



441 G St. N.W.  
Washington, DC 20548

Comptroller General  
of the United States

May 23, 2024

The Honorable Gary Gensler  
Chair, Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

### Priority Open Recommendations: Securities and Exchange Commission

Dear Chair Gensler:

The purpose of this letter is to provide an update on the overall status of the Securities and Exchange Commission's (SEC) implementation of GAO's recommendations and to call your continued personal attention to areas where open recommendations should be given high priority.<sup>1</sup> In November 2023, we reported that on a government-wide basis, 75 percent of our recommendations made 4 years ago were implemented.<sup>2</sup> SEC's recommendation implementation rate was 100 percent for recommendations made 4 years ago.<sup>3</sup> As of May 2024, SEC had four open recommendations. Fully implementing these open recommendations could significantly improve SEC's ability to protect investors.

In our August 2023 letter, we noted that one of the open recommendations was a priority recommendation. Since that time, SEC has not implemented that recommendation. We are not adding any new priority recommendations this year. We ask for your continued attention to the one remaining open priority recommendation, which is related to the oversight of blockchain technology.

**Blockchain technology.** Volatility, bankruptcies, and instances of fraud in the crypto-asset markets illustrate the harm consumers and investors may face without adequate protections. In June 2023, we recommended that SEC and the other federal financial regulators jointly establish or adapt an existing formal coordination mechanism to identify and address risks posed by blockchain-related products and services. SEC neither agreed nor disagreed with the recommendation. In April 2024, SEC indicated it has taken a step to address the

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<sup>1</sup>Priority recommendations are those that GAO believes warrant priority attention from heads of key departments or agencies. They are highlighted because, upon implementation, they may significantly improve government operations, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue.

<sup>2</sup>GAO, *Performance and Accountability Report: Fiscal Year 2023*, [GAO-24-900483](#) (Washington, D.C.: Nov. 15, 2023).

<sup>3</sup>The implementation rates identified in our 2021, 2022, and 2023 priority recommendation letters were 89 percent, 95 percent, and 96 percent respectively. GAO, *Priority Open Recommendation: Securities and Exchange Commission*, [GAO-21-504PR](#) (Washington, D.C.: May 4, 2021). GAO, *Priority Open Recommendations: Securities and Exchange Commission*, [GAO-22-105604](#) (Washington, D.C.: June 17, 2022). GAO, *Priority Open Recommendations: Securities and Exchange Commission*, [GAO-23-106419](#) (Washington, D.C.: Aug. 1, 2023).

recommendation through its participation in the Digital Asset Working Group, a formal working group of regulators, to promote information sharing and enhance interagency coordination in identifying blockchain risks. To fully implement the recommendation, the working group should include planning processes for identifying and addressing such risks. Fully implementing this priority recommendation would help SEC and the other regulators collectively identify risks posed by blockchain-related products and services and develop and implement a regulatory response in a timely manner. (See the Enclosure for the recommendation.)

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In April 2023, we issued our biennial update to our [High-Risk List](#). This list identifies government operations with greater vulnerabilities to fraud, waste, abuse, and mismanagement. It also identifies the need for transformation to address economy, efficiency, or effectiveness challenges.<sup>4</sup> One of our high-risk areas—[modernizing the U.S. financial regulatory system](#)—involves SEC. Specifically, we urge your attention to the effective and efficient oversight of financial institutions and activities.

In addition, several other government-wide high-risk areas also have direct implications for SEC and its operations. These include (1) [improving the management of IT acquisitions and operations](#), (2) [improving strategic human capital management](#), (3) [managing federal real property](#), (4) [ensuring the cybersecurity of the nation](#), and (5) [managing the government-wide personnel security clearance process](#).

We urge your attention to these government-wide, high-risk issues as they relate to SEC. Progress on high-risk issues has been possible through the concerted actions and efforts of Congress, the Office of Management and Budget, and the leadership and staff in agencies, including within SEC. In March 2022, we issued a report on key practices to successfully address high-risk areas, which can be a helpful resource as your agency continues to make progress to address high-risk issues.<sup>5</sup>

In addition to your continued attention on these issues, Congress plays a key role in providing oversight and maintaining focus on our recommendations to ensure they are implemented and produce their desired results. Legislation enacted in December 2022 includes a provision for GAO to identify any additional congressional oversight actions that can help agencies implement priority recommendations and address any underlying issues relating to such implementation.<sup>6</sup>

Congress can use various strategies to address our recommendations, such as incorporating them into legislation. Congress can also use its oversight processes to incentivize SEC to act on our recommendations and monitor its progress. For example, Congress can hold hearings

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<sup>4</sup>GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, [GAO-23-106203](#) (Washington, D.C.: Apr. 20, 2023).

<sup>5</sup>GAO, *High-Risk Series: Key Practices to Successfully Address High-Risk Areas and Remove Them from the List*, [GAO-22-105184](#) (Washington, D.C.: Mar. 3, 2022).

<sup>6</sup>James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Pub. L. No. 117-263, § 7211(a)(2), 136 Stat. 2395, 3668 (2022); H.R. Rep. No. 117-389 (2022) (accompanying Legislative Branch Appropriations Act, H.R. 8237, 117th Cong. (2022)).

focused on SEC's progress in implementing GAO's priority recommendation or take other actions to provide incentives for SEC to act. As relevant here, Congress held hearings in 2023 during which you testified about crypto-asset and fintech issues, which are topic areas related to GAO's priority recommendation. Congress also plays a key role in addressing any underlying issues related to the implementation of these recommendations. For example, Congress can pass legislation providing SEC explicit authority to implement a recommendation or require SEC to take certain actions to implement a recommendation.

Copies of this report are being sent to the Director of the Office of Management and Budget and the appropriate congressional committees. In addition, the report will be available on the GAO website at [Priority Open Recommendation Letters | U.S. GAO](#).

I appreciate SEC's continued commitment to these important issues. If you have any questions, please do not hesitate to contact me or Daniel Garcia-Diaz, Managing Director, Financial Markets and Community Investment, at [garciadiazd@gao.gov](mailto:garciadiazd@gao.gov) or 202-512-8678. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Our teams will continue to coordinate with your staff on all four open recommendations. Thank you for your attention to these matters.

Sincerely,

A handwritten signature in black ink that reads "Gene L. Dodaro". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Gene L. Dodaro  
Comptroller General  
of the United States

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cc: The Honorable Shalanda Young, Director, Office of Management and Budget

## Enclosure

### Priority Open Recommendation to the Securities and Exchange Commission

#### Blockchain Technology

*Blockchain in Finance: Legislative and Regulatory Actions Are Needed to Ensure Comprehensive Oversight of Crypto Assets.* [GAO-23-105346](#). Washington, D.C.: June 22, 2023.

**Year Recommendation Made:** 2023

**Recommendation:** The Chairman of the Securities and Exchange Commission (SEC) should jointly establish or adapt an existing formal coordination mechanism with the Consumer Financial Protection Bureau, Commodity Futures Trading Commission, Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, National Credit Union Administration, and Office of the Comptroller of the Currency for collectively identifying risks posed by blockchain-related products and services and formulating a timely regulatory response. To facilitate these objectives, this mechanism could include formal planning documents that establish the frequency of meetings and processes for identifying risks and responding to them within agreed-upon time frames.

**Actions Needed:** SEC neither agreed nor disagreed with the recommendation. In its agency comment letter, SEC noted that it had already coordinated with the Financial Stability Oversight Council (FSOC), the President's Working Group on Financial Markets, and some international organizations, among others, to identify risks related to crypto assets. However, these mechanisms do not regularly convene specifically to identify the full range of risks and regulatory challenges of existing and emerging blockchain products and services and provide a timely response to any unaddressed risks.

In April 2024, SEC officials told us that FSOC established a coordination mechanism through the creation of the Digital Asset Working Group to promote information sharing and enhance interagency coordination in identifying potential financial stability-related risks in the digital asset space. SEC stated that the working group meets regularly and has discussed a variety of topics, including regulatory developments, rulemakings, risks, data collection, and market developments. They said the working group's work informed FSOC's 2023 annual report on risks to financial stability.

The establishment of the Digital Asset Working Group is a positive step towards implementing a formal coordination mechanism that can identify and address risks posed by blockchain-related products and services. To fully implement the recommendation, a formal coordination mechanism such as the Digital Asset Working Group should include planning documents. Such planning documents could include (1) objectives and meeting frequency; (2) processes for identifying the full range of risks and regulatory challenges concerning blockchain-related products and services (not only those related to financial stability); and (3) processes for responding to these risks and challenges within agreed-upon timeframes.

**Director:** Michael E. Clements, Financial Markets and Community Investment

**Contact information:** [clementsm@gao.gov](mailto:clementsm@gao.gov) or 202-512-8678

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Chuck Young, Managing Director, [youngc1@gao.gov](mailto:youngc1@gao.gov), (202) 512-4800  
U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, DC 20548

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## Strategic Planning and External Liaison

Stephen J. Sanford, Managing Director, [spel@gao.gov](mailto:spel@gao.gov), (202) 512-4707  
U.S. Government Accountability Office, 441 G Street NW, Room 7814,  
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