Remarks of Richard Berner, Director, Office of Financial Research, U.S. Department of the Treasury
at the Power of Transparency Speaker Series
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Thank you for that kind introduction, Dick. I'm delighted and honored to be with you here. Since we went to high school together, I would only ask, what took so long? Thanks also to the Atlantic Council and Thomson Reuters for inviting me here this afternoon to join the distinguished speakers in this "Power of Transparency" series.

My topic — the power of transparency in promoting financial stability — is squarely in our wheelhouse at the OFR. We help to promote financial stability by delivering high-quality financial data and analysis for the benefit of policymakers on the Financial Stability Oversight Council and the public. As the program for today's event noted, we shine a light into the dark corners of our financial system. In other words, we exercise the power of transparency.

Transparency enables understanding. It helps reveal what we did not know.

The financial crisis of 2007-09 was devastating for most Americans and for our economy. Although we can't predict or prevent financial crises, many are now asking "Are we safer?" Are we better equipped now to face a future financial crisis? My answer is yes, absolutely, but we still have a lot more work to do.

In the years since the crisis, federal financial regulators have taken important steps to make the U.S. financial system more resilient. They have put in place banks' new capital requirements, and agreed on key components of liquidity regulation and minimum requirements for firms' holdings of liquid assets. In addition, stress testing and a new regime to resolve large, complex, and troubled financial institutions in an orderly way have dramatically changed the approach to increasing resilience.

We have also made major strides in improving financial data. Good data are essential for making good policy decisions and managing financial risks. Requiring financial firms to report their activities creates transparency that promotes price discovery and efficient markets. High-quality data result in transparency, so all users can understand what the data represent.

That's where I would like to focus this afternoon — on improving the quality, scope, and accessibility of financial data. Each of those is part of the OFR mission and they are essential for transparency in the financial system. Just having one or two won't suffice; all three are required, like the legs of a three-legged stool.

Let's first discuss data quality. The collapse of Lehman Brothers in 2008 taught us all a lesson about the importance of data quality.

When Lehman failed, financial regulators and Lehman's counterparties were unable to assess many individual exposures to the failing firm. No industry-wide standards existed for identifying parties to financial transactions, so many market participants were exposed to Lehman through its subsidiaries without knowing it.

If only knowledge of those exposures had existed prior to the Lehman failure. Now we have a solution: The global Legal Entity Identifier system, or LEI, is like a bar code for precisely identifying parties to financial transactions. It is a cornerstone for financial data standards.

A half-million LEIs are already in use, but more progress is needed toward universal adoption and the full benefits that we expect to flow from it. We played a major role in launching the public-private partnership that created the LEI system. And we have prodded regulators to require broader use of the LEI in regulatory reporting to solve the collective action problem that stymies adoption. Authorities in Europe have required it, but our fellow U.S. regulators have been slower to respond. They need to step up and do more.

Precise identification of financial products and instruments is also essential for data quality. That’s why we have a statutory mandate to develop a financial instrument reference database, an authoritative source of data describing financial instruments. With it, anyone could check whether a particular financial instrument is a close substitute for another, like looking up your family tree online.

The database will help firms more systematically understand, aggregate, and manage their risks across their portfolios. Likewise it will help officials promote financial stability by helping them understand, aggregate, and assess risks across the financial system.

Soon, the OFR will publish a paper outlining our proposed approach to establishing this database.

That brings me to the second leg of the stool — data scope. To analyze threats to financial stability, we need data that are both comprehensive and detailed. Although we have made progress, gaps persist in financial data and it’s our job to fill them.

One key gap that we are trying to fill involves short-term funding markets, specifically, data describing markets for bilateral repurchase agreements, or repo, and securities lending transactions.

These markets are instrumental in providing the funding and liquidity that are the lifeblood of the global financial system. The U.S. repo market provides more than $3 trillion in funding every day to securities dealers and many others. But its vulnerability to runs and fire sales poses potential threats to financial stability.

The OFR has collaborated with the Federal Reserve and Securities and Exchange Commission to conduct two voluntary pilot projects to explore how to collect these data. We plan to build on the pilots soon with a rulemaking to launch ongoing data collections. We will make the resulting data available to federal financial regulators and, in aggregated form, to the public.

The data might also be useful in developing a secured funding rate as an alternative to LIBOR. LIBOR, formerly the London Interbank Offered Rate, is an interest-rate benchmark used to price borrowing rates on major consumer purchases, such as homes and cars, and for $150 trillion in derivatives. Attempted manipulation of LIBOR during the financial crisis and ongoing doubts about LIBOR's reliability prompted the OFR and Federal Reserve to work with other agencies and market participants to devise a reliable, widely accepted, and transparent alternative. That work is continuing in the new year.

The third leg of the data stool is about access. To make key data more accessible, we must both overcome obstacles to the appropriate sharing of data and ensure the protection of confidential information.

The financial system is global, so challenges to data sharing know no borders. The challenges involve restrictions on sharing proprietary data, the need to protect personal and market-sensitive information, and legal constraints that differ among jurisdictions.

Even sharing data with member agencies of the Financial Stability Oversight Council can be difficult. Agencies with mandates to collect data from industry for oversight purposes might lack the authority to share those data, even with the OFR.

We are taking several approaches to overcoming these obstacles. For example, we have signed more than 50 memorandums of understanding, or MOUs, with federal, state, and overseas regulators to facilitate data sharing. These agreements include MOUs with state supervisors for insurance industry data, the Securities and Exchange Commission for confidential data about private funds, the Federal Reserve for data on stress testing, and our global counterparts for a variety of data.

We are also working with federal financial regulators to develop best practices and a set of common MOU provisions to streamline the process.

To facilitate data access, we are also working with regulators in the United States and overseas to build and link catalogs of metadata — data about data — for transparency among regulators about what data exist and to identify data gaps.

Those are just a few examples of how the OFR is exercising the power of transparency to promote financial stability by improving the quality, scope, and accessibility of financial data.

Thank you for your attention today. I will be happy to answer your questions.