



WHITE PAPER

The FDTA and a New Digital Data Future

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On December 23, 2022, President Joe Biden signed into law the Financial Data Transparency Act, or FDTA. With a stroke of a pen, Biden ended a long era of inefficient, document-based government reporting in the financial arena and ushered in an exciting future to be powered by digital data.

Passage of the FDTA, which was part of the National Defense Authorization Act, or NDAA, was approximately ten years in the making. The new law will address the need for data modernization by requiring financial regulators to put the information that they collect into an accessible, machine-readable format. Although some details of the FDTA are spelled out, more are waiting to be resolved, including precisely what format data being submitted will take.

Here's what's known. Once fully in effect in 2026, the FDTA will mean that important data no longer resides in multiple formats from paper to PDFs. Standardization will guarantee that valuable reporting data will be easier to access and use and its accuracy will almost certainly increase.

For all its sweeping changes, though, the FDTA is imposing no new disclosure requirements on federal agencies or on those companies that report to them. What's being transformed is not the data that is being reported, but rather how the data is reported.

What the FDTA is mandating is a large undertaking but hardly unprecedented within the US regulatory system.

Other agencies have taken similar steps. In 2005, the Federal Deposit Insurance Corporation, or FDIC, became the first of the federal financial regulators to implement a large-scale modernization project and to move to machine-readable standards for bank call reports.

Soon after, in 2009, the Securities and Exchange Commission (SEC) introduced XBRL as the data standard for public companies filing financial reports.

Most recently, in 2021, FERC, or the Federal Energy Regulatory Commission, adopted a set of machine-readable data standards, also based on XBRL.

"The FDTA," wrote the [Data Foundation](#) in a draft paper for public comment, "is the logical and necessary progression in the disclosure modernization movement to apply technology to the objective of good government."

Benefits from FDIC Data Modernization.

Before standardizing data, one third of the FDIC's bank call reports contained errors. After standardization, those errors were almost entirely eliminated before the reports were even submitted.

Here are a few additional benefits of standardizing data detailed in a report by [FFIEC](#), or the Federal Financial Institutions Examination Council:

- **Accuracy.** Data improved from 66 percent to 100 percent correctness.
- **Speed to publication.** It now takes hours—rather than days—for the capital markets to be able to see data submitted to the FDIC.
- **Greater worker efficiency.** Analysts at the FDIC shaved 15 percent off the time it took them to complete their workloads; this allowed each analyst to close more cases.

The Rule-Making Process

As newly enacted legislation, the FDTA still has several areas which will take shape during a collaborative proposed and final rule-making process.

So far, it's been decided that the FDTA will require financial regulatory member agencies of the US Financial Stability Oversight Council—or FSOC—to apply uniform data standards for the information they collect. See box.

Making a change of this magnitude will require an enormous lift from the SEC and other financial regulators, which have been tasked with choosing which data standard the FDTA will ultimately require for all reporting.

Because of the scope of this modernization project, there is a lengthy, phased timeline for adoption and implementation:

- **Phase 1.** By June 2023, the SEC will establish a corporate data quality program and submit an initial report to Congress on the costs and benefits of structured data in corporate disclosures. All FSOC agencies will participate in creating a set of draft rules about a future data standard that will be available by June 2024 and will then be reviewed during a formal comment period.
- **Phase 2.** By December 2024, agencies will have developed a set of common identifiers for presenting data going forward. Which reporting standard will be selected has yet to be determined; the new law does, however, specify that common identifiers must be available under an “open license” so there will be no restrictions on access.
- **Phase 3.** By 2026, agencies will have fully adopted and implemented the new standards under the FDTA.

Federal Agencies Required to Meet New Data Standards

- The SEC
- The Department of the Treasury
- The FDIC
- The OCC (Office of the Comptroller of the Currency)
- The Consumer Financial Protection Bureau (CFPB)
- The Federal Reserve Board
- The National Credit Union Administration (NCUA)
- The Federal Housing Finance Agency, or FHFA.

What the FDTA Will Accomplish

Once the law takes effect, regulators will find themselves complying with a whole new set of data collection and dispersal standards that will, in turn, impose change on those they regulate.

Although the transition stages are certain to hold challenges, the advantages are clear.

One of the main aims of the FDTA is making the mountains of important information reported to financial regulators electronically searchable. Gone will be the days when critical financial reporting data reside in a variety of formats from paper to PDFs and plain text documents. Searchable information can be found—and used—far more easily than information in paper-based systems.

Having critical information in a single, machine-readable format represents an enormous win for government officials, investors, philanthropists, private sector firms, and any other stakeholders who want reliable insights into how US banks, corporations, and state and local governments are operating.

The Aims of the FDTA (in the words of the [Data Foundation](#))

“The ultimate goal of the bill is to harmonize and reduce the private sector’s regulatory compliance burden, improve the reporting infrastructure for regulated firms to improve accountability, and to provide better information to the American public, investors, regulators, and private sector firms.”

The Role of the Regulators

One striking aspect of the FDTA is that the SEC has stepped into the leadership role as the agency that will help select and/or create data standards required by this new law as part of a corporate data quality program. The SEC will also oversee the monumental task of implementing new rules for the MSRB to follow.

In addition to the eight financial regulatory bodies, the Municipal Securities Rule-making Board (MSRB) will be required to adopt the same data standard for all information published on the Electronic Municipal Market Access (EMMA) portal.

The MSRB is attracting enormous attention because formatting data in a digital format represents a departure from past practices. That said, all the regulators included in the FDTA mandate are facing changes and challenges. Even the SEC, which has been collecting digital data for years, has a large quantity of documents that it collects today that will need to be formatted differently to meet this new digital data requirement.

When it comes to fulfilling its role within the FDTA, the SEC is demonstrating a flexibility and willingness to listen to stakeholders both formally and informally.

“We want to engage with you and make sure we’re doing this in a way that works for everyone,” Adam Wendell, deputy director of the SEC’s Office of Municipal Securities was quoted in [Bond Buyer](#) as telling the audience at the Governance Finance

Officers Association conference in May. He emphasized that cities and states should share their concerns ahead of the rule-making process.

The SEC also offered a glimpse into the considerations being weighed when Commissioner Hester M. Peirce gave a [speech](#) before the RegTech 2023 Data Summit on April 11, 2023.

In that speech, she outlined four principles that she says should guide the SEC and other regulators through the FDTA implementation process:

- I. Have a strategic implementation vision.** Here, Peirce argues against a piecemeal approach, instead favoring a well-thought-out plan. One example, she suggests, is prioritizing areas where “structured data mandates produce the greatest benefits.”
- II. Take cost concerns seriously.** Peirce recommends being particularly sensitive to costs faced by municipal issuers since these issuers come in all shapes and sizes. Many of them, she notes, are “very small, budget constrained, and issue bonds only infrequently.”
- III. Appropriately constrain the urge for more data.** She notes that the FDTA did not authorize the collection of any new data, and that “[c]ollecting heaps of data without a clear regulatory need undermines regulatory legitimacy.” What matters is deciding how data will be presented to regulators, not debating types of data that might ideally be reported.
- IV. Keep up with changing technologies.** Given that “[r]ules are hard to write and even harder to rewrite once they are written,” regulators should preserve flexibility, knowing that technology is changing rapidly. Here, Peirce notes that while XBRL began as the widely accepted digital data standard, it has largely given way to Inline XBRL, which is both machine-and human-readable.

Choosing a Data Standard

The FDTA did not mandate a data standard for financial regulators to use to meet its own requirements. What the FDTA did explicitly say is that data must be interoperable, non-proprietary, and “fully searchable and machine-readable.”

Almost every commenter looking at the problem of selecting a data standard acknowledges that iXBRL is the clear forerunner.

One revolutionary aspect of iXBRL is that the [XBRL standard](#) is published for everyone to see and use. Another strong argument in its favor is that iXBRL has been widely tested by corporate filers and others that have been required to use the taxonomy for many years now.

Inline XBRL is an international standard, which is another strong argument in its favor. According to [XBRL International](#), XBRL and iXBRL are used in over 50 countries with millions of documents created in these formats each year.

“The change from paper, PDF and HTML based reports to XBRL ones,” writes XBRL International, “is a little bit like the change from film photography to digital photography, or from paper maps to digital maps. The new format allows you to do all the things that used to be possible, but also opens up a range of new capabilities because the information is clearly defined, platform-independent, testable and digital.”

Another advantage to iXBRL is that the transition process is relatively well known and can be accurately charted.

When it comes to deciding upon which data standard will ultimately be chosen, the tight timeline will almost certainly play a role. Federal agencies need to have settled upon a proposed standard for public comment by 2024.

While both XBRL and iXBRL are well tested, plausible candidates, in the end iXBRL seems to have the clear advantage. Inline XBRL results in information that is both machine- and human-readable. While the FDTA did not mandate that the standard be human-readable, this aspect of iXBRL is extremely attractive.

The MSRB

Many municipalities have been ardent opponents of the FDTA and they have been slow to change course even as this new rule became a regulatory certainty.

There are many reasons for the hesitance on the part of municipal entities.

One reason is that there can be a sizable time lag in how municipal bond data has historically been collected from cities and states. Often, for instance, data published in 2020 reflects the financial realities of 2018. While having more current data will be beneficial for markets and regulators alike, adapting to the new data standard will be a sizable task for municipal bodies, many of which are small and strapped for funding.

On the plus side, the shift to digital standards for information published on the EMMA portal may be an enormous boon for volumes traded on municipal bond markets. Today, bond analysts and investors are operating without a full range of information. Many argue that the data that municipal bond traders do have—while crucial—remains opaque.

Some observers believe that with more transparency and better, more timely data, liquidity in municipal bond markets will improve. Greater liquidity will attract more market participants, and a virtuous cycle will begin.

Proponents of the FDTA have been very clear that if using standardized data could bring more investors to the municipal bond markets, the advantages would be widely felt. More funding means roads and bridges get built and other critical infrastructure projects get the attention (and dollars) they deserve.

Mark Funkhouser, mayor of Kansas City from 2007 until 2011 and now a consultant at the firm he founded—Funkhouser & Associates—has praised the FDTA as a good idea. He says that the FDTA carries powerful implications for improving processes and restoring trust in state and local governments.

Modernizing and streamlining financial reporting data by state and local governments will require enormous efforts, Funkhouser has said, but these efforts will pay dividends in better data, more resilient systems, and new opportunities for officials to make good on their election promises.

“There is a direct connection,” he has said, “between the quality of financial reporting and community conditions.”

RegTech, SupTech, and AI

As regulations, technology and data continue to merge in surprising ways, global reporting and compliance are undergoing a complete transformation. The implementation of the FDTA will provide an on ramp for transformative technologies only now becoming more widely known.

RegTech, which has been described as the use of new technologies to solve regulatory and compliance requirements more effectively, and its cousin SupTech, which uses new technologies to tackle supervisory requirements, are two pillars of this transformation.

The third pillar—AI, or artificial intelligence—became a household concept with the release of generative AI engine ChatGPT on November 30, 2022. Through this third pillar, companies can use machine learning (ML) and similar techniques so that computers can sort through and analyze copious data and even draw meaningful conclusions from that data.

The promise of RegTech and SupTech is being recognized by the regulators themselves. Former Deputy Chief Economist and Deputy Director, Division of Economic and Risk Analysis, Scott Bauguess specifically references both RegTech and SupTech for use in machine learning in his published [speech](#) “The Role of Machine Readability in an AI World.”

Digital-data solutions providers are also providing valuable input.

“While the FDTA will usher in an exciting and long overdue era of transparency and accountability for federal government financial data, its successful implementation will rely on innovative regulatory technology to ease the burden of compliance,” said Craig Clay, President of Global Capital Markets at DFIN.

Clay continued: “DFIN’s ActiveDisclosure financial reporting software and experts have helped public and private companies, and government agencies alike, transform how they access, understand, and utilize data to meet regulatory compliance, report to stakeholders, and improve business operations.”

“The FDTA poses a rare opportunity to modernize reporting practices through automation. The challenge facing the FDTA agencies today is to conduct the initial work to fully understand their own reporting needs by building taxonomies that represent all data collected.” Explore the XBRL US paper, [Data Standards & the FDTA, sponsored by DFIN](#), for an analysis of the current state and roadmap for building successful data standards.

Next Steps

As the SEC and the other federal agencies embark upon the rulemaking process to develop data standards according to the mandates of the FDTA, the clock is ticking. Final rules, according to the FDTA, can be issued no later than December 23, 2024—or two full years after the original legislation was signed.

Organizations and policy groups that favor the implementation of digital data standards are working with the SEC and other regulators to assist in formulating the proposed rules. Here, important players will be the Data Coalition, XBRL US, the various solutions providers out there (of which DFIN is a leader), and GASB, or the Government Accounting Standards Board.

The FDTA is the type of groundbreaking regulation that frees the imagination to contemplate additional changes to come.

In her April 2023 speech, SEC Commissioner Peirce suggests that as regulators impose tagging requirements on the entities they regulate, they might explore how structured data might make their own rules easier for “entities to find, analyze, and follow.” She continues: “Machine-readable rules are one way to facilitate regulatory compliance.”

Peirce notes that while the SEC has taken no concrete steps towards making its rulebook machine readable, FINRA, or the Financial Industry Regulatory Authority, has begun developing a machine-readable rulebook to improve compliance, enhance risk management, and reduce costs.

While the FINRA initiative is admittedly limited in scope, “it sparked interest,” says Peirce. She predicts that the SEC might possibly experiment with incremental steps down a similar path by tagging no-action letters and comment letters on filings sometime in the future.

For now, though, what matters most is that a data standard be selected and regulators ready themselves for the changes ahead. Once a data standard is made known, regulators and those that report to them, including the various municipal bodies under the MSRB, will be able to begin moving away from paper-based documents and towards a digital future.

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