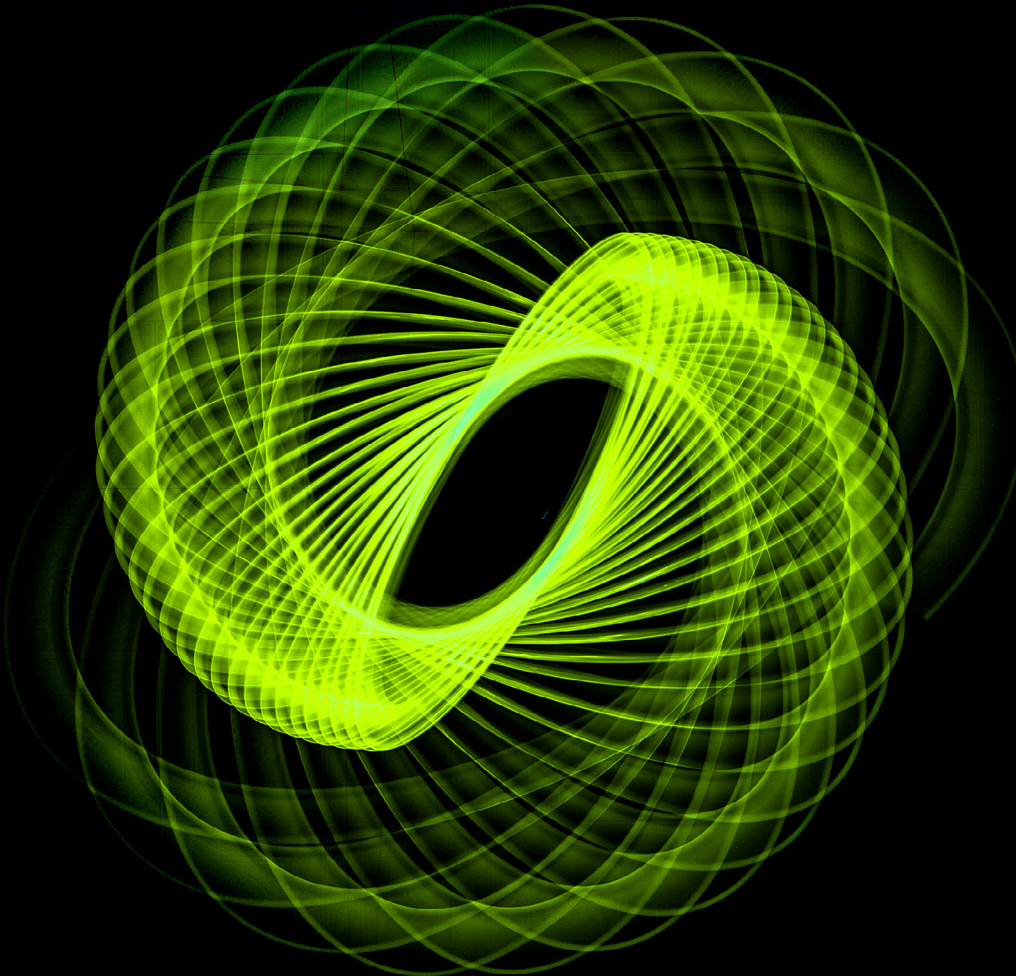


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The Future of
Finance: Financial
Data Transparency
Act of 2022

11 April 2023



Background

The data collected by federal financial regulators is used to monitor and assess the financial health and risk profile of individual institutions, as well as the overall stability of the financial system. Regulators use this data to identify potential risks and areas of concern, and to take corrective action for individual's firms and to design policies to prevent or mitigate risks to the financial system. These also provide insight into trends and developments in the financial industry.

These data are managed in collections by federal financial regulators like the Consumer Financial Protection Bureau (CFPB), the Federal Deposit Insurance Corporation (FDIC), Securities and Exchange Commission (SEC), Office of the Comptroller of the Currency (OCC), and the Federal Reserve Board of Governors (FRB). For example, the Call Reports, collects basic financial data of commercial banks such as income, assets, liabilities, and capital are used to monitor financial conditions of the broader banking industry. Similar data is collected from bank holding companies using the Y9-C reports. Regulators also make various information they collect on each bank available to the public. The CFPB, for example, maintains a public-facing database of complaints about consumer financial products and services. This database allows the public to view complaints by geography and company, giving a bird's eye view of consumer challenges in the marketplace.¹

Recent passage of the Financial Data Transparency Act of 2022 (FDTA) requires the Treasury Department and seven of the federal financial regulators² to make these collected data more accessible, uniform,

and useful to the public by adopting open-source data standards and common identifiers. Efforts to begin adopting open-source standard and common identifiers has already started by some agencies but has been a lengthy process.

Requiring adoption through FDTA will help accelerate efforts to align various standards that will ultimately help alleviate regulatory reporting burdens born by the private sector. The financial regulators have until June 2024 to develop a joint rulemaking to propose data standards for the collection of information reported to each agency by financial entities under their jurisdiction. By December 2024, the agencies will finalize the rulemaking that establishes the data standards and have another two years to implement those standards into each of their respective data reporting regimes. By the end of 2025, the Government Accountability Office will report on the feasibility, costs, and potential benefits to applying the standards and approaches in FDTA to apply a government-wide approach for standard business reporting.³



What does the FDTA require?

Adopt Common Identifiers Across the Covered U.S. Financial Regulatory Agencies

The FDTA requires the establishment of “common identifiers” made available under an open license⁴ for information reported to covered regulatory agencies, which could include transactions and financial products and/or instruments. FDTA requires that the common identifiers be non-proprietary and available through open sources, ensuring their availability to academia, private sector, and the public.

Adopt Searchable, Machine-Readable, Open Data Standards

The FDTA includes a set of required characteristics to make metadata and underlying data searchable and more accessible for consumption (i.e., taxonomies, open schemas, machine-readable metadata). Agencies are instructed to build upon industry and technology best practices, account for lessons learned from existing federal regulatory standard setting

and incorporate relevant federal policy and international standards definitions. Requiring the collected data to be machine-readable⁵ makes the collected information more useful for the public and private sectors when searching for information and using data in analytical tools. Similarly, providing data under an open license will reduce challenges to integrate data standards and definitions into systems, processes, and across legal entities. This can create innovation in the regulatory technology space that reduces compliance costs for the industry.

Align with existing government-wide open data policies

FDTA also reiterates the requirement for agencies to make disclosable public data assets available as “open government data assets”. This ensures that data assets published under the regulatory authorities of FDTA’s covered agencies are consistent with existing government-wide data policy⁶.

Promote Interoperability

In establishing data standards, the FDTA requires the heads of covered agencies to consult with each other to promote interoperability of financial regulatory data across members of the Financial Stability Oversight Council.

No additional reporting or disclosure

The FDTA does not require federal financial regulators to collect or make publicly available any additional information.

Impact to regulators and industry

Adoption of a common legal identifier and open data standards may have a significant impact on the way data is collected and trusted. For some time, financial institutions have expressed the need for clear and consistent standards for data definitions and data transfer protocols within and between agencies. Various legislative efforts to address long-standing regulatory burden have fallen short of providing the structure and consistency necessary to reduce time spent on reporting and maintaining multiple internal processes.

Currently, financial regulators may differ widely on the identifiers for institutions from which they collect data and definitions of data being gathered. Unfortunately, this requires institutions to transform data to meet different regulators’ needs, leading to higher risks to data quality. To

manage risk of misstating or misinterpreting agency requirements, financial institutions have created intensive quality assurance processes and internal controls to ensure high quality data. These processes are often manual and time intensive, adding significant effort and risk to financial institutions and the receiving regulatory agency.

Development of a common identifier is a major step toward harmonization of regulatory reporting and will allow agencies to scale data reporting requirements to reduce burden, especially on larger regulated entities that report data across multiple regulators. Additionally, improving the collection and dissemination of financial data will have downstream impact on innovation in use of regulatory technologies and artificial intelligence.

To do so, financial regulators will need to take into consideration the appropriate granularity of identifiers, maintain consistent governance, and then understand the impact of proposed standards prior to implementation.



Considerations for Rulemaking and Implementation

What data is being collected?

Federal financial regulators collect a wide range of data from financial institutions to ensure the safety and soundness of firms and the financial system. Regulators accumulate data using several methods, including standardized well-defined reports, ad-hoc surveys, and examinations. This data can include information about an institution's balance sheet, income statement, cash flows, organization structure and other financial metrics that provide insight into its financial health. Regulators also collect data related to a financial institution's risk management practices, such as its credit risk, market risk, and operational risk. These data are collected both at a consolidated and legal entity level.

In addition to financial data, regulators also collect information related to a financial institution's compliance with laws and regulations. This includes data related to anti-money laundering and know-your-customer programs, as well as data related to consumer protection laws, such as the Truth in Lending Act and the Fair Credit Reporting Act. Regulators may also collect data related to cybersecurity and data privacy, as these are increasingly critical areas of concern for a financial institution and its customers.

Based on the 2022 Data Inventory provided by the Office of Financial Research⁷, the greatest volume of data collected result from bank examinations, submission of financial statements such as SEC Forms 10-Q and 10-K, and data from applications submitted by regulated banks and other firms to engage in mergers, acquisitions, branch openings, or other activities. For example, for banking application data, the SEC is the top agency when it comes to volume of data, whereas exam related data is most frequently associated with OCC or FRB functions.





What overlaps in data collection exist today?

There is some overlap in the data collected from financial institutions, primarily because many financial institutions are regulated by more than one agency. Each agency has its own reporting requirements, statutory authority, and regulatory mandate – resulting in a fragmented data collection approach and regulatory structure. Passage of the FDTA provides the opportunity for regulators to transition to a more unified approach to data collection that promotes data sharing, instead of each regulator collecting data primarily to fulfill its own responsibilities.

In 2017, the OFR launched an initiative to reduce regulatory reporting burden, outlining examples of duplication and conflicting definitions that make it challenging to conduct analysis. The former Director, Richard Berner, described how the SEC and CFTC collect remarkably similar data from private funds and pools, two different ways.⁸ The forms used for collection requested gross and net performance but had varying definitions, leading to challenges comparing algorithmic trading strategies, high frequency trading, and how quickly assets can be liquidated.

Different consolidation levels and varying reporting requirements, have at times resulted in data collections being similar but with limited overlaps. A study⁹ conducted by XBRL US found that company financial statement data, collected by the SEC, was also collected by the FDIC, FRB, and Census Bureau through separate reporting requirements. It found that many of the items companies were required to report on the Bureau of Economic Analysis' Form 11-A, were also reported to the SEC using Forms 10-K and 10-Q.

Identifying existing overlaps can help agencies determine what data is utilized across agencies and for what purposes. Building shared definitions and standards based on common needs could ensure reduced duplication and potentially lead to consolidation of reporting forms and a unified approach to data collection based on agencies' shared interests.

“...the LEI helps make the flood of data flowing in the financial system easier to compare and share.”

–Director Richard Berner,
Office of Financial Research

Which data collections should be prioritized for standardization?

The FDTA intends regulators to take a unified approach in establishing a foundational standard that is used to express more specific standard across data collections. Known overlaps in data collections and variation in data requirements across the financial regulatory community make standardization challenging to address. Therefore, the interagency community will need to decide how to sequence the effort. There are multiple approaches to prioritize data standardization under FDTA, and the appropriate approach may depend on the specific outcome regulators seek.

- Risk management: Identify which data collections are most used for understanding and addressing financial risks. Ongoing challenges and emerging risks in the financial environment such as climate change, disruption of supply chains, reduced consumer demand, and decreased economic activity require careful monitoring and management to minimize potential impact.
- Regulatory burden and impact assessment: Prioritizing data standardization based on cost-benefit analysis can help ensure that data standardization efforts are cost-effective and provide value to financial institutions. For example, regulators could assess scope based on which data collections take over 100,000 labor hours to prepare and report. Agencies could also address the burden of duplicative reporting, by developing a shared set of data requirements to which institutions must adhere.
- Size of financial institutions: Agencies could review the size and complexity of financial institutions when prioritizing standardization of data collections. Large financial institutions often have complex organizational structures and multiple entities that can be considered when assessing the impact of changes to reporting requirements.

Considering various prioritization approaches may reduce the time it takes regulators to fully adopt the FDTA.



How should data standards be established?

Financial regulators will need to determine the best approach for standardizing the data collections that are in scope. This means designing data repositories in such a way that enables processing and storing data in a structured fashion (i.e., consistent schemas, uniform adoption of these schemas and structures by all agencies that comply with FDTA).

It is crucial to consider current processes that can be “recycled” and re-purposed as opposed to building a completely new set of procedures, which may be both time consuming and duplicative in the

presence of repeatable approaches to data aggregation and standardization.

Certain agencies have been more involved in enabling and maintaining shared data repositories and may offer lessons learned in establishing standards that align with the needs and priorities of multiple stakeholders. Considerations for other approaches to establish common data standards are below.

	Tailored to Government	Government—Industry Partnerships
Approach	Standardize data collections at the individual data source level using advanced analytic techniques (e.g., natural language processing) and then aggregate into standards using a working group.	Involve industry associations and government in working groups to partner on standards development.
Advantage	Allows more flexibility and ability to adapt specific data sources.	Leverages industry expertise and promotes industry-wide buy-in for data standards.
Considerations	Requires careful coordination and management to ensure consistency.	Requires balance between federal government mandates with industry needs and consultation.



What governance is needed?

To establish and maintain a path towards a comprehensive standard business reporting program for financial public data sets, interagency discussions will be required to a) define, establish, and implement consistent, transparent, and interoperable sets of data policies, processes, procedures, and standards and b) measure the outcomes, effectiveness, and costs of their adoption across the agencies. These discussions can be held by a new council or as an extension of existing interagency councils such as the CDO Council, the Federal Financial Institutions Examination Council, or the Financial Stability Oversight Council. Final decisions will create uniform, interoperable practices for which the benefits will scale across multiple agencies. For example, based on data standards required by FDTA, the new rules will provide uniform ways for the public to interact with published data sets and promote a universal understanding of each element through consistent data and meta data standards across agencies.

To prepare for these discussions, agencies should review their existing data governance bodies and the established policies, processes, procedures, and standards and identify representatives to participate in interagency data standard policy and compliance discussions. As a group, the representatives can identify commonalities, divergence points, and required enhancements to define the joint data standard definitions and policies that comply with the FDTA requirements. Several considerations should be factored into the decision-making process for the joint data standards including the maturity of each agency's data enablement divisions, the existing IT infrastructure, the cost required to adopt the changes, and the disruption created for affected third-party entities.

As new data assets are collected for public distribution, this group will review the data and monitor for compliance against the

defined standards, and, as new interagency data governance standards are matured or mandated by law, this group will set the goals, milestones, and timelines for the activities required to adopt the standards for each agency and review the final outcomes and benefits created for the public. These future governance changes could include changes such as data retention, storage, archival, security, classification, access, and data breach management standards to promote more transparent and interoperable practices between agencies.

What is the anticipated impact of proposed changes?

In preparation for FTDA implementation, agencies should perform an assessment to identify the external impact of potential solutions. For all affected data sets, the agencies should identify applications, Memorandum of Understanding (MOUs), public interfaces, and the data collection mechanisms from third-party entities which contain, collect, or disseminate the affected data assets. This assessment should consider the agencies' and affected parties' IT infrastructure limitations for adopting new standards to identify potential risks and define their mitigation strategies including reviews of third-party vendor products to translate data sets between existing and the new open data format standards to minimize costs and required infrastructure changes. Most agencies already use technologies needed to implement FDTA but are not widely adopted. Agencies' current efforts to implement data catalogs should assist in reviewing standards compatibility with more historical data.

Downstream impacts for each internal application and external data feed should be identified and notified of the FTDA and high-level, upcoming changes required to satisfy it. As the new data standards and regulatory rules are defined, training and

technical documents should be created for internal and external consumers. Information sessions should be hosted for internal application teams and external agencies to review the new standards and integration patterns for adopting changes to data formatting, file sharing, and metadata standards. As integration of new data technologies into existing systems has been a significant challenge, planning across and within agencies will be critical to success.



What role should industry play in the rulemaking process?

Each agency impacted by the FDTA will establish rules to promote more accessible, uniform, and useful data to the public by adopting data standards and common identifiers. Changes to these rules may directly impact each agency's regulated entities if new requirements are created to the existing data collection and sharing mechanisms. To help minimize disruption and regulatory burden for the regulated entities, the agency drafting the rules should engage with its regulated entities and the public in a consistent, transparent, and frequent manner.

To begin engagement, agencies should discuss the goals and outcomes of the FDTA with regulated entities and share how they will approach developing rules to meet its requirements and timelines. Outreach events or forums to discuss highlights of the FDTA present diverse perspectives on approaches and outcomes may help regulators generate ideas and bridge gaps of understanding. Agencies should emphasize the societal benefits of the FDTA including increased public data quality, better detection of stresses in the financial

system, reduced burden to institutions and increased empowerment of citizens to monitor financial conditions.

Identifying and reviewing the costs of the potential rule changes, including the agency's costs, such as potential IT Infrastructure changes, internal application changes, impacts to existing MOUs and public data feeds will be a beneficial discussion. It also includes the costs incurred by entities, such as the exchanges with the regulator, employee training for new processes, software changes, and understanding the new data standards. To better understand the cost to institutions, the agency should begin public and private forums that can be in-person, virtual, or co-located with industry leaders, compliance representatives, and other affected stakeholders to discuss proposed rules for FDTA compliance and how to minimize disruption to the regulated entities' operations. These meetings will be critical in gathering industry buy-in and feedback for the proposed changes and allow the agency to gauge industry interest, sentiment, and costs.

Once agencies submit the "Advanced Notice of Proposed Rulemaking" to the Federal Register, there are still opportunities to host additional outreach events to communicate the proposed change and provide additional context for how standards will be implemented including the societal benefits, costs, and timelines. By submitting the advanced notice, the agencies receive an additional iteration of public feedback and are provided an opportunity to make any required changes before submitting the "Notice of Proposed Rulemaking". When both rounds end, agencies will review the feedback to determine if the rule should be passed, withdrawn, or modified. Once passed, the final rule will be submitted to the Federal Register to be implemented no later than two years after finalizing the rule.

Case Study:

XBRL Implementation at the Federal Energy Regulatory Commission¹⁰



Deloitte brings an understanding of the mission to its customers.

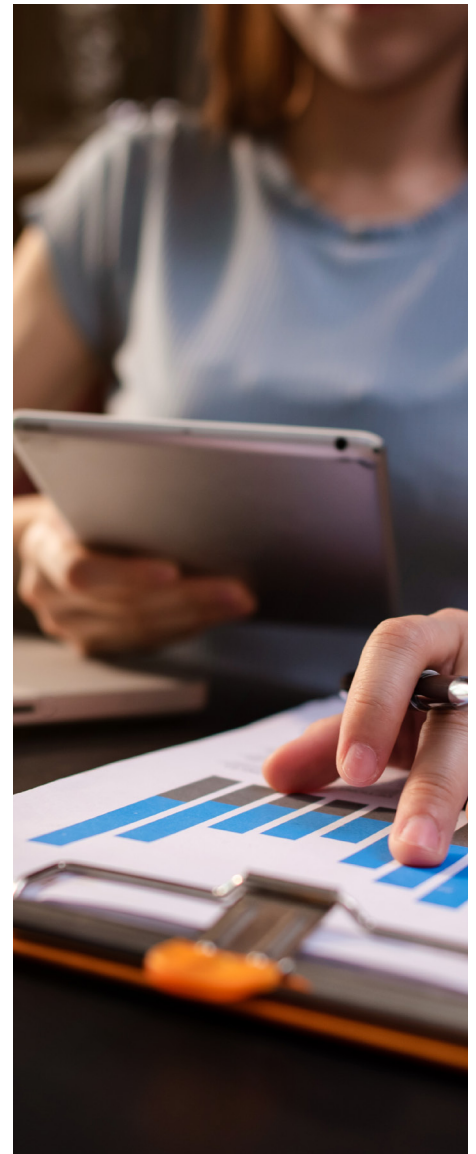
In 2019 Deloitte collaborated with the Federal Energy Regulatory Commission's (FERC) Chief Information Officer organization and Office of Enforcement (OE) to bring an XBRL taxonomy solution for US public utility financial forms. In less than one year Deloitte's solution enabled FERC with the following capabilities:

- Machine-readable data to improve data accuracy
- Greater flexibility to enforce regulations as future laws are passed
- Improvements to the OE's analytical capabilities by delivering a standardized taxonomy across all forms converted into an XBRL taxonomy with business rule validations
- Lower total cost of ownership for the reporting platform and automated reporting capabilities
- An enhanced user experience for public utility companies in the United States

Why the need for change?

The Federal Energy Regulatory Commission (FERC) has a mission to develop analytics and trend analysis procedures to detect potential manipulation and anticompetitive behavior for all US power companies. FERC coordinates policy reforms to address emerging issues affecting wholesale and interstate energy markets. In 2015 FERC passed a Final Order changing the way public utility companies in the United States submit financial data. This Order transformed the way FERC's Office of Enforcement collects yearly and quarterly financial forms to meet FERC's regulatory mission.

FERC previously used a legacy form submission application which posed substantial limitations, and significant security risks for FERC and public utility filers. Due to these limitations and risks, FERC conducted an eXtensible Business Reporting Language (XBRL) assessment performed by XBRL US, to obtain recommendations for the replacement of the collection of US power financial data using a new application. Following the assessment, FERC leveraged an XBRL solution to improve efficiency, enhance functionality, and reduce the burden to manually maintain financial forms.



Deloitte converted the following forms into an XBRL taxonomy:

Form Number	Form Name
FERC Form No. 1	Annual Report of Major Electric Utilities, Licensees, and Others
FERC Form No. 1-F	Annual Report of Non-major Public Utilities and Licensees
FERC Form No. 3-Q	Quarterly Financial Report of Electric Utilities, Licensees, and Natural Gas Companies
FERC Form No. 714	Annual Electric Balancing Authority Area and Planning Area Report
FERC Form No. 2	Annual Report for Major Natural Gas Companies
FERC Form No. 2A	Annual Report for Non-major Natural Gas Companies
FERC Form No. 3-Q	Quarterly Financial Report of Electric Utilities, Licensees, and Natural Gas Companies
FERC Form No. 6	Annual Report of Oil Pipeline Companies
FERC Form No. 6-Q	Quarterly Report of Oil Pipeline Companies
FERC Form No. 60	Annual Report of Centralized Service Companies

Additional FERC XBRL eForms project scope.

In addition to the delivery of an XBRL taxonomy and public submission portal, the Deloitte team migrated ten years of legacy data into a new XBRL database. Deloitte integrated with FERC's existing applications such as eLibrary where all Commission data is stored, and Company Registration which tracks the Company Identifier for all US power companies. Since the deployment of the XBRL solution, FERC has received over 3,500 XBRL public utility submissions. Deloitte enhanced FERC's data analytics capabilities by enabling machine-readable

data and developed a FERC-specific plug-in which allowed FERC staff to connect to the XBRL database using the Deloitte-developed public API. The API enabled any user to customize data by frequency of use, and has led to improvements in accuracy, adoption, flexibility, efficiency, and personalization of all XBRL reports. Additionally, Deloitte developed a Proof of Concept which enables the Commission to leverage its existing analytical and visualization tools to create executive dashboards using the public API. Deloitte provides FERC with XBRL Subject Matter Expert Tier 3 and Tier 4 support. FERC also benefits from Deloitte's hands

on business user training on various subjects such as XBRL Taxonomy Development, Taxonomy Management Systems Applications, Business Validation Rule Development, Taxonomy Rendering Templates, Public API for Data Access, and eForms Portal Application Management.

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- 3 Financial Data Transparency Act of 2022 (P.L. 117-263)
- 4 "Open license" is defined in federal law as a legal guarantee that a data asset is made available at no cost to the public and with no restriction on copying, publishing, distributing, transmitting, citing, or adapting such asset (P.L. 115-435).
- 5 "Machine-readable" is defined in federal law as data in a format that can be easily process by a computer without human intervention while ensuring no semantic meaning is lost (P.L. 115-435).
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