Remarks of Richard Berner, Director, Office of Financial Research,
at the Financial Data Summit: Reducing the Regulatory Reporting Burden
hosted by the Data Transparency Coalition
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Introduction

Good morning and thank you, Bryce, for that kind introduction. Thanks also to Hudson Hollister and the Data Transparency Coalition for inviting me to this third annual Financial Data Summit. It's good to be back with you.

At each of the first two financial data summits, I discussed the importance of improving financial data for the benefit of industry and policymakers alike. I described some of the work we are doing at the OFR to advance this agenda.

That work is still important.

I also explained how at the OFR, we have used our unique authorities and mandates to achieve those benefits, but much more work remains.

Both are still true.

Today, I am going to turn my focus to another aspect of our work on financial data: reducing the regulatory reporting burden.

At first glance, improving financial data might seem to conflict with reducing that burden. The truth is that the two actually complement each other.

In my remarks today, I will explain how. I'll note some of the many paths to achieving those complementary goals, including the use of data standards, best practices in data collection, and more extensive data sharing.

At the OFR, we have launched an initiative to reduce the regulatory reporting burden. I will discuss why that initiative is important, and describe how it aligns with efforts to improve data scope, data quality, and data accessibility — what I call the three-legged stool of our data work.

Reducing the regulatory reporting burden is actually a topic familiar to many here at the Data Transparency Coalition. Just this week, the Data Foundation — a sister organization — and the accounting firm PwC published a research paper demonstrating that government can reduce the cost and improve the quality of data significantly by adopting common data standards. A program in Australia to push common data standards, a concept known as Standard Business Reporting, reportedly saved the Australian government and companies more than a billion Australian dollars last year. The report also noted that the use of open data significantly improves data quality.

The OFR's Initiative to Reduce the Financial Regulatory Reporting Burden

At the OFR, we stand at an important juncture for our work. Last month, the President articulated seven core principles for regulating the United States financial system. The principles include analyzing threats to financial stability and market failures; ensuring market discipline; and making regulation efficient, effective, and appropriately tailored.

Those principles align closely with the OFR's statutory mission; with our vision of a transparent, efficient, and resilient financial system; and with the work we do daily to achieve that mission and vision.

We have long pursued reducing the regulatory reporting burden by promoting the use of data standards, identifying duplication and overlaps in financial data, and enforcing best practices in data collection.

The initiative we have underway throws those efforts into sharp relief. It seeks to identify and relieve financial regulatory reporting burdens by working with the Financial Stability Oversight Council and its member agencies, and through the pursuit of our data-related mandates.

Sources of the Regulatory Reporting Burden

We all agree that federal financial regulators and the financial industry both need high-quality, comprehensive, and detailed data. Regulators need high quality data to make good policy decisions. Industry needs good data to manage the business and risks in it.

But the fragmented financial regulatory structure in the United States and the shortage of collaboration and data sharing among regulators pose obstacles to producing and providing those data at minimum cost. Regulators are each focused on collecting data to carry out their own responsibilities and oversee their own supervisory slices of the industry. Too often, they don't coordinate their data collection efforts.

As a result, financial firms sometimes report the same or similar information to different regulators in different ways and through different technology platforms. Sometimes, data are collected and not used.

For the industry, this duplication, overlap, and inefficiency represent a burden, a cost, and a source of frustration.

Let's start with the example of different filing requirements for private funds and pools, and their advisers. These forms are filed with the Securities and Exchange Commission and Commodity Futures Trading Commission.

First, the two forms cover different time periods — one the fiscal year and the other the annual year. Although the agencies have reasons for this difference, the requirements create complexity for the filers and require manual intervention for analysts seeking to compare apples to apples. In addition, to assess a fund's performance, both forms request gross and net performance, but their definitions of gross are different. Finally, the two forms are different enough to frustrate comparisons on algorithmic trading strategies, high frequency trading, and how quickly assets can be liquidated.

Put simply, I see no obvious benefit in two regulators collecting essentially the same data from essentially the same firms in different ways.

Next, consider leveraged lending. In regulatory reporting by financial institutions, leveraged lending has different definitions. The differences are understandable, because the context and terms of a loan will contribute to its risk. Nonetheless, the differences create challenges for monitoring potential risks in the financial system and setting policy responses to these risks.[1]

A third and final example involves unnecessary duplication of effort in collecting data for stress tests, a highly useful tool for assessing risk. The three U.S. banking regulators each establish data requirements for their respective stress tests for their supervised institutions through separate rulemakings. The different reporting templates impose compliance costs on supervised firms in monitoring multiple agencies' rulemakings. Bank regulators have generally sought to maintain consistency among the rules, but separate rules create differences and costs.

Although I fully appreciate that regulators have independent statutory authorities, unified data templates for regulatory stress testing would bring potential efficiencies for supervisors and the industry.

The good news, I understand, is that the regulators are aware of these overlaps and are taking steps to address them.

These are just three examples. The OFR initiative has already identified others. Rationalizing these reporting requirements will require collaboration across the regulatory community. I am convinced that the benefits would be huge.

Data Scope

As I mentioned, regulators and the industry both need financial data that are comprehensive in scope. Those data must also be detailed enough for assessing and monitoring risks and vulnerabilities in the financial system, and for policymakers to make informed decisions.

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[1] See Sooji Kim, Matthew Plosser, and João Santos, "Did the Supervisory Guidance on Leveraged Lending Work?'" May 16, 2016, and Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency, "Frequently Asked Questions (FAQ) for Implementing March 2013 Interagency Guidance on Leveraged Lending," November 7, 2014 https://www.fdic.gov/news/news/press/2014/pr14096FAQ.pdf.

One of the OFR's mandates is to fill gaps in the data needed. Fulfillment of that mandate involves collecting key data from the financial industry, often collaborating with fellow regulators.

How we collect data determines how heavy or light the regulatory reporting burden will be. The OFR and many fellow regulators are committed to identifying, using, and promoting best practices in collecting data to minimize any collection burdens.

For example, we believe early engagement with industry is an essential best practice in any financial data collection. To that end, the OFR and Federal Reserve, with input from the Securities and Exchange Commission, conducted pilot projects in 2015. The pilots collected, on a voluntary basis, data describing bilateral repurchase agreements, or repos, and securities lending. As you know, repos are a key source of short-term funding in the financial system and securities lending facilitates market functioning and risk management.

These pilots proved essential for engagement with industry. We collaborated with firms to identify approaches most closely aligned with their own data collection and reporting systems and methods. The result was data collection forms aimed at maximizing efficiency.

Insights gained through these pilots will help guide the OFR in the process to collect data on bilateral repurchase agreements and securities lending markets. A more comprehensive data collection, soon underway, will benefit multiple stakeholders by delivering much needed data. It must also reduce the reporting burden by using data standards and optimizing reporting formats.

Data Quality

Data quality, the second leg of the three-legged stool of better financial data, offers enormous potential to reduce regulatory reporting burdens. High-quality data that conform to common standards facilitate aggregation, sharing, risk management, and good decision making. High-quality data prevent overlap and duplication among data collections, and facilitate the collection of data once for a variety of purposes by many regulators.

I see a lot of familiar faces in the audience this morning. Many of you have probably heard me talk about the global Legal Entity Identifier, or LEI. That's a foundational data standard that the OFR played a lead role in developing and promoting.

Like a bar code for precisely identifying parties to financial transactions, the LEI helps make the flood of data flowing in the financial system easier to compare and share. The LEI can also generate efficiencies for financial companies in internal reporting and in collecting, cleaning, and aggregating data.

By reducing overlap and duplication, the LEI can ease regulatory reporting burdens. Estimates of industry savings in managing their data by using common standards run into the billions of dollars. Because of these savings, industry groups have called on regulators to broadly adopt the LEI.

But U.S. regulators have been slow to abandon their individual data identification systems or to map the LEI to those systems. U.S. regulators are unfortunately lagging behind their counterparts overseas, most notably in the European Union.

For years, I have been calling for regulators to step up and require the LEI in regulatory reporting. The time has come to move from suggesting change to requiring it.

Today, I am calling for U.S. federal financial regulators to mandate the LEI in regulatory reporting. I am also calling for industry to amplify its support.

The OFR has the authority to require the use of data standards when we collect data. So we will propose requiring the LEI in our repo and securities lending data collections.

The LEI helps us answer the first of three basic questions about the financial system: *Who is who?*

To answer the second question — *Who owns whom?* — the LEI system is extending to identify hierarchies — the ownership structures of companies. Insight into corporate hierarchies is essential for understanding risk in financial firms and how they are exposed to one another.

To answer the third question — *Who owns what?* — we at the OFR have a statutory mandate to develop a financial instrument reference database, an authoritative source of data describing financial instruments.

We are fulfilling this mandate by creating standards for precisely defining financial instruments and their components, identifiers for them, and the taxonomy or relationships among them. Based on these standards, market participants will create uniform, comparable, high-quality reference data — data describing financial instruments and details of transactions — that can be aggregated across business units and enterprises.

The financial instrument reference database will also help regulators and supervisors assess risks within firms, between and among firms, and across the financial system. In addition, investors will gain tools to generate data they need to manage risk in their portfolios.

Let me be clear: The OFR does not plan to create reference data directly. Industry will create the reference data to describe the millions of financial instruments in existence and the millions more to be developed. The OFR will set the standards for their creation and identify providers of reference data that conform to the standards.

Data Accessibility

The third leg of the three-legged stool of better financial data — data accessibility — is critical for easing regulatory reporting burdens. It is closely tied to the second leg because high-quality data are fit for more than one purpose. But they can be collected once for assessing risks across the regulatory boundaries of our fragmented financial regulatory system.

Lack of data sharing among regulators is a major cause of duplicative and overlapping reporting requirements, so the OFR is fostering data sharing through efforts to overcome obstacles to it.

A key — perhaps *the* key — challenge lies in balancing the need to share data more broadly with the imperative to protect data security. Tools for keeping data secure include security protocols, encryption, and authentication. Using these tools and aligning data security requirements among regulators helps to persuade data owners that their shared data will be secure.

The Federal Financial Institutions Examination Council — the interagency group of banking regulators — has identified some best practices for secure data sharing, including technology solutions and the use of standards to assure that shared data are consistent and accurate.

A related challenge is to reach agreement on the details and protocols of data sharing. Specific memorandums of understanding, or MOUs, are needed to spell out those details. The OFR has signed more than 50 such MOUs with federal, state, and overseas regulators and others to facilitate data sharing.

Negotiating MOU details can take years. To streamline and accelerate the process, we are working with other members of the Financial Stability Oversight Council to develop a set of common MOU provisions.

So-called "metadata repositories" can also facilitate sharing and avoiding duplicative data collections. The repositories, which contain metadata — data about data — rather than the datasets themselves, give regulators insight into the data collections of other regulators. A regulator contemplating a new data collection can consult the repository to see if another regulator is already collecting the needed data.

Several years ago, the Data Committee of the Financial Stability Oversight Council developed and made public a metadata repository called the Interagency Data Inventory, a catalog of data collected by member agencies.

We plan to build on this inventory, now on the OFR website. We will also help other organizations to link their existing metadata catalogs or create new ones. We envision the OFR maintaining a central library of financial metadata for multiple stakeholders, giving authorized users a single, secure place to find sources of data.

Notable Progress

Before closing, I want to call your attention to steps by one regulator to improve data and reduce the reporting burden.

The Securities and Exchange Commission voted on March 1 "to propose amendments intended to improve the quality and accessibility of data submitted by public companies and mutual funds using eXtensible Business Reporting Language (XBRL)."

The proposals would require the use of Inline XBRL, which has the potential to benefit investors and other market participants while decreasing the cost of preparing information for submission to the SEC, especially for smaller companies.

This is real progress. Congratulations to the SEC, Acting Chair Michael Piwowar, and Commissioner Kara Stein for getting this done.

Closing

Let me sum up: Reducing the regulatory reporting burden aligns with the mission of the OFR. Through our regulatory burden initiative, we are identifying areas of duplication, overlap, and inefficiency in regulatory reporting.

We will work to ease these burdens through the Financial Stability Oversight Council and its member agencies, and by pursuing our data-related mandates. Steps to improve data quality and reduce the reporting burden include requiring standards, including precise and agreed-on definitions, identifiers, and formats; industry-regulator agreement on essential data elements; adherence to best practices in data collection; and more data sharing among regulators.

For those of you in industry, I have two requests. First, as underscored by the Senior Supervisors Group's 2014 Progress Report on Counterparty Data, firms have struggled to curate and harmonize their own risk data across their enterprises.[2] We need your involvement in a public-private partnership to improve data quality and reduce the regulatory reporting burden. Second, an essential step in the OFR initiative is to gather input from members of the private sector on the duplication, overlaps, unnecessary requirements, and similar burdens they encounter.

On both counts, I invite each of you here today to offer your input. I'm all ears.

Thanks again for having me here. I'm happy to respond to questions.

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[2] https://www.newyorkfed.org/newsevents/news/banking/2014/an140115.