaking, so you really want to make sure that you've got a regulatory [00:07:00] counterpart that's willing to work with you on that. I think tokenization will be another area where we see some interest. Where that will go long term, I don't know, but I think that right now we're seeing quite a bit of interest in experimenting there.

Jo Ann Barefoot:

[07:16](#)

And what do you think are the possibilities if we can create a framework that including the tokenization of securities ... How will that change the markets as we know [00:07:30] them?

Commissioner Pe...:	<a href="#">07:31</a>	As a regulator, I sometimes don't think I'm the best person to really predict what will happen, but there are possibilities that, by bringing different types of assets on chain, you enable much more interoperability between different types of assets. You can borrow against one type of asset to buy another type of asset. You can automate collateral payments [00:08:00] which can be very helpful. Because of the ability to put smart contracts around assets, you can program in regulation. You can program in terms of a loan. You can marry the asset with the surrounding documentation or the surrounding regulation in a way that I think could be quite powerful, but it's early days.
Jo Ann Barefoot:	<a href="#">08:30</a>	[00:08:30] We touched on the fact that the president signed the Genius Act, the stablecoin bill, in the last couple of weeks. And I know that's more of a payments issue than an investment and securities issue, but do you have thoughts to share on that as far as how you think it will be shaping the marketplace and creating opportunities?
Commissioner Pe...:	<a href="#">08:54</a>	The stablecoins have already gotten quite a bit of adoption here in [00:09:00] the US but also in other places people want dollar-backed stablecoins. I think that that is something that's taken off, but now that you've built a regulatory framework around it, I think it's much more likely to get more traction because people want to know that there are reserves that back up that stablecoin. The Genius Act provides that clarity, provides a regulatory framework, and it is a banking product, so [00:09:30] it is not regulated by US, but I think we will see a lot of interest from entities that we do regulate to integrate stablecoins into what they offer their customers. I think that it's important for us to work with them to figure out how to do that.
Jo Ann Barefoot:	<a href="#">09:47</a>	I'll mention that we, at AIR, are doing a lot of work on stablecoin issues, and it does seem like there's potential for creating a new [00:10:00] layer of payments infrastructure that possibly can be more efficient and more transparent in some ways than what we've had in the past.
Commissioner Pe...:	<a href="#">10:10</a>	No, I think certainly that there are promises of greater efficiency that I think are encouraging. We see in a lot of places that don't have as developed financial systems as the US that a stablecoin can be extremely important to people because it enables them [00:10:30] to ... You can send a remittance in a dollar form to someone, which is helpful, or you can take money that ... You might want to have access to dollars, and it's a very easy way to get access to dollars.

Jo Ann Barefoot: [10:46](#) Exactly. As a regulator, you've touched on some of this, but what are the main risks that you and your colleagues are focusing on?

[11:00](#) [00:11:00] And what's the strategy, if I could broadly ask it, for addressing them?

Commissioner Pe...: [11:08](#) Some of the risks I think are really out front and center for everyone to see. You don't have to scratch too far to see that there have been a lot of crypto frauds or frauds at least perpetrated in the name of crypto. Sometimes there's no crypto element other than saying, "Hey, give me your money, and I'll invest it in crypto," and they run off with the money. There's a lot of fraud that is around [00:11:30] crypto. That is certainly an area that we worry about.

[11:33](#) Part of what I think has been so destructive about the lack of regulatory precision that we've employed in the past is that people really don't know who's regulating what. There is out there a perception that the SEC maybe has broader regulatory authority than it actually does under existing statutes because [00:12:00] the agency has kind of claimed this very broad jurisdiction in the past. I think part of what we have to do now is to say, "Hey, you really do need to pay attention to whether you have the protections of the SEC," because if you don't, then maybe you have some other regulators' protections, but maybe you really are on your own, and you've got to be even more careful.

[12:24](#) Always I urge people to be careful. Have an idea of why you're buying an asset. [00:12:30] Have some sort of idea of what the value proposition is for what you're buying. And people can make their own choices. We're not a merit regulator. We don't stand in the way of that, but really making sure that people are making informed decisions. That's one piece of it is just this consumer protection, investor protection, piece of it, and we really only have the investor protection component of that.

[12:56](#) And then the second risk that I worry a lot about [00:13:00] is, as we see more integration of crypto-related things into the traditional financial system, how can we make sure that that's getting integrated in a way that's safe and that makes sense and that is consistent with the regulatory objectives of the SEC, that we're making adjustments where need be, but we're not eliminating important protections that should be in place. [00:13:30] That's something that I think we spend a lot of time thinking about here.

[13:33](#)

There are also systemic risk considerations that other regulators may think about that's really not within the ambit of the SEC. We regulate an industry that's intended to be kept resilient and safe by the very healthy competition of people coming in and pushing incumbents out who aren't doing things well. And then new folks come in. And it's a very healthy dynamic system. And there's no one there [00:14:00] to bail you out if you have problems. That's sort of core to how our system operates, but I think a lot of the thinking around risks related to crypto is, how can we integrate this in a way that we make sure that, if something bad happens in the system, it doesn't cause problems elsewhere?

Jo Ann Barefoot:

[14:27](#)

As a former bank regulator myself [00:14:30] and working with regulation issues for decades, it seems there's an arc of innovation and invention working their way toward regulatory clarity. And it's such a delicate balance sometimes because, if you regulate too early and too strictly, you may prevent some good things from taking root. But then as you go on, you reach a point where the absence of a clear regulatory framework actually chills [00:15:00] innovation as well. And so just finding that sweet spot.

Commissioner Pe...:

[15:03](#)

It's hard. It's hard, but I think if you're going to have this view of, "We don't want to put a regulatory framework around something because we don't want to bake it into the mold that we see right now," you also have to be willing to say people can try things, and we're not going to come in with an enforcement action and say, "You shouldn't have tried that." It really is very difficult to do regulation well.

[15:29](#)

I think [00:15:30] we have an example of how crypto has not been regulated well in recent years, and now let's see if we can do it better. Because, again, a lot of the uses are probably not going to be financial, so we have to be careful, too, to not try to jam everything into a financial model. There will be things that ... And there already are things that are happening that are just ... They're just not ... They're more like collectibles. That's really not something that should be regulated under a financial [00:16:00] regulatory structure.

Jo Ann Barefoot:

[16:02](#)

That is so well taken. I like to argue finance is the most pervasively regulated sector of all. You could make an argument for medicine, maybe, but the complexity of the regulating entities and their interaction and then the unbelievable edifice of rules and so on. And you're right. There's arguably a lower

level of regulatory apparatus needed outside [00:16:30] the finance area.

Commissioner Pe...: [16:31](#)

One of the problems with the fact ... And I agree with you. I think the financial industry is one of the most regulated. Is that people don't want to experiment in the financial industry because it's just too complicated. We make it too hard to have those experiments. And I think that's a real reminder that you have to create some sort of opportunities for people to try things on a small scale to see whether there's any marked interest, [00:17:00] and then you can work with them to an exit from that. This is a sandbox-type thing, but where you work toward an exit that is not we're just going to shut down the experiment after we've run it for a year or two. No, you're going to have an exit into a regulatory framework that makes sense for that.

[17:20](#)

Because I really do think that the financial industry has suffered from a lack of people wanting to experiment here, [00:17:30] and that means that we don't get the dynamism that I was talking about earlier that really is so good for investors and for market participants more generally to have the ability to have better products and services because new people are coming in all the time.

Jo Ann Barefoot: [17:48](#)

And especially today with the technology change that's so pervasive. Let me touch on that a little bit. As you well know, the advocates for digital assets make [00:18:00] a very strong argument that this could be a democratizing force and a wealth-building opportunity. And that, in the United States, we have many people who have limited opportunity to make investments that can actually generate wealth if you are limited to a passbook savings account or a money market fund or something like that. And we have obviously the relationship between risk and reward [00:18:30] in the investment world.

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At the same time, we have many people in government and in advocacy roles who are concerned that these are risky investments. And now we have the phenomenon of the so-called finfluencers online, especially for younger investors, who ... I actually have just finished serving on a FINRA advisory committee on FinTech and [00:19:00] innovation and was looking at some of what they've been looking at in terms of how younger investors are getting their information today and so on.

[19:11](#)

I guess my question for you is, what do you see as the potential for the regulatory framework that you're putting together to

enable the individual investor, at maybe any level of wealth and opportunity, to [00:19:30] have the opportunity to gain in the market? And how do you prevent them from being exploited at the same time?

Commissioner Pe...: [19:39](#)

Well, there's a lot there, but I think one thing that's really lacking in this country is early financial education and then continuing it throughout life. We do not do a good job with that here, and I think we should.

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Children are very ... Their minds are so ... They're so dynamic, [00:20:00] and they're so curious, and it's a great time to start teaching them about money and to start teaching them about investing and about the possibility of building an investment portfolio young and keeping feeding that throughout your life and then drawing from it as you need to. And I think those powerful concepts are ones that we really need to build in early.

[20:24](#)

I do think it's interesting to watch how some people start in crypto. They get [00:20:30] interested in crypto, and then they start to branch out and start to see, "Hey, maybe I'm interested in investing in equities," and they sort of pivot from crypto to something else. I think it can be an entry.

[20:45](#)

But I think, regardless of what you're buying, what I want people to know is you need to be asking questions, and you need to be looking for red flags. And you need to have the confidence to run away when you see those red flags when someone [00:21:00] tells you that you can't have information about something or when someone promises you that you're going to be a millionaire in three weeks or whatever it might be. We need to give people the confidence to say, "You know what? I'll pass, and I'll just wait for the next thing to come along." I think there's a lot of just that basic building people's education and confidence.

[21:24](#)

But I think, as a regulator and one that works in an agency that really prizes disclosure, [00:21:30] that's something that we can do around when someone is offering a crypto asset as part of a securities offering, making sure that there are disclosures out there and disclosures that really answer the questions that are relevant in this space, which may be different than they are when you're talking about investing in a company. You want to know, is this code out there? What is the code that underlies this project? And has [00:22:00] it been audited by anyone? You want to know if people who are running the project are planning to dump all their tokens. There are these questions



that we can help people get answers to. I think the industry could do a lot of that on its own. In fact, there have been some recent efforts to think about disclosure in this space and put out disclosure frameworks. And I think that's wonderful that the industry is trying to do it on its own. But that's something that we can really add is this [00:22:30] fit-for-purpose disclosure.

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But investor education ... I'm always going to come back to that. It's always an important role for the SEC but also for the broader society. People who are ... Finfluencing is not only an issue in crypto. It can be an issue elsewhere. But often, I think some of that research that maybe even the FINRA foundation did found that, yes, people look at some of those influencers, [00:23:00] and they're looking at what they're doing, but they're also checking that information elsewhere. It may not be their sole source of information.

Jo Ann Barefoot:

[23:07](#)

That's well taken. And I think I used the word exploitation before. There's a very positive side to this phenomenon of having many, many people interested in their financial future, in how to invest, in how to get a return. I think we've been democratizing that [00:23:30] in a way that I've never seen before in my career. Helping-

Commissioner Pe...:

[23:34](#)

That's exciting.

Jo Ann Barefoot:

[23:35](#)

... shape that ... It is. It's incredibly exciting.

Commissioner Pe...:

[23:37](#)

And I think we can do a better job as regulators of trying to meet people where they are, instead of trying to say, "Here, read this investor bulletin," but go on the social media channels where people are, and meet them there, and provide good, solid information there.

[23:54](#)

And also, I think another thing that we've really fallen down on as a regulator is we've made it very [00:24:00] hard for financial firms to use those media to communicate with investors in a way that investors will want to consume the information and will want to engage with it. We're very much wedded to paper here. We think that disclosure should look like a big stack of papers that gets shoved across the desk to someone, and that's just not how people want to consume disclosures.

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And I think there are really creative ideas [00:24:30] about how to use other kind of channels for communicating with people and really helping them really grasp what they're buying because, for someone who's legitimately trying to sell an

investment product or service, their goal should be to make sure that, going into it, the person buying it actually knows what she's buying. It doesn't serve anyone to not understand how much it costs, how is that fee getting taken out, [00:25:00] where might the conflicts be, and those kinds of things. Put it all on the table, and let people make their decision.

Jo Ann Barefoot:

[25:08](#)

That's fantastic. Our regular listeners know you're on my favorite subject, which is how the regulators themselves can be using technology and data in new ways to be more efficient, more effective, and interact differently with both the industry and the public. There's so much opportunity there. It's [00:25:30] incredible.

[25:31](#)

My last question is, and you've already answered a lot of it, maybe, is ... We're in a moment when technology is changing everything at a head-spinning pace. We've watched the emergence of blockchain and crypto technology, which, really, I think it came into people's lives very gradually. At the time we had the original Satoshi memo on Bitcoin, [00:26:00] people in Washington were very busy with the subprime mortgage crisis and so on. And then the Dodd-Frank law. That has gradually matured and suddenly reached a moment where huge change seems to be ripe and coming together.

[26:17](#)

And then meanwhile, we had exploding into our lives very quickly the whole generative AI capability that we were sort of all introduced to at the same time with ChatGPT [00:26:30] a couple years ago. These are transformative technologies. I think generative AI is a general technology. It's going to change pretty much how everyone does nearly everything.

[26:45](#)

You're in your seat as a regulatory leader at this moment. Do you want to share any thoughts on what you see as the potential for a better financial future and also anything you want to share in terms [00:27:00] of what's worrying you the most about all that?

Commissioner Pe...:

[27:03](#)

Well, I think AI is not new to the financial industry, but you're right. There are these new iterations that I think will be quite transformative. And I think, in general, it should be positive. I think it will help to make sure that more people do have access to help when they're investing. Some of that help may be automated, but there may be a human layer on [00:27:30] top. I'm not a believer that AI is going to push all the people out of the way because I think it really becomes a tool to help humans become more efficient and use their talents where they're

particularly useful. I think, in general, it's going to be a positive thing.

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I do worry. You can have AI agents doing all kinds of things that someone has to take responsibility for [00:28:00] those things, too, and so that's where I think it becomes a challenge for a regulator to figure out where does the machine end and the human decision-making begin. And then making sure that the human, if it's an individual investor, has some sense of what she's sending her AI agent off to do. If it's a financial firm that's using an AI agent for something, to make sure that they are taking responsibility [00:28:30] for that the same way they would take responsibility if they outsourced to anyone else.

Jo Ann Barefoot:

[28:36](#)

Thank you. Is there anything you would like to add that we haven't talked about?

Commissioner Pe....:

[28:41](#)

No, I think we've covered the territory well. I think it's an exciting time. I do hope that we can do a better job this time on regulation. I guess my final point would be is that, if people have ideas for me, if people have feedback for this conversation or for the work [00:29:00] that the crypto task force is doing, I do welcome that engagement. I think we can't get it right if we're not talking to people.

Jo Ann Barefoot:

[29:07](#)

And we will put that information and other links in the show notes at [regulationinnovation.org](https://regulationinnovation.org). Commissioner Hester Peirce, thank you so much for being our guest today. It's been fantastic.

Commissioner Pe....:

[29:19](#)

Thanks, Jo Ann. I appreciate it.