

November 18, 2016

The Honorable Jeb Hensarling, Chairman
The Honorable Maxine Waters, Ranking Member
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Hensarling and Ranking Member Waters:

As organizations interested in modernizing financial regulatory reporting in the United States, we are writing to request that the Financial Services Committee consider this important issue during future legislative sessions.

Financial regulators around the world are modernizing their reporting regimes by moving away from document-based reporting and instead adopting structured data formats and standardized data fields for the information they collect. They are transforming financial reporting from documents into data for three compelling reasons.

First, open data reduces industry's compliance costs. By adopting structured formats, regulators create opportunities for the technology industry to automate reporting.¹ Australia's Standard Business Reporting program, where regulators have adopted the same format across hundreds of previously-separate information collections, allows companies to use software to report to multiple agencies simultaneously, saving them over \$1 billion per year.² When regulators embrace nonproprietary data fields like the Legal Entity Identifier (LEI) across multiple regimes, financial firms are able to develop consistent internal views of their exposures.³

Second, open data delivers faster, cheaper insights for investors. Structured data formats, by electronically identifying each piece of information, enable investors to "retrieve information in a

¹ See, e.g., Singh, Mohini, and Peters, Sandra. *Data and Technology: Transforming the Financial Information Landscape*. CFA Institute, June 2016. Web.

<<http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2016.n7.1>>, page 9 ("Current manual report assembly and review processes require both time and money. These company costs are ultimately borne by investors. Standardization of data could significantly help companies with the writing of financial reports").

² *ABR Program Savings Review*. Deloitte, 24 March 2016. Appendix 2 (finding that multiple regulators' use of the same structured data format generated \$1.12 billion in savings for Australian government and industry in 2015-16, of which \$99 million accrued to government via reduced errors and remedial action and most of the rest accrued to industry via automated retirement and tax reporting).

³ Blocker, Andy. "Letter in Support of the Office of Financial Research Accountability Act of 2015." Letter to Chairman Jeb Hensarling, Committee on Financial Services. SIFMA, 3 Nov. 2015. Web. <<http://www.sifma.org/issues/item.aspx?id=8589957547>>.

cost effective and highly usable fashion,” compared to plain-text documents.⁴ For example, data aggregators can automatically process structured data, while document-based reports require time-consuming and expensive manual labor.⁵ Nonproprietary data fields like the LEI can allow investors to electronically match entities and concepts across separate agencies’ regimes.

Third, regulators’ own processes need to become data-driven. They must develop capabilities to prospectively flag areas of systemic risk and identify outliers signaling potential misconduct.⁶ But without structured data formats, data analytics capabilities are far more expensive.

Standardized data fields can allow regulators to “quickly understand the relationship of corporate entities to one another.”⁷ “If the regulators adopted consistent data fields and formats for the information they already collect, instead of using dense and unstructured documents like PDFs or HTML text files, they would have a better chance of catching fraudsters like Bernie Madoff and would make better decisions in crises.”⁸

There is a growing consensus in the U.S. technology⁹ and financial¹⁰ industries that our financial regulators should move quickly to modernize their reporting regimes and replace documents with data. But progress has been slow.

⁴ SEC Investor Advisory Committee. “Recommendations of the Investor as Owner Subcommittee Regarding the SEC and the Need for the Cost Effective Retrieval of Information by Investors.” Securities and Exchange Commission, 25 July 2013. Web. <<https://www.sec.gov/spotlight/investor-advisory-committee-2012/iac-recommendation-data-tagging.pdf>>.

⁵ See Szapiro, Aron, and Guo, Jo. “Letter to Chair Mary Jo White, Securities and Exchange Commission, on Business and Financial Disclosure Required by Regulation S-K.” Morningstar, 20 July 2016. Web. <<https://www.sec.gov/comments/s7-06-16/s70616-179.pdf>> (“In fact, it can take us up to 5 days to process HTML filings from smaller companies and display this data for our clients, whereas aggregating XBRL data is nearly instantaneous, as long as the data is high-quality”).

⁶ See Flannery, Mark J. “Insights into the SEC’s Risk Assessment Programs.” Global Association of Risk Professionals 16th Annual Risk Assessment Convention. New York City. 25 Feb. 2015. Web. <<https://www.sec.gov/news/speech/insights-into-sec-risk-assessment-programs.html>>.

⁷ Representative Ed Royce. “Rep. Royce Pushes the SEC on Investor Transparency and Protection. Media Release. 18 Nov. 2015. Web. <<http://royce.house.gov/news/documentsingle.aspx?DocumentID=397829>>.

⁸ Representative Randy Hultgren. *How to Stop the Next Bernie Madoff*. Op-Ed. *The Guardian*, 16 August 2016. Web. <<https://www.theguardian.com/commentisfree/2016/aug/16/how-to-stop-the-next-bernie-madoff>>.

⁹ See LeDuc, David, and Hollister, Hudson. *Technological Change Is Coming to Financial Regulation*. Congress Blog. *The Hill*, 24 Mar. 2016. Web. <<http://thehill.com/blogs/congress-blog/technology/274077-technological-change-is-coming-to-financial-regulation>>.

¹⁰ See Blocker, note 3; see also U.S. Chamber of Commerce Center for Capital Markets Competitiveness, *Corporate Disclosure Effectiveness: Ensuring a Balanced System that Informs and Protects Investors and Facilitates Capital Formation*. Report. U.S. Chamber of Commerce, 2014. Web. <<https://www.sec.gov/comments/disclosure-effectiveness/disclosureeffectiveness-11.pdf>>, page 21 (“We believe it is time to rethink the format of public company reports and the fundamentals of how information is delivered to investors, with the goal of enhancing the usability and value of public company disclosures for investors in the modern technological era. Modern technology allows us to shape a more effective disclosure regime, and we should take advantage of it.”)

For example, since 2009, the Securities and Exchange Commission (SEC) has been requiring public companies to file every financial statement using the nonproprietary eXtensible Business Reporting Language (XBRL), an internationally accepted and freely licensed structured data format.¹¹ But because the SEC has not yet phased out the old-fashioned document versions, both companies and the agency have continued to focus on the document versions, and the quality of the structured data versions, though improving, is not yet commercially acceptable.

Congress repeatedly called on the SEC to end its duplicative financial reporting structure,¹² and the agency announced in June 2016 that companies could voluntarily file financial statements in a new data format that is both human-readable and machine-readable.¹³ But outside the financial statements, almost the entire portfolio of securities disclosures are still expressed as unstructured documents, not data, and the SEC's current regulatory releases suggest the agency still views them that way.¹⁴

The Commodity Futures Trading Commission (CFTC) took nearly two years to finally propose¹⁵ a data structure for swap data repository reports, even after a CFTC commissioner pointed out¹⁶ that the reports were useless without standardization. Despite evidence that reporting requirements are duplicative,¹⁷ U.S. regulators have made no coordinated effort to adopt a harmonized format across their regimes.

¹¹ "Interactive Data to Improve Financial Reporting," Final Rule, Securities Act Release No. 33-9002. Securities and Exchange Commission, 30 Jan. 2009. Web. <<https://www.sec.gov/rules/final/2009/33-9002.pdf>>.

¹² See Warner, Mark R., and Mike Crapo. "Letter to the SEC on XBRL Adoption." Letter to Chair Mary Jo White, Securities and Exchange Commission, 21 July 2015. Web. <<http://www.datacoalition.org/wp-content/uploads/2015/07/Warner-Crapo-letter-on-XBRL.pdf>>.

¹³ "Order Granting Limited and Conditional Exemption Under Section 36(a) of the Securities Exchange Act of 1934 from Compliance with Interactive Data File Exhibit Requirement in Forms 6-K, 8-K, 10-Q, 10-K, 20-F and 40-F to Facilitate Inline Filing of Tagged Financial Data," Securities and Exchange Commission, 13 June 2016. Web. <<https://www.sec.gov/rules/exorders/2016/34-78041.pdf>>.

¹⁴ See Hollister, Hudson, "Letter to Brent J. Fields on Business and Financial Disclosure Required by Regulation S-K." Data Coalition, 12 July 2016. Web. <<http://www.datacoalition.org/wp-content/uploads/2016/07/DataCoalitionCommentinResponsetoConceptReleaseonBusinessandFinancialDisclosure.pdf>>, page 5 ("[T]he Concept Release assumes it is still necessary to prevent disclosure documents from getting too long, or too technical, lest they confuse investors. But structured data technologies can now render these considerations moot. If all disclosure information were expressed as structured data, instead of documents, third party intermediaries could easily provide whatever degree of detail investors might demand ...").

¹⁵ "CFTC Staff Issues Request for Comment on Draft Technical Specifications for Certain Swap Data Elements." Media Release. Commodity Futures Trading Commission Division of Market Oversight and Office of Data and Technology, 22 Dec. 2015. Web. <<http://www.cftc.gov/PressRoom/PressReleases/pr7298-15>>.

¹⁶ O'Malia, Scott D., CFTC Commissioner. "Disruptive Data: Transforming Regulatory Oversight through Technological Innovation." SWIFT's Standards Forum, London School of Economics, 25 Mar. 2014. Web. <<http://www.cftc.gov/PressRoom/SpeechesTestimony/opaomalia-34>>.

¹⁷ See *Better Data for Better Decisions: Standards to Improve Corporate Government Reporting*. White paper. XBRL US, October 2011. Web. <<https://xbrl.us/wp-content/uploads/2011/12/BetterReporting.pdf>>, page 10 (table showing that a majority of data elements reported by a large public company to the Bureau

Meanwhile, U.S. regulators lag far behind those of other G20 nations in adopting the LEI.¹⁸ The LEI is mandatory in only a few reporting regimes, and regulators have no clear plans to make it universal.

The private sector has developed technological tools to glean deep insights into financial markets for investors and agencies, but such tools are difficult to deploy in the absence of standardized data.¹⁹ Additionally, complex disclosure regimes foster information overload that hinders investors' ability to make informed decisions at the real time pace needed to keep up with modern markets. Standardized data would allow markets to digest information more efficiently, ignore duplication, and cut through overload.

The SEC's leadership recognizes the need for the agency to take advantage of data technologies to pursue its mission of investor protection, efficient markets, and capital formation.²⁰ Yet the SEC and other financial agencies still have not modernized their reporting regimes to provide data, instead of documents, for use by these technologies.²¹

Financial Services Committee members deserve a lot of credit for having introduced and cosponsored multiple pieces of legislation aimed at modernizing of financial reporting by standardizing data.²² But the Committee has yet to convene a hearing to address the need for structured formats and standardized data fields.

We therefore urge the Committee to support the modernization of financial regulatory reporting by assembling the appropriate subject-matter experts to testify on these issues.

of Economic Analysis, the Census Bureau, and the Federal Reserve are also reported to the Securities and Exchange Commission).

¹⁸ *The Global LEI System and Regulatory Uses of the LEI*. Issue brief. Legal Entity Identifier Regulatory Oversight Committee (LEI ROC), 5 Nov. 2015. Web.

<http://www.leiroc.org/publications/gls/lou_20151105-1.pdf>.

¹⁹ Harris, Trevor S., and Suzanne Morsfield. "An Evaluation of the Current State and Future of XBRL and Interactive Data for Investors and Analysts." Tech. Columbia Business School - Center for Excellence in Accounting and Security Analysis, Dec. 2012. Web.

<http://www8.gsb.columbia.edu/ceasa/sites/ceasa/files/An_Evaluation_of_the_Current_State_and_Future_of_XBRL_and_Interactive_Data_for_Investors_and_Analysts.pdf>.

²⁰ Stein, Kara M. "Disclosure in the Digital Age: Time for a New Revolution." Colorado Bar Association 48th Annual Rocky Mountain Securities Conference. Marriott City Center, Denver. 6 May 2016. Web.

<<https://www.sec.gov/news/speech/speech-stein-05062016.html>>.

²¹ Hollister, Hudson. "Re: Disclosure Effectiveness Initiative." Letter to Keith Higgins, Director, Division of Corporation Finance, SEC. 29 Oct. 2015. Data Coalition, 4 Nov. 2015. Web.

<<https://www.sec.gov/comments/disclosure-effectiveness/disclosureeffectiveness-55.pdf>>.

²² Disclosure Modernization and Simplification Act of 2015, H.R. 1525, 114 Cong. (2015). Web.

<<https://www.congress.gov/bill/114th-congress/house-bill/1525>>. See also Office of Financial Research Accountability Act of 2015, H.R. 3738, 114 Cong. (2015). Web. <<https://www.congress.gov/bill/114th-congress/house-bill/3738>>.

See also Financial Transparency Act of 2015, H.R. 2477, 114 Cong. (2015). Web. <<https://www.congress.gov/bill/114th-congress/house-bill/2477>>.

Thank you in advance for your consideration of this request. We are committed to working with the Committee on this important issue and we look forward to assisting the 115th Congress in its continued efforts to advance meaningful reforms.

Respectfully,

Center for Data Innovation
CompTIA
Data Coalition
Information Technology & Innovation Foundation
LexisNexis Risk Solutions
Morningstar
OTC Markets
Software & Information Industry Association