



Financial Data Exchange Comments
Federal Deposit Insurance Corporation (FDIC)
“Request for Information on Standard Setting and Voluntary Certification for
Models and Third-Party Providers of Technology and Other Services”
RIN 3064-ZA18

The Financial Data Exchange (FDX) is pleased to provide comments to the Federal Deposit Insurance Corporation’s (FDIC) recent Request for Information (RFI) on Standard Setting and Voluntary Certification for Models and Third-Party Providers of Technology and Other Services.

These comments are intended to broadly answer questions posed in the FDIC’s RFI about the advantages of establishing industry-led standard-setting and certification for financial technologies in the marketplace, and to highlight experienced success when participation among all market entities is full and balanced. FDX further seeks to provide the FDIC with a detailed view of FDX’s mission, structure and vision to act as a reference point and proof of concept that even competing entities across the spectrum of financial services can join together to implement common, interoperable and royalty-free technical standards that maintain innovation and competition in the marketplace while elevating user control and experience. Finally, FDX’s core objective in providing these comments is to stress the important work the financial data ecosystem has accomplished in FDX to date, and to submit that this industry-led approach is best suited to develop, implement and certify technical standards for user permissioned data sharing.

About FDX

FDX is an international, nonprofit organization operating in the US and Canada that is dedicated to unifying the financial industry around a common, interoperable, royalty-free standard for the secure access of permissioned consumer and business financial data, aptly named the FDX Application Programming Interface (FDX API). FDX is currently comprised of 136 financial data providers (i.e. financial institutions), data recipients (i.e. third-party financial technology companies or fintechs), data access platforms (i.e. data aggregators and ecosystem utilities) consumer groups, financial industry groups and other permissioned parties in the user permissioned financial data ecosystem. FDX is an independent subsidiary of the Financial Services Information Sharing and Analysis Center (FS-ISAC).

FDX exists chiefly to promote, enhance and seek broad adoption of the FDX API technical standard (formerly the Durable Data API – DDA), which allows for users within the financial data ecosystem to be securely authenticated without the sharing or storing of their login credentials with third parties. Through broad adoption of the FDX API, screen scraping (the retrieval of financial account information with a user’s provided login credentials) will eventually come to an end, and the flow of user-permissioned data between banks, aggregators, fintech applications, payments and online lending will be more secure and reliable. This standard has been under the stewardship of the FS-ISAC and some of the largest financial institutions in the U.S. have implemented this standard in the last several years.

Scope of FDX Comments

FDX is barred by its charter from engaging in policy work or legislative and regulatory advocacy. Consequently, FDX is not able to provide specific comment on regulatory or supervisory models at the FDIC. However, considering the potential shifts in the near-term regulatory landscape around user-permissioned data sharing, FDX believes it is important for the FDIC, and all financial regulators, to be fully aware of the work FDX is doing on technical standards for consumer data sharing.

In light of this activity, FDX believes industry-led efforts to develop and promote technical standards for financial services are as important as ever because they are able to keep pace with rapid marketplace innovations when regulations and regulatory definitions often can't. FDX is thus encouraged by the FDIC's interest in this topic and is hopeful that these comments are helpful and instructive to the FDIC's efforts.

Standardization of User-Permissioned Data Sharing

Over the last two decades, significant innovation in financial services has been driven by end user demand for online financial management services, payments, credit decisioning and more that require access to and sharing of financial data. While these new financial technology tools are often provided by companies that are not affiliated with an end user's primary financial institution, financial institutions themselves are also able to offer financial technology products and services to their customers.

To utilize these third-party services, users need the ability to be authenticated so they can authorize access to their financial data from their financial institutions to other financial data parties in a convenient, secure, and reliable manner.

In order to give these parties access to their financial records, end users have historically provided their login credentials to financial applications or data aggregators (known as credential-based access). In most cases, financial apps do not store a user's login credentials, but instead pass these credentials via an Application Programming Interface (API) to the data aggregator. The financial application or data aggregator can then access the financial institution website and retrieve the users' data (this process is known as screen scraping).

While credential-based access and screen scraping have provided a pathway for consumers to use and share their own financial data to date, this legacy technology is inefficient and places stress on financial institutions due to the number of automated logins. Finally, and most importantly, this method of consumer authentication and data access requires the sharing of sensitive consumer login credentials and provides limited consumer control over the amount of data consumers share with third parties.

Fortunately, newer technology has entered the marketplace to replace shared login credentials and screen scraping. Specifically, tokenized access, in concert with API-based data collection, allows a user to be securely authenticated at their own financial institution and permission the data they would like to share. In fact, APIs make user-permissioned data sharing easier, more accurate and more secure. Not only do they remove credential sharing and provide dedicated data access, but APIs provide the ability for the user to choose the type of data that is shared, with whom, for how long and for what purpose.

While the advent of APIs has begun to change the landscape of consumer data sharing, there was still a missing element – standardization. In fact, without a standard API and additional standardization of

authentication, authorization, certification, user experience and consent guidelines, financial institutions, financial data access providers and fintech applications and services will remain fragmented – using different APIs, processes and even definitions of how a user is able to permission use of their own financial data.

Accordingly, the Financial Data Exchange was born out of a desire among all entities in the user-permissioned financial data ecosystem to have one standard API for all user-permissioned financial data.

Consumers First Model

FDX believes accessible, user-permissioned financial data sharing inherently places the consumer at the center of their data. Such an approach empowers consumers to better understand, leverage, and benefit from their own financial data and improve their financial lives. A consumer-centric approach also facilitates access to financial data that can improve financial literacy, financial decisions, and financial convenience.

FDX also believes there are five core principles that must be present in consumer data sharing to ensure that all financial industry participants serve the needs of consumers first. These are:

- **Control** - Consumers should be able to permission their financial data for services or applications.
- **Access** - Account owners should have access to their data and the ability to determine which financial data parties will have access to their data.
- **Transparency** - Individuals using financial services should know how, when, and for what purpose their data is used. Only data that is required to provide such services should be shared with the organization providing the service.
- **Traceability** - All data transfers should be traceable. Consumers should have a complete view of all financial data parties that are involved in the data sharing flow.
- **Security** - Financial data parties should follow industry best cybersecurity practices across the whole of their organization for safety and privacy of data during access and transport and when that data is at rest.

Value of Industry-Led Standards

FDX submits that an industry-led technical standards body is best positioned to unify the financial industry around common, interoperable, royalty-free technical standards. Further, FDX believes that industry-led standards not only maintain innovation, but catalyze it by promoting a vibrant and diverse ecosystem of financial services providers, including enhanced roles for small fintechs and small and mid-sized financial service providers. Finally, industry-led standards ensure rapid and nimble adaptation to market innovations and changes in financial technology that is simply not possible in a regulatory led or mandated approach.

For FDX, this means standardization across the spectrum of consumer data sharing. This includes:

- **Defining Use Cases**: Use cases are consumer-permissioned scenarios that help users minimize the amount of data they share by defining only the data elements that are needed for a given product or service. Further, an industry-led standard allows for broad adoption of use cases and the ability to qualify new or innovative use cases with the entire financial industry. FDX seeks to

approve and certify specific use cases in the future, such as personal financial management (PFM), credit management and servicing, account verification and tax preparation.

- Developing a Certification Program: As stated in the RFI, creating a standard alone cannot promote or guarantee adherence to the standard. A qualification and certification program are needed to ensure common implementation and interoperability of any technical standard. Products (i.e., programs and apps for consumer permissioned financial data sharing) can be approved by a certification program to test the technical compatibility/interoperability, prior to being marketed as a compliant product, or getting access to certain intellectual property rights.
- Develop User Experience and Consent Guidelines Best Practices: An industry group like FDX has the ability to document the steps and show examples of recommended user experiences across the end-to-end data sharing workflow to permit users to establish their financial data sharing connections with ease and full transparency and control. These steps will span across the lifecycle of creating a connection, managing a connection, and revoking a connection, including the steps of disclosure, authentication, and authorization.

Full Market Participation - Committees and Working Groups

FDX's membership encompasses the full spectrum of entities and stakeholders involved in user-permissioned data sharing including financial institutions, financial data aggregators, fintechs, payment networks, consumer groups, financial industry groups, industry utilities, service providers, other permissioned parties and even individual academics and experts in the field. In addition to the broad spectrum of FDX's membership, the organization also maintains a diversity in size of organizations: from small credit unions to some of the world's largest banks, from consumer groups to core technology providers, from start-up fintechs to leading data aggregators. FDX's dues structure seeks to compliment participation by entities of all sizes as well. The FDX specification itself is free for any organization to download and use and membership starts with a no-cost tier for non-profit consumer advocacy groups and an affordable and revenue-based structure for all other entities. Finally, while FDX does not have any government bodies or policymakers as members, FDX has sought since its founding to maintain close engagement with regulators and policymakers through regular meetings, briefings, official comment, and outreach.

In theory, this diversity and wide market participation gives FDX the ability to seek standardization that works across the financial industry. However, formal structures of work and leadership ensure that this standardization remains balanced. As an example, the FDX board and all FDX Committees, Working Groups and many Task Forces are led by financial institution (FI) and non-financial institution (non-FI) co-chairs. In addition, the FDX board is comprised of balanced voting groups of members in similar market segments and every member vote in a working group or task force counts the same regardless of size.

Regarding organization, the FDX board along with all FDX members, works diligently to continue to develop and improve the FDX API through several committees and working groups with active and ongoing participation from member organizations. Some of these include:

- Technical Review Committee: tasked with the ongoing maintenance and improvement of the FDX API technical specification, along with adopting or building other technical solutions to promote FDX objectives. The Technical Review Committee oversees several working groups to achieve these goals.
- APIs/Data Structures Working Group: tasked with creating programs and processes that will certify proper implementation of the FDX API standard, ensuring interoperability.
- Security & Authentication Working Group: tasked with the design of appropriate security and authentication protocols and related matters.
- FDX Canada Working Group: comprised of Canadian financial industry participants working within FDX to help ensure that uniquely Canadian market requirements are accurately reflected in the development and maintenance of the global FDX API standard.
- Consumer Advocacy Group Task Force: composed of non-profit consumer advocacy groups who will elect from among themselves a board level observer. The consumer advocacy members will provide input and recommendations at the working group and board level to ensure that consumer needs, security, experiences, and rights are kept at the forefront of FDX's decision making process.
- User Experience/Consent Working Group: focused on best practices for user experience, consent matters and user engagement. The working group will work closely with the Consumer Advocacy Group Task Force to improve standards, specifications, best practices relating to the consumer experience.
- Marketing, Public Relations and Government Affairs Working Groups: responsible for membership, marketing, government outreach, public relations, and external communications.
- Open Financial Exchange: OFX joined FDX in 2019 as a working group to enable development of a unified standard. The independent working group is tasked with maintaining and evolving the OFX standard as necessary to support the existing OFX implementations, while leveraging the use cases and work between the OFX and FDX standards and providing a migration path to FDX for OFX users wishing to migrate.

Benefits to Smaller Institutions & Fintechs

Adoption of innovative financial technologies and user-permissioned data sharing can present challenges for small IDIs, such as the majority of those institutions regulated by the FDIC, and for Fintechs.

Small financial institutions bear the brunt of the challenges in the current consumer data sharing ecosystem due to both financial and technological constraints. Core technology providers often supply products and services so that the customers of these small financial institutions can use the same technology tools and have the same user experiences as larger financial institutions. However, absent a common standard, proprietary technology implementations take time to develop, and small IDIs simply do not have the resources to build these solutions themselves.

In a similar manner, small fintechs can face capital formation challenges and may have difficulty bringing new and innovative solutions to market amid an oft diverse and siloed financial services landscape.

It is in view of these challenges where standards bodies like FDX make such a huge difference for small entities. In their most elemental form, common interoperable standards provide a framework for scalable solutions that allow even the smallest financial institutions the ability to offer their customers the same API-based data sharing services, tools and protections that are provided by larger financial institutions. They also offer small fintechs an easier path to market. Common standards also radically lower the barrier to entry for small entities by bringing the full spectrum of the financial services ecosystem together in one place and making participation and engagement very affordable. In addition, a common standard, in concert with a working group structure and standardization of data use cases, allows any fintech firm to bring innovative models forward that can be defined quickly and implemented in the marketplace rapidly so that consumers can use their own financial data in new and innovative ways. And the same rationale applies to developers who can build from a universal standard.

In sum, common technical standards help level the playing field so that entities of all sizes within the financial data ecosystem are using the same standard and process for a given product or service. This approach ensures an open and fair market where entities of all sizes can compete with the same tools.

Role of Federal/State Regulators in Standards Organizations

One of the RFI's questions focused on what role, if any, the FDIC and other federal/state regulators should play in technical standards and certification bodies. FDX appreciates this question.

In one sense, the very nature of many technical standards bodies is to exist and operate outside of a regulatory structure. And yet, ecosystems developing and certifying technical standards often face a "catch 22" of sorts. On one hand, market entities want to maintain independence in technical standards work, but on the other hand, these entities desire a supportive acknowledgement or reference from regulators to show approval of the standards themselves and the direction of the work. In fact, regulatory acknowledgements provide significant value. They provide a sense of stability in the work and standards themselves, and such references can also help an industry coalesce around common interoperable standards rather than pursue a multitude of proprietary implementations. This is especially helpful to smaller entities as discussed above.

With this in mind, FDX submits two specific recommendations for the FDIC to consider as it thinks about how to engage with standards and certification bodies.

First, FDX encourages the FDIC to think about ways it can explicitly endorse or reference technical standards and certification organizations and the work they are doing. Further, such endorsements or references should flow throughout the organization - from the FDIC Chair down to every-day examiners - so that everyone at the FDIC who encounters an implementation of a certified standard at an IDI has the ability to understand how the standard works and what it means. In this, FDX encourages the FDIC to even consider how standards and certification bodies might be able to provide training materials on their standards so that examiners are up to speed on the latest versions and certifications of a technical standard in the marketplace.

Secondly, the FDIC should consider ways it can provide regulatory clarity that can assist standards work. Especially in a digital world where engineers can only code to 1 or 0, or where conformance testing often exists in a binary state (pass or fail) regulatory clarity is extremely important. For example, and while FDX cannot comment on specific policy or regulations, if there is a particular domain that the FDIC

feels should be in a technical scope of an industry led body like FDX, then we would welcome that input and the industry and their technical teams can work together to meet those requirements.

Conclusion:

Balanced and industry-driven standards bodies that define technical standards for innovative and emerging financial technologies can provide enormous benefit to consumers, smaller entities, regulators, and the entire financial service ecosystem. Industry led technical standards are especially valuable when new technologies and innovations, like user-permissioned data sharing, shift the financial services marketplace faster than policymakers and regulators can adapt. While different jurisdictions around the world have engaged user-permissioned data sharing with different regulatory approaches, the consistent need in every environment is a common standard. Indeed, the technical harmonization between these jurisdictions, especially on security and authentication, bears out this very tenet. To allow the safe, secure, and transparent sharing of consumer financial data both now and in the future, a common industry technical standard provides the best opportunity for success.