

Via Electronic Submission

October 15, 2024

Vanessa Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Financial Data Transparency Act Joint Data Standards Proposed Rule, File No. S7-2024-05

Dear Ms. Countryman:

On behalf of the National Association of State Auditors, Comptrollers, and Treasurers, representing the nation's top state financial leaders, I am pleased to provide our comments on the Financial Data Transparency Act Joint Data Standards proposed rule. We recognize that each agency will provide its own set of implementing regulations at a later date; however, we appreciate the opportunity to offer input on these initial overarching proposals. We urge the affected agencies to seek ways to streamline processes and alleviate burdens when taking the next step toward providing more guidance through their own individual rulemaking.

NASACT is comprised of top state financial leaders serving as auditors, comptrollers, or treasurers. For the purposes of the FDTA, it is important to note that we represent both the preparers and auditors of financial statements, as well as issuers of municipal debt. Consequently, our comments and concerns address the issues inherent in data standardization within the municipal market.

Currently, state and local governments are facing a critical mass of administrative requirements. The increasing complexity of financial reporting, coupled with resource shortages, has led to more financial reporting errors, delays, and inconsistent application of standards. The proposed joint standards will add to the annual administrative demands of governments and will likely contribute further to untimely financial reporting. This is particularly acute for small local governments with limited resources. We recommend that the SEC consider the resources necessary to implement such an initiative when drafting the data standards. In keeping with the provisions of the FDTA, we encourage scaling the data standards to the size and complexity of entities to ensure that smaller governments are not unjustly disadvantaged.

Following this letter, you will find a complete summary of our comments, with references to specific areas contained within the proposed joint rule and as



requested by Commissioner Hester Peirce in her statement regarding the FDTA joint rule.

Thank you for the opportunity to provide our input on this initial step toward implementing the FDTA. We commend the SEC and the other federal financial regulatory agencies for proposing overarching joint standards and for allowing individual regulatory agencies the flexibility to develop standards tailored to their constituencies. We urge the SEC to engage with market participants, including representatives of NASACT, early in the agency-specific standards process to identify barriers and solutions that are feasible for the diverse participants in the municipal market. As strong proponents of transparency and accountability, we believe that the best way to navigate implementation is to consider the views of all affected parties. We look forward to continued dialogue as the implementation of the FDTA progresses.

Should you have any questions or wish to discuss our comments further, please contact our Washington Office Director Cornelia Chebinou at cchebinou@nasact.org or (571) 234-7108. I may also be reached directly at bwoolf@sco.idaho.gov.

Brandon D. Wolf
Idaho State Controller
NASACT President, 2024-2025



Comments on Joint Standards

Legal Entity Identifier

State and local governments may have many legally separate governments, quasi-governments, or non-government entities for which they are financially accountable, and which are included within the state or local government's financial statements as component units. In establishing rules for LEIs and related filings, it is important for the joint agencies to adapt the current focus on the parent/subsidiary relationship to a governmental environment.

Specific Standards Proposed

We recommend establishing joint standards that allow for flexibility to collect additional data that is agency specific. Joint and agency-specific standards should be developed in a way that allows for regular maintenance and updates.

Schema/Taxonomy

To better ensure the continued usefulness of the data standards, we believe they should be drafted in a technologically neutral manner to the extent feasible, including the data transmission format. Tying the data standards too closely to any particular technology could limit flexibility and lead to early obsolescence. By avoiding prescriptions that mandate the use of specific technologies or platforms, the SEC would enable entities to leverage a range of tools, including artificial intelligence, to meet compliance requirements. Therefore, we encourage the SEC to pursue a technology-agnostic approach to the development of these standards. We further recommend allowing governments to choose from the various data transmission formats, such as the examples of formats referred to in the proposal, to provide flexibility for those who may not have the resources to implement more complex systems.

Governmental accounting is unique in its focus on funds, including both government-wide and fund financial statements. Under existing Generally Accepted Accounting Principles, or GAAP, governments often exercise some discretion in the funds with which they report financial activities and in which funds they report as major funds. The agencies should consider the potential challenges associated with applying a schema and taxonomy to state and local governmental accounting in a manner that will facilitate consistent reporting and user understanding within this complex and, at times, variable reporting framework. Specifically, a separate taxonomy/schema may be required for each different fund (i.e., governmental, proprietary, fiduciary).



Given the complexity and variability of the framework, the agencies should consider the risk of errors and associated effects on decision makers who may use the information without reconciling back to the audited financial statements. The agencies should also consider lessons learned from previous similar initiatives. A well-aligned taxonomy is likely to significantly improve the accuracy of filings.

Existing Taxonomies

The term “taxonomy” should be clearly defined to provide clarity to the agencies in forming the next round of regulations. If the term remains undefined, it could lead to inconsistent application of the joint standards. Based on the definition of taxonomy as provided in Footnote 12 of the proposed rule: “Schema and taxonomy” refers to the description or set of descriptions of the syntax, structure, and semantic meaning of the data. “Taxonomy” refers to a description of the semantic meaning and hierarchical structure of data. We recommend further defining “taxonomy” to include items such as “the systematic classification of data into categories and subcategories” or “a formal structure of data into data types, categories, and subjects.”

Governmental entities operate in a variety of environments to provide services such as utilities, public safety, public assistance, regulation and oversight, and education, as well as to promote industrial and economic development. The information reported in their financial reports reflects the diversity of the services they provide. While financial statement information varies among governmental entities, GAAP is commonly used.

Accounting Reporting Standards

The proposal notes that many of the agencies’ collections of information are authorized by statutes that permit or require the issuing Agency to use accounting and financial reporting standards other than U.S. GAAP, which may mean that the U.S. GAAP Taxonomy is not germane to such collections of information. Similarly, an agency would not be precluded from modifying or tailoring the joint standard taxonomy in consideration of the benefits and costs to its reporting entities, in consideration of the agency’s mission, or to comply with applicable law. Agencies are seeking comments on whether to establish joint data standards regarding existing definitions of generally accepted accounting and financial reporting terms.

Our understanding is that the U.S. GAAP Taxonomy refers to the taxonomy maintained by the Financial Accounting Standards Board for use by private company issuers filing with the SEC. This taxonomy generally reflects GAAP for non-governmental entities. In contrast, GAAP for state and local governments is established by the Governmental Accounting Standards Board.



The use of the U.S. GAAP Taxonomy in the proposed rule may result in confusion when developing rules, schema, taxonomy, and data transmission standards for state and local governments. In the development of joint and agency-specific rules as they relate to financial statements of state and local governments, we recommend using a taxonomy developed by the GASB for any GAAP basis financial reporting.

It is important to note that there are several states that allow a non-GAAP financial statement basis of accounting. Requiring all governments to conform to a single basis of accounting, such as GAAP, would be overly burdensome and costly for the governments that currently do not report on that basis. Additionally, governments currently not reporting under GAAP generally do not have the staff or access to consulting support with technical knowledge, proficiency, and competency to achieve GAAP reporting. Therefore, requiring GAAP reporting may not be achievable by many governments.

If the joint rules would allow for conformance to GAAP then further allow for schema and taxonomy development to include other bases of accounting, the individual agencies can then assess the reporting needs for their agency and develop reporting requirements based on the accounting basis chosen by the preparers.

Commissioner Hester M. Peirce Statement on Financial Data Transparency Act Joint Data Standards Proposal - Response to Discussion/Questions

Costs of FDTA Implementation

What are the total direct and indirect costs of adopting the contemplated data standards?

Should the data reporting requirements cause significant financial reporting changes, it could necessitate an accounting system purchase or upgrade, a more complex chart of accounts, and/or a manual conversion of financial data to satisfy the new reporting requirements. Accounting system upgrade costs vary based on the vendor and system complexity and could result in reporting errors if not set up correctly. Additionally, incorporating extra components into the accounting chart of accounts and manually converting financial information may result in transaction and reporting errors.

We also believe that if the information submitted is unaudited, it could lead to users relying on inaccurate and inconsistent data, representing a cost to the user of the information. Conversely, if the agencies require the information to be audited, this



will then represent another significant annual cost to be incurred by the submitting governments.

How much of the FDTA compliance burden is likely to stem from the one-time cost of setting up new data systems as opposed to ongoing compliance costs?

While it is difficult to project costs with any degree of certainty until the agencies develop more detailed rules, we believe the cost to implement the joint standards will be substantial and ongoing. Governments will be forced to update or purchase general ledger systems, charts of accounts, and financial reporting systems to comply with the joint standards. Governments will also have to establish policies and procedures and hire/train personnel to ensure proper application of the joint standards, which are likely to be highly technical. Over time, governments will have to periodically update their systems and processes.

It is also important to note that if the expectation is to have entities enter the information in multiple locations, instead of having federal systems disseminate the information, there is an increase in cost and likelihood of errors due to manual input at more than one location.

Will certain types of entities, such as municipal issuers, bear disproportionate FDTA-related costs? If so, what can we do to reduce those costs?

Municipal securities issuers would bear a disproportionate share of the cost if current financial reporting requirements were significantly modified to align with those followed by non-governmental entities. If data standards were established specifically for municipal securities issuers, the impact would vary based on the extent of the changes. Significantly limiting the information covered/reporting requirements would help ease the financial burden.

Potential Benefits of FDTA Implementation

While every state is different, some state laws may require the implementation of a uniform system of accounting and annual reporting for local governments. The development and consistent maintenance of these reporting requirements can allow for comparability across government types and sizes, as well as improved transparency of financial data. Public access to the data in an interactive database, along with the ability to download the reported data, allows users to access financial information sooner and use the data for research, decision-making, and more. Access, transparency, comparability, and accountability are all benefits of implementing standardized data requirements.



How could the SEC maximize the utility of financial regulatory information filed in compliance with the FDITA-mandated data standards? For example, should the SEC work to reduce error rates in structured data filings?

One state requires local governments to file their financial information in the state's annual filing system each year using a structured data format. Over time, the system has incorporated a variety of data checks to ensure major errors are identified: such as requiring the financial data to balance, ensuring governments are using the appropriate coding for their type of government and basis of accounting, etc. While edit checks can improve data quality, they also can slow down the reporting process or add burden if not carefully designed. Edit checks that prevent submission of data should only be implemented if there is absolute certainty that the edit check is valid 100 percent of the time, otherwise, it may unnecessarily hinder the submission. Also, edit checks should only be implemented to address non-trivial errors, to strike an appropriate balance regarding data quality and to allow for timely submission of data without undue delay or burden.

Initially, we would recommend developing only basic data checks, such as confirming all required components are filed and conform to the schema and taxonomy specifications. Once data is filed, the data should be evaluated for data quality issues which would then lead to potentially adding further data quality checks in later years.

Data Interoperability

How could we achieve the benefits of interoperability without unnecessary costs on reporting firms, particularly smaller ones?

Unnecessary costs could be avoided by limiting the amount of information requested. Additionally, costs may be controlled by not implementing these standards retroactively. It is not explicitly stated and unclear if the affected data in the proposed rule is effective going forward or requires retroactive application.

Scope of Data Standards

We recommend that the SEC adopt policies to ensure they are aligning the development of agency-specific schema and taxonomy to the joint rules and other agencies to avoid conflicts in the reporting of the data under the developed/developing reporting criteria.

We also recommend that the SEC adopt policies that would establish ongoing outreach and communication efforts to stakeholders, to ensure proposed data schema and taxonomy formats are reasonable and do not conflict with the existing



accounting and reporting standards used across the nation by governments. We would also encourage a collaborative relationship with the accounting and reporting standard setters, including the GASB, as well as the federal and state agencies that have established regulatory prescriptions on financial reporting.

The data standards created under the joint and agency rulemaking will need to be applied by both large and small entities, some with limited staffing and resources. We encourage the SEC to take this into account when considering the complexity of the data standards, information requested, and implementation timeframes. Some options to consider may include a phased implementation of the new standards, with application to the largest entities first; establishing a threshold under which the new standards would not apply or be delayed; and a reduced level of information required from small reporting entities.

Principles-Based Regulation and Maintaining Updated FDTA Standards

The advantage of a principle-based regulation is that it allows the industry to be nimbler in adapting to new and emerging technologies, which are advancing at an increasingly accelerated rate. However, without specific direction, there is a risk that resulting rules and regulations may lead to an environment of constant change in the technologies and taxonomies which could add significant costs to governments that are already struggling for resources. Thoughtful delegation of authority and responsibility and considerations to due-process are paramount to ensure an efficient and equitable outcome for all stakeholders in a principles-based model.