Conference on Financial Market Regulation 2024
Opening Remarks
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Thank you, Chair Gensler, for that welcome.   In addition, I would like to thank the Conference on Financial Market Regulation ("CFMR") organizers, Amy Edwards and Vlad Ivanov from the Division of Economic and Risk Analysis ("DERA"), and Kathleen Hanley from Lehigh and Russ Wermers from the University of Maryland for putting together this excellent program. We are all looking forward to it. My remarks are provided in my official capacity as the Commission's Director of the Division of Economic and Risk Analysis but do not necessarily reflect the views of the Commission, the Commissioners, or other members of the staff.

Since arriving in DERA three years ago, I have been struck by the breadth of topics covered by DERA's analysis. Indeed, we can see this impressive breadth reflected in the topics today. These topics cover the waterfront of financial economics, from principal-agent problems and broader strategic considerations that dominate corporate finance, to the sources of risk premia in asset pricing, to optimal design of financial markets in market microstructure. DERA economists work on interesting practical problems central to financial economics.

One of the roles of this annual CFMR conference is to remind the broader academic community of the importance of the problems that lie at the heart of the SEC's mission, not just from the perspective of knowledge creation, but from the perspective of the everyday lives of the American public. In turn, the research from this broader community is indispensable to the Commission. DERA economists are on the front lines in terms of economic analysis of rulemaking but we all benefit from the work of the broader academic community.

For the few who don't know, economic analysis is a highly consequential activity. It both serves to uncover solutions and ways to make our markets better, but is also how experts within the agency explain to the American public why we do what we do.

Economic analyses are informed by research within and outside the Commission. This conference is a great opportunity for the crucial exchange of ideas that makes these analyses as strong as they can be. In addition, many of the Commission's rules pertain to data. And data in turn inform DERA's analyses.

Data can serve as a public good.[1] The role of data in financial markets research is a sufficient condition for it being a public good — because the research itself is a public good and it relies on the data. Of course, high quality data on issuers, on market participants, and on prices themselves, also inform prices. Because of data's impact on prices, it is indispensable for capital formation. This is because pricing that reflects information is needed for capital to flow to its most productive, and thus fast-growing, use. Efficiency and competition are similarly enhanced by high quality and timely data. While private market incentives can lead to the production of data, they are less effective when it comes to the difficult task of determining, and enforcing, the data standards that make data machine readable, comparable, and decision-useful. The Commission has an important role in determining what are the data to be provided, in ensuring their quality, and making data broadly accessible.

Since its inception in the early 1990s, the Commission's EDGAR filing system has provided the public crucial information on securities. Many of us in our academic lives interact with EDGAR data, though we may not be aware of it.[2] A number of the Commission's initiatives have added to the relevance and completeness of information filed through EDGAR, and have also been aimed at improving the EDGAR filing process itself.[3] EDGAR was founded in the dawn of electronic disclosures in financial markets — not coincidentally around the same time as the Fama-French 3-factor model was published,[4] and as the debate on the equity premium puzzle,[5] the riskfree rate puzzle,[6] and the volatility puzzle were just getting started.[7] Just as, in 1993, the Commission responded to the new ability to compute statistics right on your desktop, so too must we keep pace with how technology changes over time.[8]

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[1] "I'm with Roosevelt and Jack: Benefits of Mandatory Disclosure" Prepared Remarks before Columbia Law School Conference in Honor of John C. Coffee, Jr., Chair Gary Gensler, March 22, 2024, *available at* https://www.sec.gov/newsroom/speeches-statements/gensler-remarks-columbia-law-school-032224; "U.S. Capital Markets and the Public Good" Prepared Remarks before SEC Speaks, Chair Gary Gensler, April 2, 2024, *available at* https://www.sec.gov/newsroom/speeches-statements/prepared-remarks-sec-speaks-us-capital-markets-public-good.

[2] The datasets that are commonly used by academics draw largely from information filed on EDGAR.

[3] *See, e.g.*, SEC.gov | EDGAR Next—Improving Filer Access and Account Management, *available at* https://www.sec.gov/submit-filings/improving-edgar/edgar-next-improving-filer-access-account-management.

[4] Fama, E., French, K. "Common risk factors in the returns on stocks and bonds." *Journal of Financial Economics* 33 (1993): 3–56.

[5] Mehra, Rajnish and Edward C. Prescott. "The equity premium: A puzzle." *Journal of Monetary Economics* 15 (1985): 145–161.

[6] Weil, P. "The equity premium puzzle and the risk-free rate puzzle." *Journal of Monetary Economics* 24 (1989): 401-421.

[7] Shiller, R. J. "Do stock prices move too much to be justified by subsequent changes in dividends?" *Am. Econ. Rev.* 71 (1981): 421–436.

[8] *Rulemaking for EDGAR System*, Release No. 33-6977 (Feb. 23, 1993), 58 Fed. Reg. 14628; *Rulemaking for EDGAR System—Investment Companies and Institutional Investment Managers*, IC-19284 (Feb. 23, 1993), 58 Fed. Reg. 14848.

Among the new data on EDGAR are new tables on pay versus performance — an implementation of a Dodd-Frank mandate.[9] Also on EDGAR are data on public operating companies' cybersecurity policies and incident disclosure.[10] These data are available immediately upon filing in a machine-readable (that is, structured) format. Structured data, as opposed to non-structured format, promotes efficient use by market participants, researchers, and others.[11]

Also on EDGAR are Schedule 13D and G beneficial ownership filings.[12] You may have heard about the shorter deadline to file Schedules 13D and 13G.[13] But you may not know that, for the first time, these data are required to be filed in a structured — that is, machine readable — format.[14] Relatedly, DERA has recently made a dataset of 13F filings available. Generally, the SEC data site is a useful source for datasets and is frequently updated with new datasets.[15] Over the years, these data have enhanced our understanding of markets through transparency about large positions.

Another important source of transparency is holdings data on mutual funds. Data on fund holdings allow researchers to analyze manager skill as a driver of performance, for example by measuring whether stocks purchased by a manager outperform stocks sold by that manager.[16] Researchers access these data through vendors who ultimately rely on SEC form filings. These forms have evolved over time as rulemakings have amended them in order to improve the resulting data.[17] For example, Form N-PORT was amended in a 2016 rulemaking in part to improve disclosures regarding the liquidity of fund holdings.[18] More recently, while these data were previously publicly available for only the third month of

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[9] *See Pay Versus Performance*, Release No. 34-95607 (Aug. 25, 2022), 87 Fed. Reg. 55134 (Sept. 8, 2022).

[10] *See Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure*, Release No. 33-11216 (July 26, 2023), 88 Fed. Reg. 51896 (Aug. 4, 2023).

[11] *See* the SEC's Semi-Annual Report to Congress Regarding Public and Internal Use of Machine-Readable Data for Corporate Disclosures (December 2024), *available at* https://www.sec.gov/reports/semi-annual-report-congress-regarding-public-internal-use-machine-readable-data-corporate.

[12] *See Modernization of Beneficial Ownership Reporting*, Release No. 33-11253 (Oct. 10, 2023), 88 Fed. Reg. 76896 (Nov. 7, 2023).

[13] *Id*. at section II.A.

[14] *Id*. at n. 21 and accompanying text.

[15] DERA Data Library, *available at* https://www.sec.gov/about/divisions-offices/division-economic-risk-analysis/dera-data-library.

[16] Baker, Malcolm, Lubomir Litov, Jessica A. Wachter, and Jeffrey Wurgler. "Can Mutual Fund Managers Pick Stocks? Evidence from Their Trades Prior to Earnings Announcements." *The Journal of Financial and Quantitative Analysis* 45, no. 5 (2010): 1111–31, *available at* http://www.jstor.org/stable/27919558; Chen, Hsiu-Lang, Narasimhan Jegadeesh, and Russ Wermers. "The Value of Active Mutual Fund Management: An Examination of the Stockholdings and Trades of Fund Managers." *The Journal of Financial and Quantitative Analysis* 35, no. 3 (2000): 343–68. https://doi.org/10.2307/2676208.

[17] DERA Data Library, *available at* https://www.sec.gov/about/divisions-offices/division-economic-risk-analysis/dera-data-library.

[18] *Id*.; *see also Investment Company Liquidity Risk Management Programs*, Release Nos. 33-10233; IC-32315 (Oct. 13, 2016), 81 Fed. Reg. 82142 (Nov. 18, 2016); Form N-PORT Data Sets, https://www.sec.gov/data-research/sec-markets-data/form-n-port-data-sets.

each quarter, the SEC recently adopted rules that will, beginning in late 2025, make monthly N-PORT data publicly available on a delayed basis for all months. [19]

There will also be additional data available on money market funds that emerges from a rulemaking regarding money market funds. [20] We will be able to see in public data, both more frequent information as well as newly added information along a number of dimensions. In addition to requiring reporting of daily data for a number of metrics, the rulemaking added required reporting of, for instance, whether a money market fund imposes a liquidity fee and the size and composition of certain shareholders.

Finally, in the market microstructure area, there is a major source of transparency coming on line next year with new 605 reports. [21] For the first time, certain larger brokers will be required to report order execution statistics to the public. [22] Moreover, existing 605 reports — coming from market centers — will be improved along a number of dimensions. [23] For example, the reports' categorization of orders will now be done by notional value and not number of shares; reporting of time to execution will now be reported with one thousandth of a second timestamps instead of one second; and reporting will be expanded to include odd lots. These enhancements will allow more sophisticated comparisons across market centers and across newly reporting broker dealers.

Taking a step back, we have excellent transparency into our equity markets, and in our markets more broadly — often based on the careful work of SEC economists over the years. We all should work to keep it that way. Thank you again for coming, and I very much hope you enjoy the conference.

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[19] *See Form N-PORT and Form N-CEN Reporting; Guidance on Open-End Fund Liquidity Risk*, Release No. IC-35308 (Aug. 28, 2024), 89 Fed. Reg. 73764 (Sep. 11, 2024).

[20] *Money Market Fund Reforms; Form PF Reporting Requirements for Large Liquidity Fund Advisers; Technical Amendments to Form N-CSR and Form N-1*, Release No. 33-11211 (July 12, 2023), 88 Fed. Reg. 51404 (Aug. 3, 2023).

[21] *See Disclosure of Order Execution Information*, Release No. 34-99679 (Mar. 6, 2024), 89 Fed. Reg. 26428 (Apr. 15, 2024).

[22] *See id.* at section IX.D.1.

[23] *Id*.