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## What the Recent FDTA Data Proposal Means for Governments

On August 2, 2024, the SEC and eight federal agencies jointly issued a [proposal](#) establishing technical standards for future data submissions fulfilling a milestone requirement of the 2022 *Financial Data Transparency Act* (FDTA). The FDTA will significantly change the way municipal bond issuers and obligors report required disclosure information on the Municipal Securities Rulemaking Board (MSRB)'s Electronic Municipal Market Access (EMMA) website. Comments are due by October 21, 2024.

### Background

The FDTA requires financial regulators to adopt more uniform and accessible data standards for information collection to provide more useful information to investors and make it easier for companies to file reports across multiple agencies. The nine regulators covered by FDTA include the U.S. Department of the Treasury, FDIC, Office of the Comptroller of the Currency, Federal Reserve, Consumer Financial Protection Bureau (CFPB), Commodity Futures Trading Commission, SEC, Federal Housing Finance Agency, and the National Credit Union Administration.

This joint proposal establishes data standards for each agency to adopt in subsequent rulemaking. Individual agency proposals will follow after agreement on joint standards. Regulator-specific data standards must incorporate and ensure compatibility with the joint data standards by December 2024, and compliance is mandated two years after the final rules.

FDTA Section 204 requires the SEC to also adopt data standards for information submitted to the MSRB two years after final data standard rules are issued for each of the federal agencies. The SEC must consult with market participants in establishing municipal market data standards, however, FDTA does not mandate a compliance date for MSRD data standards, unlike the regulations for federal financial regulators.

**Each agency has the authority to scale data reporting requirements to reduce burdens on smaller entities and must minimize disruptive changes.**

#### Initial FDTA Milestones



#### Initial FDTA MSRB Milestones



For additional details on the joint proposal see our article, "[SEC Joint Proposal Sets FDTA Data Standards.](#)"

The initial milestones above were included in the 2022 FDTA. The SEC was delayed in issuing its proposal from the stated timeline. Comments are due by October 21, 2024, but some initial respondents have requested additional time to consider and respond to the proposal's impacts adequately. Even if the comment deadline is not extended, it is unlikely that the SEC could finalize the standards before year-end. Each regulator must incorporate and comply with the joint data standards within two years of the date the joint data standards are finalized.

## The Municipal Securities Market

The SEC is prohibited from directly regulating municipal issuers under the 1975 Tower Amendment to the *Securities Exchange Act of 1934*. However, the SEC does have the authority to regulate municipal underwriters. SEC Rule 15c2-12 requires that underwriters of municipal securities obtain and review an issuer's preliminary and final statements and reasonably determine that the issuer has committed to provide continuing disclosures to investors. These disclosures include annual financial and operating information contained in the offering documents, audited financial statements, notice of the occurrence of certain events, and notice of any failure to meet these reporting requirements.

Because of the Tower Amendment, federal securities laws do not mandate the contents of municipal issuers' financial statements. The financial statements of municipal issuers are not required to be audited, and SEC Rule 15c2-12 does not mandate the use of GAAP established by GASB or FASB.

Municipal issuers can choose to comply with GASB standards by preparing either an Annual Comprehensive Financial Report (ACFR) or an Annual Financial Report (AFR). However, an SEC no action letter recognized that other accounting principles, such as mandated state statutory principles, may be followed by some issuers.

The municipal market is estimated at \$4 trillion outstanding<sup>1</sup>, consisting of 80,000 issuers<sup>2</sup> and more than 1.5 million securities outstanding<sup>3</sup>. While the size of the U.S. corporate bond market (\$51 trillion)<sup>4</sup> dwarfs the municipal market, the number of corporate bonds outstanding is only 30,000. Municipal bond issuers are usually smaller and issue less frequently than corporate issuers. There are several types of governments and nonprofit and private entities participating in the municipal market as shown below.

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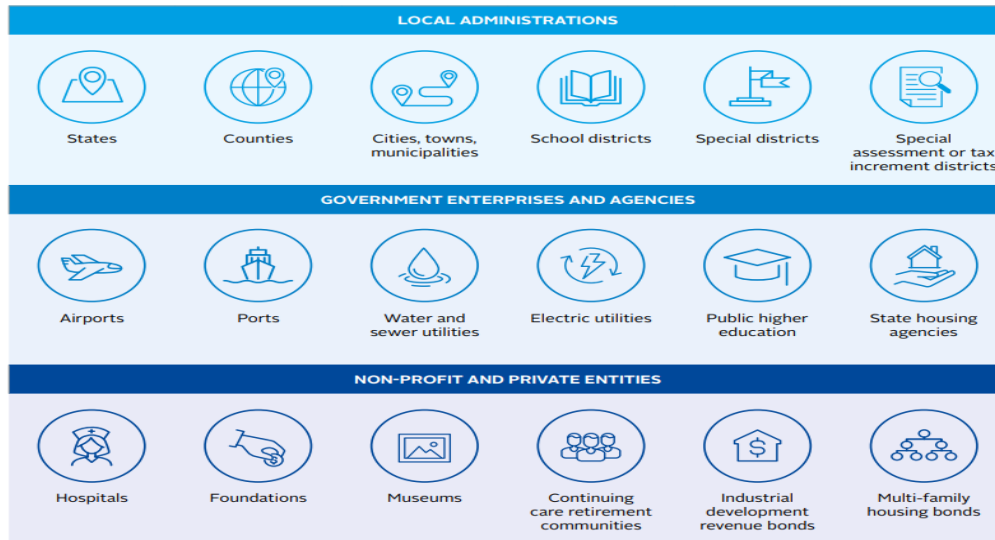
<sup>1</sup>US Municipal Bonds Statistics," [sifma.org](https://www.sifma.org), September 12, 2024.

<sup>2</sup>"A Deep Dive Into the Municipal Bond Market," [nasdaq.com](https://www.nasdaq.com), June 5, 2023.

<sup>3</sup>"Roads, Schools, and Hospitals: A Brief Tour of the Municipal Bond Market," [corporate.vanguard.com](https://www.corporate.vanguard.com), April 2024.

<sup>4</sup>"Ranked: The Largest Bond Markets in the World," [weforum.org](https://www.weforum.org), April 17, 2023.

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Source: Principals for Responsible Investment<sup>5</sup>

**Head Start by Publicly Traded Companies**

Before 2009, publicly traded companies using GAAP for financial statements were required to file quarterly and annual financial statements using HTML, an unstructured format. Starting in 2009, companies were also required to file financial statements in a more structured machine-readable format, using eXtensible business reporting language (XBRL) for machine reading. An XBRL tag is applied to every number, table, accounting policy, statement, and note<sup>6</sup>. FASB now maintains this taxonomy and ensures it aligns with SEC and accounting codification updates. The proposal notes that the joint data standard should refer to a list of properties rather than any specific data transmission formats, which would allow XBRL to be an approved taxonomy under the joint proposal. At a 2023 SEC Municipal Disclosure Conference, Joel Black, GASB’s chair, noted that FASB XBRL ongoing support includes a dedicated staff of 10 to maintain its taxonomy.

**Challenges for Government Financial Statements**

GASB is monitoring developments in electronic financial reporting by conferring with financial statement users, reviewing the XBRL U.S. taxonomy being developed for state and local governments, reviewing financial reports prepared by governments, and researching the reporting framework required by each state for local governments. The GASB also started to develop a technology agnostic taxonomy for state and local governments that follow GAAP.

While FASB now maintains and updates its own taxonomy<sup>7</sup>, one challenge for municipal issuers is who will decide the most relevant data for financial statement users: the SEC as part of FDITA, or will the SEC accept a taxonomy developed by GASB? Governments’ financial statements are not standardized for the Form 10-K or Form 10-Q. The ACFR includes notes and supplemental details that provides essential information to understand the financial data. As noted above, unlike publicly listed companies that must follow FASB GAAP, governments can prepare

<sup>5</sup>“ESG Integration in Sub-Sovereign Debt – The US Municipal Bond Market,” unpri.org, 2021.

<sup>6</sup>“FASB In Focus,” fasb.org, 2024.

<sup>7</sup>“About FASB Taxonomies,” fasb.org, 2024.

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financial statements under several very different reporting frameworks. In addition, governmental financial reports prepared under GASB GAAP are more complicated than financial statements prepared under FASB GAAP in a few ways. First, GASB has two bases of accounting (accrual and modified accrual), so there could be two financial statement lines (called revenue) in the report, but they would mean different things. Second, governments report up to nine statements, while publicly traded companies may only have four.

**The challenge for the SEC and GASB is how to incorporate and maintain all the different financial reports and reporting frameworks to provide useful information to financial statement users.**

### Limited State Progress

Florida is the only state to have legislatively mandated XBRL structured data submission for certain financial data for local government bond issuers, a project started in 2018. At the 2023 Municipal Disclosure Conference, Florida’s director of the Division of Bond Finance provided information on its project to collect, maintain, and disseminate information on tax-exempt bonds issued by units of local government and the state. This effort took five years and cost more than \$2 million. Expanding the project to collect note disclosures would take an additional two years.

XBRL.us compiled a list of eighteen states requiring certain structured data submissions, but these requirements vary widely for each state.

States Requiring Structured Data Submissions				
California	Indiana	Michigan	North Carolina	Washington
Florida	Iowa	Missouri	Ohio	
Georgia	Louisiana	Nebraska	Pennsylvania	
Illinois	Massachusetts	New York	South Carolina	

Source: SEC Can Look to States for Municipal Finance Standardization Ideas, [xbrl.us](https://www.xbrl.us).

In June 2023, the Government Finance Officers Association (GFOA) and Rutgers University launched an artificial intelligence (AI) project to extract financial data from ten county governments in a single state. Data gathered will include quantified and qualitative information, including non-financial and financial information. Initial results are expected before year-end.

### Feedback

The GFOA, municipal agencies, and municipal bond underwriter have already raised concerns about the new reporting requirements, including implementation costs and the loss of unique narrative information for a specific type of issuer (state, city, public utility provider, or hospital) in the standardization of information.

Feedback on FDTA for MSRB	
Advantages	Disadvantages
More readily available data for analysis	Implementation costs (1)
Reduced borrowing cost from greater transparency	Municipal bond offerings could be replaced by bank debt or private placements
Greater accountability from government	Could delay ACFR filings
	Aspects incompatible with muni market
	Violate Tower Act
	Unclear what disclosures would be required
	Extended implementation time would be needed
	Artificial intelligence may be able to gather information in a more cost-effective manner

‘(1) Estimated implementation cost vary widely. A [comment letter filed by the GFOA](#) and various governmental agencies estimated the cost of implementation could be over \$1.5 billion. The FDTA mandated that the SEC report semiannually on the public and internal use of machine-readable data for corporate disclosures. The first [report](#) was issued in June 2023 and noted that compliance costs for new tagging requirements tended to be higher but quickly declined in subsequent years. Two studies were highlighted, and the costs per issuer ranged from \$900 to \$7,500. Based on the number of issuers, the total cost could range from \$72 million to \$600 million.

## Next Steps

Specific details for governments are still unknown, but here are some steps to take right now:

1. Provide [feedback](#) on the proposal by October 21, 2024 through the SEC. While direct feedback is best, an alternative approach might be working with the state auditor or GFOA to provide insights and impacts.
2. Stay informed. Forvis Mazars will continue to monitor developments on this topic. [Subscribe](#) to receive tailored insights directly to your inbox.

## Conclusion

For some entities, navigating the upcoming FDTA requirements could be complex and may require significant hours to implement. Forvis Mazars can help educate your team and assist with analysis and documentation. We serve a variety of entities, including state and local governments, airports, transportation authorities, public power and utility providers, tribal governments, and public colleges and universities.

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For more information, please reach out to a Forvis Mazars professional. Our public sector accounting, audit, and consulting experience and resources can help you stay compliant, stretch your dollar, and plan for the future. For more information, visit [forvismazars.us](https://forvismazars.us).

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