FACT SHEET:

How to Promote Transparency and Efficiency in the Financial Regulatory System

The American public relies on good information to make decisions about what products to buy at the grocery store, for purchasing or renting a home, and for understanding what characteristics of a car meet individual needs. Investment decisions on Wall Street are no different – reliable and clear information is needed in the marketplace to make good financial decisions.

Today, the ability for companies, government, and the American people to access data about regulated firms across the country is limited by an arcane regulatory reporting infrastructure. The Financial Data Transparency Act (FDTA) from Senators Mark Warner (D-VA) and Mike Crapo (R-ID), and the Financial Transparency Act (H.R. 2989), co-sponsored by Reps. Carolyn Maloney (D-NY) and Patrick McHenry (R-NC) take on this problem by improving the reporting infrastructure for regulated firms to improve accountability. These bills have clear benefits for the American public, investors, government regulators, and private sector firms.

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data coalition

How can regulatory infrastructure be improved?

A 2017 report from the U.S. Treasury Department called for improved data sharing and reductions in reporting burdens and duplication. Adopting and applying uniform data standards, including a legal entity identifier, can address longstanding data deficiencies in regulatory reporting. Congress can direct financial regulatory member-agencies of the U.S. Financial Stability Oversight Council to adopt and apply uniform data standards (i.e. a common data format) for the information collected from regulated entities. As a consequence, the data standards will enable better information processing, software-enabled filing preparation, and data reconciliation. These features collectively are the basis for retail investors, regulators, and the market having better information for selecting investment opportunities and understanding risks.

How will data standards help the government operate more efficiently?

Establishing a framework that can be used to improve regulatory reporting efficiency in coming years offers substantial benefits, including reducing compliance overhead and the level of effort required for submitting financial reports. It also sets the stage for financial regulators to have access to higher quality data so they can spend their time focused on enforcement rather than tracking down inadvertent errors in reports. Streamlining regulatory reporting frees up valuable time and energy that can also support private sector innovation and productivity growth.

Has the Data Coalition taken a position on the Financial Data Transparency Act or the Financial Transparency Act?

Representing members from the data analytics, technology, and management fields, the Data Coalition endorsed the current version of the Finanacial Data Transparency Act and the Financial Transparency Act in the 117th Congress. The Data Coalition also previously endorsed the Financial Transparency Act in the 114th, 115th, and 116th Congresses. These bipartisan pieces of legislation address the significant underlying data challenges that contribute to burdensome and ineffective financial regulation.

How would a common entity identifier be beneficial?

The absence of a common identifier today increases errors, limits the ability to draw comparisons across companies, and reduces the ability to provide effective oversight. The Federal Reserve, among others, has highlighted the benefits of applying such an identifier for these purposes. Other stakeholders have described the benefits for anti-money laundering efforts.

If such an entity identifier had been in place decades ago, regulators may have been able to act more quickly in responding to the 2008 financial crisis. For example, better information could have provided insights in advance about the Lehman Brothers' practices and the financial system's risk that might have informed regulatory actions to mitigate those risks.

There are also examples of non-proprietary identifiers in use today. For example, the G-20 backed Legal Entity Identifier (LEI) is a potential standard, non-proprietary, verified, and globally-managed system used by other regulators around the world that could be rapidly adopted.