

U.S. Municipal Bond Market

The Financial Data Transparency Act, A Potential Burden & Technological Upgrade for Public Finance if it Becomes Law

- It is very likely the Financial Data Transparency (FDT) Act will be included in the Federal Defense Authorization for FY23. If so, there could be a direct impact on Municipal Securities Rulemaking Board requirements and public finance disclosure.
- For the most part U.S. regulators currently collect and share data and information from their regulated units using hard-copy, pdf, or plain-text html formatted documents or files. There is no federal governmental-wide standardization or structure of data.
- It is possible that after the FDT Act is passed that all U.S regulators will be required to mandate data and document collection in what is known as the eXtensible Business Reporting Language or (XBRL) format. The Securities and Exchange Commission currently requires XBRL.
- The Government Finance Officers Association (GFOA) took a strong stance against the FDT Act in a new member alert.
- We believe the Financial Data Transparency Act will generally pose a financial and managerial burden for the public finance community, but will also provide a modern upgrade on the data side where public finance disclosure is concerned.

Tom Kozlik
Head of Municipal Research & Analytics
214.859.9439
tom.kozlik@hilltopsecurities.com

U.S. Senate Considering Including the Financial Data Transparency Act Within the Federal Defense Authorization for FY23

The U.S. Senate is currently considering including the [Financial Data Transparency Act of 2022](#) in the Federal Defense Authorization for FY23. There is strong possibility that this occurs, therefore we wanted to share with our readers what we know about this dynamic based on the little information that exists currently. Overall, we believe the Financial Data Transparency Act will be a burden for the public finance community, but will provide a modern upgrade on the data side where public finance disclosure is concerned.

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What is the Financial Data Transparency Act, How Could it Impact Public Finance?

The Financial Data Transparency Act (the FDT Act) has bi-partisan support and was introduced by Senators [Mark Warner \(D\) of Virginia](#) and [Mike Crapo \(R\) of Idaho](#). The FDT Act would require the Municipal Securities Rulemaking Board (MSRB) and other federal agencies and regulators to adopt and implement new data standards that would, according to the proposed legislation:

- Make information reported to financial regulatory agencies electronically searchable;
- Enable the development of regulatory technologies & artificial intelligence applications;
- Put the U.S. on a path towards building a comprehensive Standard Business Reporting program;

- Ultimately harmonize and reduce the private sector’s regulatory compliance burden, &;
- Enhance transparency and accountability.

Effectively this effort would be a much-needed technological upgrade and allow the manual process that currently exists to evolve to a smarter process that increases transparency and utility. For the most part U.S. regulators currently collect and share data and information from their regulated units using hard-copy, pdf, or plain-text html formatted documents or files. There is no governmental-wide standardization or structure of data. On the surface this unfunded legislative mandate would likely make regulatory filings machine-readable and not only electronically searchable but also allow investors and observers the ability to use automated software or even machine learning technology to review and analyze data.

Effectively this effort would be a much-needed technological upgrade and allow the manual process that currently exists to evolve to a smarter process that increases transparency and utility.

XBRL and iXBRL Could Be the Future of Regulatory Disclosure

There is no specific guidance or funding described in the current version of the FDT Act legislation. It is possible that after the FDT Act is passed that all U.S regulators are required to mandate data and document collection in what is known as the eXtensible Business Reporting Language or (XBRL) format. [The Securities and Exchange Commission \(SEC\) began phasing in XBRL requirements in 2018.](#) The SEC requirement occurred over a three-year phase-in and finally required all U.S. GAAP filers to use XBRL as of June 15, 2021.

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GFOA Alert: A Costly and Burdensome Unfunded Mandate

The Government Finance Officers Association (GFOA) recently published a member alert related to the draft FDT Act. The alert is titled [New Financial Reporting Requirements for Governments Proposed in U.S. Senate: A Costly and Burdensome Unfunded Mandate.](#) The GFOA takes a strong stance against the FDT Act and asks its members to, “. . . reach out to their Senators and ask them to oppose inclusion of S. 4295 in the defense authorization bill.”

The GFOA published guidance in [Mandating Specific Technologies for Financial Reporting and Disclosure Purposes](#) (September 2018) that opposed federal government efforts to, “. . .mandate the use of specific technologies by state and local governments for financial reporting and disclosure.”

Summary

If the Financial Data Transparency Act in its current form becomes law we expect that it will be an administrative burden for many if not most public finance entities. Depending upon the details of the final legislation new requirements could especially be a financial burden to smaller public finance entities that do not have the financial resources to pay, or human capital to oversee the transition process. The overall near-term credit impact will be negligible. We believe improving and especially modernizing data involved in public finance related disclosure is a step in the right direction, even if it is long overdue.

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