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Fixing financial data to assess systemic risk

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Statement of independence

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Executive summary

The COVID-19 market disruption again highlighted the flaws in the data that the public and the authorities use to assess risks in the financial system. We don't have the right data, we can't analyze the data we do have, and there are all sorts of holes. Amidst extreme uncertainty in times like this, market participants need better data to manage their risks, just as policymakers need better data to calibrate their crisis interventions.

This paper argues that the new administration should make it a priority to fix financial regulatory data, starting during the transition. The incoming administration should, first, emphasize data when vetting candidates for top financial regulatory positions. Every agency head should recognize the problem and the roles they must play in the solution. They should recognize how the <u>Evidence Act</u> of 2018 and other recent legislation help define those roles.

And every agency head should recognize the role of the Office of Financial Research (OFR) within the regulatory community. Only the OFR has the mandate and experience to provide the necessary leadership to address these problems. The incoming administration should empower the OFR to do its job and coordinate a systemwide financial data strategy, working with the regulators. That strategy should set a path for identifying key data gaps that impede risk analysis; setting data standards; sharing data securely, among authorities and with the public; and embracing new technologies that make it possible to manage data far more efficiently and securely than ever before. These are ambitious goals, but the administration may be able to accomplish them with vision and leadership.

Introduction

The coronavirus-induced market stress in March provided new evidence that the public and the authorities still don't have the data they need to track and analyze risks in the financial system. Authorities were unable to answer basic questions as markets spun out of control. Who was selling billions of dollars' worth of U.S. Treasuries, which many believe are the safest assets in the world? Who had too much short-term leverage in repurchase agreements (repos)? Who was exposed *indirectly* through their debtors and counterparties?

Answers to these questions would have been useful. But the Treasury market, the most liquid fixed-income market in the world, remains surprisingly opaque. Broker-dealers now report their transactions in the market to the authorities, but banks <u>still don't</u>, and the authorities share little information with the public. Data remain <u>limited</u> on the uncleared bilateral segment of the repo market and on the activities of hedge funds, whose selling of Treasuries was significant but difficult to evaluate with existing data.

To be sure, the Federal Reserve quickly restored confidence this Spring. But it did so through massive credit operations and a commitment to buy securities, like corporate bonds and exchange-traded funds, that it has never bought before, not even during the 2007-09 financial crisis. Better information may have allowed for a more targeted response in March and a more fruitful assessment afterward.

It wasn't supposed to be this way. Regulators have much more data now. Since the last crisis, they have pulled derivatives trading out of the shadows; introduced reporting for hedge funds, private equity funds, and money market funds; and asked a lot more of banks.

Congress created an Office of Financial Research (OFR) in 2010 to identify risks and fill blind spots so regulators would have a broader view of "who owes what to whom" across the financial system. The OFR has mandates to improve the quality of data collected, promote data-sharing, and improve public disclosure. It has subpoena power to collect data from financial companies to enforce these authorities. It is also expected to conduct cutting-edge research and create models and monitoring tools that they and the regulators can use to identify potential systemic risks.

But, despite these initiatives, financial data today remain incomplete and often not fit for purpose. Legacy data-collection technologies, old-school thinking, and bureaucratic turf fights continue to hinder the authorities' ability to monitor systemic risks. Moreover, U.S. regulators have fallen behind the private sector and many of their peers overseas in the adoption of technologies that could revolutionize the collection, management, sharing, and dissemination of financial data.

This paper first describes the unique challenges that financial data present. It then describes a strategy to bring financial data into the 21st Century. That strategy would set a timeline for identifying and closing data gaps; improving standards; sharing data, both among authorities and with the public; and accelerating the adoption of new technologies. Finally, it describes the role the OFR should play in driving that strategy, working closely with regulators on the Financial Stability Oversight Council (FSOC).

To implement this strategy, the new Biden administration will have to first remove the roadblocks that have gotten in the OFR's way for the past 10 years. Those roadblocks include a lack of support from Treasury, where it sits organizationally; sometimes aggressive undermining by private industry and even other FSOC member agencies; and defunding and silencing under the Trump administration.

The presidential transition period provides a unique opportunity to remove such road-blocks in the vetting process for heads of regulatory agencies. The administration should make sure every appointee understands that financial regulatory data management is broken and FSOC member agencies have the responsibility to fix it. Every FSOC Principal should also know that the Evidence Act of 2018 requires them to appoint a Chief Data Officer (CDO) and draft a data strategy. Most importantly, the Treasury Secretary, as chair of FSOC, needs to unify the regulators to support an independent OFR and head off the turf issues that will inevitably arise as it executes its mandates.

There are reasons for cautious optimism that the OFR can lead FSOC toward common data goals. Most FSOC member agencies now have appointed Chief Data Officers, each tasked with championing better use of data. Recent laws require federal agencies to improve their collection, management, and dissemination of data. Some agencies have already taken

steps to improve the data they collect. The Federal Deposit Insurance Corporation (FDIC) launched a <u>competition</u> to modernize the century-old call report that banks file. The Commodity Futures Trading Commission (CFTC) recently <u>took action</u> to fix derivatives data.

In short, the elements are in place. We still need leadership.

The problem: Financial stability analysis faces unique challenges

Financial regulators have paid a lot more attention to systemic risk since the global financial crisis of 2007-09. Of course, promoting financial stability was always central to the mandate of the Federal Reserve (see Brainard, 2014, for example) and implicit to the mandates of prudential regulators concerned with banks' safety and soundness. But the crisis emerged and spread through channels that regulators had simply not been monitoring—through derivatives and funding markets, and nonbank financial institutions that proved too interconnected to fail. The regulators had no dashboard to monitor rapidly changing markets that had evolved new ways of hiding leverage, maturity transformation, and risk transfer. It was as if our defense apparatus had devoted substantial resources to identifying and analyzing potential threats to national security across the world but had ignored, say, South Asia.

Those failures made clear that regulators needed a much broader understanding of potential systemic risks than they had previously achieved. Regulators now view the financial system as an extraordinarily complicated, unstructured web of debts owed and commitments made. To analyze potential systemic risks, they seek to find out: Who owes what to whom? Under what circumstances will they have to pay? What are the chances that multiple actors will demand repayment, sparking a "run" on a particular firm or market? What are the chances they will all try to sell the same assets at the same time? Who will be in trouble if any of this happens?

These questions demand very granular data about financial companies' balance sheets and the commitments they have made in financial contracts. Those data need to follow common standards, so that financial stability analysts can compare and aggregate financial exposures across companies and markets.

But, for several reasons, it isn't so easy to build such data.

First, our country has a uniquely fragmented regulatory structure. A large bank could face a half-dozen federal regulators and dozens of state regulators. This fragmentation is a constant source of frustration for the companies they regulate. It also frustrates financial stability analysis. During the Global Financial Crisis, it was impossible for any one regulator to gain a full understanding of risks across the system. Even in quiet times, financial regulators are extraordinarily interdependent. A bank examiner who needs to understand Bank A's risks should also understand the risks in the markets in which Bank A operates—re-

quiring data from a market regulator, perhaps—and the riskiness of Bank A's biggest counterparties—which could be banks, securities firms, or asset managers regulated by any number of agencies. Clearly, regulators need to share data among themselves to do their jobs. It is also essential that those data follow consistent standards, so examiners and financial stability analysts can compare and aggregate them.

But regulatory fragmentation creates structural and cultural barriers to data-sharing and standardization. Agencies are <u>more inclined</u> to stick with what they know than to promote common goals with uncertain outcomes. Legacy systems for collecting and managing data reflect each agency's unique historical and organizational perspectives. Agencies may even define basic financial terms differently (see this <u>report</u> from the OFR's external advisory committee). It is also in the nature of bureaucrats to protect turf, as Fed Governor Randy Quarles noted in a recent <u>seminar</u>: "The more data is shared, the more people will have an opinion that could differ from the people in charge who have a view."

Second, regulatory gaps persist as financial activities evolve. Many crisis post-mortems blamed regulators for failing to identify systemic risks in the lightly regulated "shadow banking system" before the Global Financial Crisis. But this isn't a new phenomenon. Some of the most important financial innovations have always occurred outside regulators' view. A systemic risk monitoring framework must be nimble enough to identify and track risks in rapidly changing markets and companies. That task is particularly challenging amidst the current financial technology (FinTech) revolution, as nontraditional financial companies, often startups, upend traditional bank business models with machine learning and other new technologies.

Third, regulators have to rely on market participants. Most of the data that regulators use for financial stability analysis comes from the private sector. Those data are only as good as the companies that produce them. During the last financial crisis, large banks like Citigroup, after years of growth through mergers and acquisitions, were unable to answer simple questions about their company-wide exposures to subprime mortgages. Those weaknesses handicapped both their own risk managers and their regulators. This was a failure, certainly, of analysis and risk management, but it was at root a failure of each company's basic infrastructure supporting financial data.

Financial institutions still have work to do on data governance. According to the <u>Basel Committee on Banking Supervision</u>, none of the 34 global systemically important banks, including the eight that are US-based, are compliant with Basel 239, the post-crisis international regulatory initiative to compel banks to improve their data aggregation and risk reporting.

Fourth, financial data are subject to proprietary and confidentiality concerns. Financial data raise obvious confidentiality concerns. Financial regulators typically also have information that financial companies would not want their competitors to see. Regulators have strict rules governing access to that information, even internally, and are typically very hesitant to allow access to others, even other regulators. In some cases, regulators may have access to data that could potentially be used to identify a particular person; they manage such information very carefully or seek to avoid getting access to it in the first place.

Barriers to data-sharing and standardization can also be legally challenging, if a regulator has collected data from a regulated entity solely for a specific regulatory purpose; or if a regulator has paid the large subscription fee for a private data source that it can't share with other regulators who have not subscribed.

Fifth, financial regulatory data do not provide enough information about risk. As noted above, financial stability analysts need to know *who owes what to whom, and under what conditions*. In some cases, they need a real-time view of the risks that regulated entities are taking. Traditional regulatory reporting doesn't serve these purposes well. Consider the <u>call report</u> that banks file. While it is a great example of interagency collaboration and standardization, it is also emblematic of the old way of doing things. Banks report on forms on a quarterly basis, six weeks after the end of each quarter, presenting balance-sheet items in broad buckets (for example, "1-4 family residential construction loans"). But these buckets don't provide much information about the specific risks such assets could pose a bank.

Post-crisis reforms sought to meet these challenges, but the work is incomplete. The Financial Stability Board, made up of central banks and regulators, responded to the last crisis with unprecedented global initiatives to improve the quality and relevance of the data they collect from banks and markets like derivatives, repos, and asset management. But its annual report card is decidedly mixed. The March 2020 market disruption again illustrated that regulators still don't have the data they need to analyze financial stability risks in critical markets. Data-sharing across agencies remains a problem.

The solution: Develop a systemwide financial regulatory data strategy

Complicated technical and bureaucratic problems demand a plan. Under the new administration, federal regulators should develop a systemwide strategy for fixing financial regulatory data.

Note that the federal government now has some experience that could help. The Evidence Act of 2018 requires all agencies to appoint Chief Data Officers (CDOs) to set up lasting data governance functions; a recent <u>survey</u> described their progress. More than 50 agencies signed on to a <u>Federal Data Strategy</u> with a detailed <u>action plan</u> last year. The strategy begins with consensus statements of mission, shared principles (ethical governance, conscious design, learning culture), and best practices. The <u>process</u> behind the Federal Data Strategy involved rounds of drafts for comments and public forums. Strategic plans mean nothing without buy-in from those who will execute them.

The drafting of a systemwide *financial* data strategy similarly should result from an inclusive process, both among FSOC members and with the public. It should also include agreement on mission, principles, and practices. Those are likely to differ from the Federal Data Strategy due to the unique challenges of financial data described above. Although FSOC member agencies participated very little in the Federal Data Strategy, some are following

in parallel. Most FSOC member agencies now have CDOs, four of whom they appointed in 2020, and several are now working on data strategies.

A systemwide financial data strategy should address four key themes: (1) Identifying and filling data gaps; (2) Setting data standards; (3) Requiring data sharing, among regulators and with the public; and (4) Accelerating the use of technology. I'll argue next that the OFR is the only organization qualified to draft such a strategy, working in cooperation with the regulators.

First, the systemwide financial data strategy should set priorities for data gaps the regulators will fill. The process of prioritizing data gaps starts with an analysis of the biggest financial-system vulnerabilities and what we need to know about them. The OFR offered such analyses in its early annual reports. The key themes are leverage; maturity and liquidity transformation; and credit risk, including risk transfer products. The challenge is to analyze these themes across firms and markets in order to identify common exposures and concentrated exposures. But some corners of the financial system are much more visible to regulators than others, depending on the type of regulation they are subject to. Moreover, as noted, financial activity migrates over time to where it is less regulated. The vulnerability and gaps analysis must be fluid and periodically updated.

The financial data strategy should prioritize collecting data on the repo and securities lending markets, while setting workable standards for those data. These were the very first data gaps that the OFR and FSOC sought to address as early as 2012, but they remain mostly unfilled. The repo market was a source of stress in September 2019 and again in March 2020. Both markets were central sources of stress during the Global Financial Crisis. Runs in bilateral repo, where firms lend to each other on a secured basis without a central counterparty, decimated the Bear Stearns investment bank in March 2008 and helped force the remaining large investment banks into mergers or government protection. Roughly two-fifths of the losses that AIG, the country's largest insurer, faced in 2008 before its government rescue emerged from its securities-lending activities, that is, lending securities owned by its insurance subsidiaries to other parties and then reinvesting the cash poorly.

The OFR first highlighted the lack of comprehensive data on these markets in its inaugural annual report in 2012; the FSOC recommended the OFR and other member agencies work together to address those gaps in 2014. The OFR published a reference guide on the two markets in 2015, using limited available data to size the markets and identify data gaps. In 2015, the OFR and Fed, supported by the SEC, conducted pilot data collections. Seven securities lending agents and nine bank holding companies voluntarily participated. The OFR published results from those pilots in 2016 (see here and here). The OFR and FSOC intended the pilots to serve as the basis for permanent, long-term collections, and participants appeared to appreciate the agencies' careful and inclusive process.

But activity then slowed. The OFR and Fed dropped the securities lending initiative. They continued the repo data initiative, but more narrowly. They did not seek data from participants in the broad bilateral repo market, even though the pilot had laid the groundwork for such a collection. Rather, they proposed to collect data only on the centrally cleared portion of the market, from the one company that handles those transactions. Although

less ambitious than the original plan, this collection has provided the OFR and Fed with the data they need to calculate the Secured Overnight Financing Rate, a replacement for the discredited LIBOR benchmark rate. As required by Dodd-Frank, the OFR published a final <u>rule</u> in early 2019 describing the collection, after responding to public comments on a draft, and it began collecting the data later in the year (see here).

The repo collection was an important milestone as the OFR's first data collection from the private sector. But the OFR and FSOC appear to have tabled broader collections from the bilateral repo and securities lending markets. The problem remains acute: A senior New York Fed official <u>noted</u> recently that data on uncleared bilateral repo exposures would have helped the Fed assess leverage in the Treasury market during the COVID market stress this year. Any effort to relaunch these collections will require support from Treasury and the market regulators, as well as an OFR Director willing to resist industry pushback. An FSOC-endorsed data strategy identifying and explaining these priorities would provide valuable backup to that effort.

Second, all FSOC member agencies should commit to following the same data standards to promote comparability and aggregation. If the systemwide strategy for financial data is to start with some basic principles, one principle could be that data from different sources need to be interoperable, so that financial stability analysts can compare and aggregate them for analysis.

The data strategy should also set standardization priorities, working with the FSOC member agencies. In my view, it seems obvious that those priorities should start with universal use of the legal entity identifier (LEI). Quite simply, the LEI is a unique identifier, like a barcode or social security number, that any company can issue. The OFR has helped drive the global, public-private initiative to roll out the LEI since 2011. It has gained broad acceptance across the world and from US agencies such as the CFTC. More than 1.7 million companies now have LEIs. The LEI is important for financial stability because it enables companies to identify counterparties to whom they have financial exposures. The aftermath of the Lehman Brothers failure in 2008 provided the initial motivation for the LEI, and the Treasury market disruption in March 2020 illustrated the data gap when regulators can't identify who is selling. The CFTC requires derivatives market participants to have LEIs, and its regulated entities account for most LEIs issued in the US. But other agencies have been reluctant because they have their own legacy identifiers. All U.S. regulators should follow the CFTC's lead and require regulated companies to adopt LEIs. This should be part of the financial data strategy.

An important unfinished project is the <u>Interagency Data Inventory</u>, which the OFR first published in 2014. It catalogs nearly 600 datasets that the FSOC member agencies collect from the private sector. The inventory remains limited, however, to basic information—for example, short descriptions of each dataset, facts such as type of reporting entity and frequency of reporting, and links to agency websites. A next step would be to delve more deeply into data definitions and identify opportunities for simplification and standardization. Such an initiative could reduce burden on the private sector while improving regulators' ability to aggregate and compare different datasets. But it would be challenging.

Another initiative could be a survey of the derivatives data that swap data repositories collect, to identify improvements that could finally accomplish the goals for transparency in those markets that the G-20 nations set back in 2009. The OFR earlier worked with the CFTC to enhance the quality of those data. The CFTC recently published a final rule seeking to improve the quality, accuracy, and completeness of derivatives data that companies report to the agency and disseminate to the public.

Third, FSOC members should commit to better data-sharing among them-selves. A simple starting principle could be that every agency should be able to get the data it needs, in a comprehensible form and on a timely basis, to execute its statutory mission. That would include the need for the OFR, the Fed, and financial stability analysts elsewhere in FSOC member agencies to monitor and assess systemic risks. Another likely principle: Data-sharing should protect the confidentiality of individual market participants, by masking their identity or aggregating data so that analysts can't ferret out confidential information.

Following its statutory mission, the OFR collects, maintains, and shares supervisory and commercial datasets with the FSOC, while respecting legal and confidentiality concerns. The OFR has largely promoted data-sharing through bilateral memorandums of understanding (MOUs); it has more than 50 MOUs with federal, state, and overseas regulators and others. It was through such an MOU that the OFR acquired private funds' Form PF data from the SEC and large banks' stress-test data from the Fed, although the latter took several years of negotiation and a public request for comment. But a multilateral MOU based on agreed principles could be more effective. Moreover, every agency that issues a data-collection rule should describe how it will share those data. Sharing should be the default, subject to appropriate protections, not the exception. Meanwhile, the OFR says it is working on a system for secure data-sharing among the FSOC, its members, and the OFR, according to its 2019 Annual Report.

Transparency to the public is another key principle. It is one of the main purposes of the existing Federal Data Strategy for other federal agencies. Financial regulators have long experience sharing data with the public, including information on individual companies (the call reports are mostly public) and aggregated data across companies. These disclosures are very important for market discipline. As regulators improve their own data about financial markets and institutions, they should always consider whether those data could serve the public in some form, appropriately masked or aggregated.

Fourth, FSOC members should work together to implement new technologies to improve data collection and management. The explosive growth in granular data creates challenges and opportunities. Regulators across the world have embraced "SupTech," the use of technology to improve their ability to monitor, assess, and analyze risks in financial markets and institutions. SupTech encompasses innovations such as cloud computing, application program interfaces (APIs), and machine learning to collect, store, and analyze data more efficiently.

Some U.S. agencies have already taken a lead in these areas. To its credit, the FDIC recently invited 20 tech firms to participate in a <u>competition</u> to update the call reports to "make

financial reporting seamless and less burdensome for banks, provide more timely and granular data to the FDIC on industry health, and promote more efficient supervision of individual banks." This is a good start down a long road to better automate the collection, management, and sharing of financial data. Coordination with other regulators is important to ensure that new initiatives like this use compatible technologies, both for the sake of the agencies (so they can better share data and conduct integrated analysis) and the regulated entities (so they don't have to follow different protocols when they provide data to different agencies).

Disappointingly, the U.S. is among a small minority of developed countries whose financial regulators do not have a strategy for taking advantage of SupTech, according to a <u>survey</u> that the Financial Stability Board released in October. It's time to develop one.

FSOC should assign the OFR to coordinate the strategy

Any effort to coordinate a government-wide strategy for financial regulatory data will face entrenched opposition. To have any chance for success, the effort must have a clearly designated central coordinator. This coordinator would need to meet four fundamental qualifications: (1) The appropriate statutory mandate; (2) Outstanding institutional knowledge and expertise; (3) A proven ability to collaborate with other agencies; and (4) Top-level support. The OFR has the first three. The new administration presents a unique opportunity to generate top-level support.

First, the OFR has the statutory mandate and powers for the job. The OFR is not a regulator of financial institutions. This makes it a neutral player in interagency collaborations. Its institutional bias is for high-quality data and analysis.

Section 153 of the Dodd-Frank Act allows the OFR to issue three types of rules: (1) to collect data from financial institutions on behalf of FSOC, for the purpose of providing those data to the Council and its member agencies; (2) to standardize the types and formats of data reported and collected; and (3) to assist FSOC agencies in determining the types and formats of data to be collected. If an agency has not standardized its data as proposed by the OFR within three years (as per #2 above), the OFR may go ahead and collect the data itself, in just that way. The OFR also has subpoena powers to acquire data from a financial company, if necessary, and if it has been unable to acquire the data through the company's federal regulator. To date, the OFR has not yet attempted to set a data standard through regulation, outside of the repo collection rule, or exercised its subpoena power to acquire data from a financial company.

The OFR should be willing to use these authorities of last resort. It should not have to do so if a sound collaborative process is in place. Indeed, the data strategy described in this article should also provide clarity generally on the OFR's role and specifically on how it would approach its statutory powers. The LEI could be a test case. The OFR has not, but could, issue a rule requiring financial institutions to have LEIs. Following the procedures

that Dodd-Frank describes, the regulators would have three years to implement the LEI as a standard before the OFR intervened. Preferably, the obvious need for universal use of the LEI, combined with some executive leadership and a new FSOC consensus, would be sufficient to achieve the desired outcome without OFR intervention.

Second, the OFR has the institutional experience. The LEI project is the OFR's biggest success to-date, despite the qualifications noted above. The OFR learned a great deal from that initiative and from the unfinished repo and securities lending data projects, and it has put that knowledge to use. In a 2016 report, coordinating with FSOC members, the OFR described best practices for regulatory data collections, drawing on practices it had followed in the two pilot projects. In 2017, the OFR's then-general counsel, Matt Reed, wrote a report on the LEI experience, coauthored with his European and Japanese counterparts. Note their three "key elements of success": (1) consistent top-level support in government and industry; (2) close collaboration among public and private stakeholders; and (3) a mix of legal tools, including "soft law" (voluntary cooperation), moral suasion and guidance from standard-setters, and firmer regulatory action where needed. These two reports are essential reading for any financial regulator seeking to address the collective-action problems that are endemic in the data world.

The OFR's research arm, the Research and Analysis Center, has also worked hand-in-hand with its data arm on these initiatives. Data are useless without good research, just as research is impossible without good data. The core statutory mission of OFR researchers is to develop models and monitoring tools to track systemic risks. In doing so, they can identify data gaps in less-regulated markets.

But the Trump administration has reduced the Office's staff and budget by more than one third. The Office would need to rebuild its research staff with a focus on further enhancing the expertise a federal data strategy would require. A refreshed OFR research mission could include building expertise in FinTech and SupTech, as a recent paper by Hilary Allen of American University suggests. Such expertise could provide centralized support to financial regulators who are striving both to keep ahead of developments in the private sector and to find ways to improve the data they use to manage risks, as the FDIC has started to do with its challenge project. The Office also will need to rebuild staff in its Data Center with the expertise to accomplish its statutory mandates to "collect, validate, and maintain all data necessary" (see Section 154). The Trump administration has cut the Center's staff and budget to the bone.

Dodd-Frank authorizes the OFR to rapidly build expertise by bringing in temporary details from other federal agencies and creating two-year academic and professional fellowships. The OFR also has a Financial Research Advisory Committee made of up leading academic and private-sector experts. As an advisory committee, it doesn't do official government work, but it has provided meaningful advice in the past. For example, the committee presented an even-handed report on the challenge of reducing regulatory data burden in 2019. This group could contribute academic heft, data governance expertise—it includes several private-sector Chief Data Officers—and financial industry leadership to help ensure that market participants take seriously the public outreach portion of the strategic planning process.

Third, the OFR has a long record of collaboration with FSOC member agencies and Treasury. This collaboration goes beyond the examples cited above. Since its founding, the OFR's Chief Data Officer has led FSOC's Data Committee. It has used that role to drum up support for various initiatives requiring agency backing. For example, the OFR worked closely with the Data Committee on the Interagency Data Inventory and continues to update it, cataloging data that FSOC member agencies collect.

The OFR and FSOC could reconfigure and empower the Data Committee in the mold of the Federal CDO Council. Such a council would be essential to the success of any data strategy that seeks to overcome fundamental collective-action problems in data standards and technology. It may make sense for an FSOC Data Council to work at least informally within the greater Federal CDO Council structure, to take advantage of knowledge and spread awareness of achievements elsewhere in the federal government.

Fourth, the OFR can be empowered with top-level support. The administration—Treasury or even the White House—needs to reconfirm the OFR's mandate within the regulatory community. That confirmation should include the OFR's roles in leading the data strategy and heading a revamped FSOC Data Committee. Note the International Monetary Fund has long emphasized the importance of independent statistical agencies in its country evaluations. Buy-in at the top of the organization is critical for any data initiative that requires coordination and compromise among siloed teams. A <u>survey of federal CDOs</u> in 2018 found they are most successful when they have high-level support as well as a high-profile mandate. Similarly, supervisors emphasize the importance of buy-in at the top for a CDO to succeed at regulated financial institutions.

Following these lessons will bear directly on the success or failure of a national financial data strategy. In the case of the LEI project, the top-level support was provided by the G-20, the premier global body of central-bank and finance-ministry leaders. In the case of a financial data strategy, the top-level support would have to come from the White House itself.

Three years ago, the Trump administration <u>refocused</u> the Office's mission to narrowly respond to data and analysis requests from FSOC and Treasury. While this focus was certainly consistent with parts of the OFR's mandate, it left the Office disempowered to accomplish the more critical parts—namely, getting the regulators to work together to address data gaps, adopt data standards, and share data; and providing independent analysis to escape the risk of groupthink.

The OFR has had successes. It recently launched a <u>short-term funding monitor</u> combining data from various sources, including the new repo data collection mentioned above; it has made the data available for public download, a best practice. Outside public view, the OFR played an elevated role during the COVID response, providing financial data and analysis to the FSOC on developments in stressed markets (see its latest <u>Annual Report</u>, pp i-ii). But the OFR remains a shadow of its original vision, under-funded and under-staffed, and publishing very little research for the public.

An alternate reading of Dodd-Frank suggests greater autonomy. Since its founding, the OFR Director has reported to political officers in Treasury. But the statute doesn't require the Director to report to anyone. The OFR's Director is a non-voting member of FSOC and

reports to Congress every year on financial stability, without required Treasury or administration review. Support for the OFR's mandate and authority by Treasury leadership could allow the office to operate more like the Office of the Comptroller of the Currency, an independent regulator that is technically part of the Treasury Department but that is not required to report to anyone.

Conclusion

The Biden administration should follow the mantra to never let a good crisis go to waste. The pandemic has shown once again that regulators and the public face serious challenges in monitoring and analyzing risks in the financial system. They don't have the right data, they can't analyze the data, and there are all sorts of holes. The Dodd-Frank Act had an answer. It put the federal regulatory agencies on a new financial stability council and created an Office of Financial Research to support that council. But the execution has so far been undercut by opposition and lack of high-level support, and the problems haven't gone away.

The new administration should empower the OFR to do its job and coordinate a systemwide financial data strategy, working with FSOC. That strategy should include nearterm targets for finally addressing data gaps in repos, securities lending, and derivatives; accelerating the use of the LEI by the private sector; and launching a long-term initiative to modernize data collection, management, and sharing in the regulatory community. The Dodd-Frank Act created the OFR to provide leadership in these areas.

Even before its term starts, the incoming administration has an accelerated window during transition planning to prioritize data when vetting candidates for top financial regulatory positions. That is the best time to ensure that the Treasury Secretary and the heads of FSOC member agencies are ready to collaborate on collecting needed data, improving data standards, sharing data with each other and the public, and adopting new technologies from Day One.



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