DFIN

WHITE PAPER

FDTA:
The Dream Realized

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When the US government designated over $4.62 trillion for COVID-19 pandemic relief through the CARES Act and similar legislation, a whopping 43 separate agencies were involved in allocating funds and financing projects, according to **USASpending.gov.**

Untangling which agency funded a specific effort and how the funds ultimately were used is very difficult under the current reporting regimen with its hodgepodge of methods for disclosing information.

Change on this front is happening at last. On December 23, 2022, President Joe Biden signed the Financial Data Transparency Act, or FDTA, into law. With a stroke of a pen, Biden ended a long era of inefficient, document-based government reporting in the financial arena.

The FDTA's amendment of existing securities and banking laws was a dream ten years in the making, and the final implementation will not take effect until 2026.

The FDTA will require eight of the financial regulatory member agencies of the US Financial Stability Oversight Council—or FSOC—to apply uniform data standards for all information collected. Among these agencies are the SEC, the Department of the Treasury, the OCC (Office of the Comptroller of the Currency), and the Federal Housing Finance Agency, or FHFA.

The FDTA in a Nutshell

The FDTA means that mountains of important information reported to financial regulators will soon be electronically searchable. Gone will be the days when critical financial reporting resided in a variety of formats from paper to PDFs and plain text documents.

This is an enormous win for government officials, investors, philanthropists, private sector firms, and any other stakeholders who want reliable insights into how US banks and corporations are operating.

Without the type of structured data mandated by the FDTA, the reports collected by regulators on critical activities were doomed to remain messy, inconsistent, inaccessible, and ultimately of too little use.

Once the law takes effect, regulators will experience a turning of the tables. They will be among the ones complying with a whole new set of data collection and dispersal standards that will, in turn, impose change on those they regulate.

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

Phase 1. All FSOC agencies will participate in creating a set of draft rules that will then be reviewed during a formal comment period. Rules must be ready to be reviewed within 18 months of the FDTA having been signed, or by mid-June 2024.

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.

Appreciating the Benefits

The FDTA reimagines the whole ecosystem of how data is collected, reviewed, validated, filed, and (finally) used.

Here is a deeper dive into some of the benefits to come:

More transparency. "Sunlight is said to be the best of disinfectants" is a century-old quote from Supreme Court Justice Louis Brandeis that captures why transparency is critical to good government. Once information is presented uniformly and published for all to see and use, deceptions are harder to perpetrate.

Greater consistency and accuracy. Moving from documents to standardized data is a way to improve accuracy.

Today critical government information may be presented in a number of formats from PDFs to emails and even paper documents. When data are exported from these sources, mistakes are unavoidable.

New opportunities for collaborative collection methods. Not only will the FDTA change how information is presented, it will allow information to be collected differently, too. Given the rise of SaaS—or cloud-based—technologies, data can now be delivered to and accessed from any device with a web browser and Internet connection.

A chance to reinvent. Rather than continuing to collect and share data in traditional ways, the chief data officers within federal agencies have a rare opportunity to look at government processes more holistically.

A foundation for RegTech innovation. Ensuring information reported to financial regulators is electronically searchable will facilitate "the development of regulatory technologies and artificial intelligence applications," according to **the Data Coalition.**

iXBRL in a Nutshell

The FDTA did not mandate which data standard will be used, but iXBRL is a clear frontrunner.

Inline XBRL—or iXBRL—is an international XBRL standard. The technical fine points of the iXBRL standard are complicated, of course. But perhaps the best way to think about iXBRL is as a system that allows the transition of financial reporting from documents to a data stream—and back again.

With iXBRL, highly-structured streams of content can be viewed through a Web browser and thereby recreated as descriptive narratives that anyone can read and digest.

In other words, iXBRL takes the very technical, structured content of XBRL and inserts it back into the HTML stream so it can be read and used by human beings. A document tagged in iXBRL can be understood just as easily by a person as by a computer.

Learn from Peers

When it comes to more accessible data, one standard bearer has been Florida. In March 2018, Governor Rick Scott signed HB 1073, legislation that established the Florida Open Financial Statement System. This enabled the state CFO to build XBRL taxonomies for state, county, municipal, and special district financial filings.

At the federal level, an important agency to learn from is the FDIC, which the Data Coalition hails as the first financial regulator to implement a large-scale modernization project by using machine-readable semantic data.

At the end of the FDIC's modernization efforts, the **benefits** were convincing:

- The error rate for statistical data fell to nearly zero percent, down from 33 percent.
- Data became available to the capital markets within hours, rather than days or sometimes even weeks.
- Analysts took 15 percent less time to complete their work.

USAFacts Case Study

On April 15, 2020, USAFacts, a not-for-profit with a mission of providing easily understandable government data, made public its first-ever, full-length 10-K tagged in iXBRL. This was an important leap forward in making the complicated financial workings of the US public sector more transparent and accessible to anyone with an Internet connection.

The USAFacts 10-K made history through a collaboration with **DFIN** and **XBRL US** to show how government spending might be represented in a format readily available to everyone.

Here is the **case study** in full.

A Brave New RegTech World?

While challenging, the road ahead isn't completely unfamiliar. Within the recent past, the government has engaged in large-scale modernization efforts, such as the Data Act.

At each iteration of government modernization, data officers and the cadre of outside experts working closely with them have learned from past efforts and have improved processes going forward.

As with earlier efforts, the FDTA is almost certain to drive technological innovation. Specifically, an explosion of transparent financial data will create a pathway to realizing a host of RegTech innovations powered by AI, machine learning, and cloud technologies.

Right now, the sheet is still blank and the possibilities wide open.

Four years from now, when the FDTA is fully implemented, this law will be serving as a catalyst for a whole new set of compelling visions because better and more useful, accurate, and transparent data was reported to financial regulators.

Learn more about DFIN's end-to-end risk and compliance solutions.
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