THORN RUN PARTNERS
GOVERNMENT RELATIONS

Hearing Summary

April 15, 2026

CAPITAL MARKETS SUBCOMMITTEE TACKLES FINANCIAL FRAUD

EXECUTIVE SUMMARY

On Apr. 15, the House Financial Services Subcommittee on Capital Markets held a hearing entitled "Safeguarding Main Street: Combatting Fraud and Exploitation in Our Capital Markets." During the hearing, there was bipartisan consensus on: (1) the benefits of "speed bump" rules; (2) holding social media firms more accountable; (3) improving federal coordination and data sharing; and (4) supporting seniors. Republicans also focused specifically on combatting fraud from China, while Democrats expressed concern with cuts to the Securities and Exchange Commission (SEC), suspected insider trading by Trump administration officials, and a drop in enforcement actions.

OPENING STATEMENTS

Chair Ann Wagner (R-MO) noted that financial fraud schemes are often targeted at seniors and other vulnerable communities. She highlighted common examples of fraud including "pump and dumps," account takeovers, and fake websites. Chair Wagner explained that new technologies such as artificial intelligence (AI) are making fraud, particularly perpetrated by foreign actors, more common than ever.

Ranking Member Brad Sherman (D-CA) expressed disappointment that the SEC's enforcement staff was cut by 20 percent and advocated for stronger oversight of the Trump memecoin. To combat fraud, he proposed: (1) requiring social media apps to better police ads on their platforms; (2) supporting ongoing efforts to allow broker-dealers to place holds on suspicious transactions; (3) restricting tokenized securities, which he said will undermine the Consolidated Audit Trail (CAT); and (4) adopting a stronger view of "naked shorting."

Full Committee Chair French Hill (R-AR) said that fraud schemes — including market manipulations, account takeovers, and Ponzi schemes, which he noted threaten retail investors in particular — are becoming increasingly sophisticated and harder to detect.

WITNESS TESTIMONY

Mr. Bryan Smith (testimony), Senior Vice President of Complex Investigations and Intelligence at the Financial Industry Regulatory Authory (FINRA), explained that financial fraud involves four key services including: (1) malware; (2) cyber infrastructure; (3) communications with victims; and (4) financial tools to transfer funds. He highlighted several FINRA anti-fraud initiatives including: (1) the Financial Intelligence Fusion Center, which collects and spreads fraud intelligence; (2) intelligence

and technology sharing with member firms; (3) training programs; and (4) education initiatives and a helpline for seniors.

Ms. Jilenne Gunther (testimony), National Director of AARP's BankSafe Initiative, argued that combatting fraud requires a coordinated federal response and a connected ecosystem that enables real-time information sharing across sectors. She contended that fraud prevention requires earlier intervention and advocated for requiring social media and tech companies to take a more active role, as well as empowering the financial industry to delay suspicious transactions without fear of liability.

Mr. Matthew Michel (testimony), Founder and Managing Partner of InvestorLink Capital Markets LLC., said that combating fraud is no longer a detection issue, but rather a response problem, with firms seeking to act on intelligence while facing uncertainty about when and how they can act. He touted progress on this issue via: (1) the Financial Intelligence Fusion Center; and (2) the Financial Exploitation Prevention Act (H.R.2478) and FINRA's proposed Rule 2166, which would allow for a brief delay of funds transfer when fraud is suspected.

Mr. Andrew Verstein (testimony), Professor of Law and Vice Dean for Curricular and Academic Affairs at the UCLA School of Law, expressed concern over potential insider trading in the government, which he argued erodes trust in capital markets. He cited suspicious trades linked to the war in Iran and the military operation in Venezuela and called for investigations. Additionally, he criticized a perceived lack of transparency at the SEC, the weakening of the CAT, and cuts to the SEC's enforcement staff and whistleblower awards.

DISCUSSION AND QUESTIONS

Threat Actors

- Answering a question from Chair Wagner about how AI is being used in fraud schemes, Ms. Gunther explained that the technology is contributing to increases in fraud and being used to: (1) write realistic messages; (2) clone voices; and (3) make deepfakes that make scams more credible.
- In response to a query from **Rep. Frank Lucas (R-OK)**, Mr. Michel explained that industrial AI enables threat actors to access liquidity, gain access to exchanges, and promote their scams 24 hours a day.
- **Reps. Warren Davidson (R-OH)** and **Mike Lawler (R-NY)** asked about the risks posed by securities of Chinese companies offered on U.S. exchanges, typically in the form of a variable interest entity (VIE) structure. Mr. Smith reassured them that broker-dealers have obligations to ensure those securities pose few risks to investors. The witness added that domestic VIE offerings pose similar "pump and dump" risks as those posed by Chinese offerings.
- Addressing questions from **Reps. Bryan Steil (R-WI)** and **Troy Downing (R-MT)** about regulatory gaps being exploited by international scammers, Mr. Smith highlighted collaborations and information sharing with other countries to reduce risk and noted that China poses frequent jurisdictional issues. Mr. Smith also noted that collaboration with U.S.

law enforcement, which is in contact with enforcement agencies in other jurisdictions, is important.

- Responding to a question from Rep. Lawler about the biggest barriers to fraud prevention, Ms. Gunther said a key challenge is identifying threat actors at the point of victim contact — for example, stopping fraudsters from reaching potential victims through social media.
- Chair Wagner, along with Reps. Steil, **Sean Casten (D-IL)**, Lawler, **Vicente Gonzalez (D-TX)**, and **Zach Nunn (R-IA)** highlighted the particular vulnerability of seniors to financial scams.

Combating Fraud

- Addressing Chair Wagner's question about how the Financial Exploitation Prevention Act will help prevent fraud, Ms. Gunther said that the provision allowing mutual funds to place pauses on suspicious transactions is one of the most effective anti-fraud interventions. Mr. Smith added that more collaboration between regulators and law enforcement would help target overseas criminal actors.
- Ranking Member Sherman urged that any transaction pauses not be used to prevent political organizations from spending money.
- Ms. Gunther and Mr. Michel, addressing Ranking Member Sherman and **Reps. Andrew Garbarino (R-NY)** and Gonzalez, stressed the importance of preventing fraud at the point of contact. The witnesses also underscored a need to ensure that social media and telecom platforms, as well as advertisements, are compelled to remove fraudulent account holders or activities from their products to prevent potential victims from interacting with fraudsters in the first place.
- Replying to questions from Chair Hill and Reps. Lucas, Gonzalez and Lawler, Mr. Smith and Ms. Gunther reaffirmed the importance and effectiveness of: (1) allowing delays on suspicious transactions and FINRA's "speed bump" proposed rule; (2) directing would-be victims to trusted contacts who can talk them through suspicious transactions; and (3) training frontline workers to ask the right questions to help victims understand how they may be getting scammed.
- In response to a query from Chair Hill, Mr. Smith assured him that FINRA coordinates with state regulators, which the witness said improves resiliency and information sharing.
- Responding to Rep. Lucas's question on how to improve agency coordination, Mr. Smith stressed the importance of information sharing.
- When prompted by Rep. Steil, Ms. Gunther concurred that AI can be leveraged as a tool to help prevent fraud, but she added that regulators must also be cautious of its potential to scale scams.
- Rep. Casten argued that social media platforms and crypto ATMs should be subject to civil penalties for abetting scams.
- In response to a question from Rep. Garbarino about FINRA's role in preventing fraud, Mr. Smith highlighted FINRA's: (1) proximity to market participants, which he noted allows for greater information sharing; (2) investor education programs; and (3) partnerships with tech companies to identify fraud on their platforms.
- Rep. Garbarino stressed the importance of reauthorizing the Cybersecurity and Infrastructure Security Agency (CISA).

- Rep. Nunn touted: (1) the Guarding Unprotecting Aging Retirees from Deception (GUARD) Act (H.R.2978), which would arm law enforcement with blockchain tracing technology to help track fraud; and (2) the Taskforce for Recognizing and Averting Payment Scams (TRAPS) Act (H.R.4936), which would better coordinate information sharing across relevant federal agencies. Ms. Gunther and Mr. Smith expressed support for these proposals.
- Addressing Rep. Downing's question on the importance of state securities regulators, Ms. Gunther asserted that these authorities' ability to identify local patterns and issue local enforcement actions makes them a critical piece of the puzzle.

Tokenized Securities

- Responding to Ranking Member Sherman's question on tokenized securities, Mr. Verstein said that these assets should maintain know-your-customer (KYC) and tracing capabilities to help prevent fraud.
- Mr. Smith, addressing Rep. Davidson's question on the importance of enacting crypto market structure legislation, affirmed the importance of regulatory clarity for helping regulators understand digital asset fraud and address it.
- Reps. Steil and Downing asserted that tokenized securities do not encourage insider trading as they do not confer any special regulatory treatment. Rep. Casten contested this, arguing that Sections 202 and 203 of the Digital Assets Market Clarity Act (H.R.3633) would exempt certain individuals who raise under a certain amount for a digital commodities project from complying with securities regulations.

Trump Admin Oversight

- **Full Committee Ranking Member Maxine Waters (D-CA)** and **Rep. Stephen Lynch (D-MA)** accused President Trump of engaging in fraud. They also criticized: (1) reductions in SEC enforcement staff; (2) the dropping of certain SEC enforcement actions; (3) a reduction in enforcement actions more generally; and (4) the lack of enforcement pertaining to suspicious prediction and traditional market trades and crypto scams.
- Addressing Ranking Member Waters and Rep. Lynch's concerns about suspicious trading activity linked to the Iran war, Mr. Verstein said that market confidence would increase if regulators actively investigated these trades, and he warned that a failure to do so would hurt capital formation and liquidity.
- Answering questions from **Reps. David Scott (D-GA)** and **Juan Vargas (D-CA)** on how to combat fraud and the impact of advancing technology, Mr. Verstein recommended that Congress: (1) reverse staffing cuts and CAT changes at the SEC; and (2) ban government officials and their families from owning prediction market accounts.