

Via email: [data@treasury.gov.au](mailto:data@treasury.gov.au)

Dear Sir or Madam

**Re: Inquiry into Future Directions for the Consumer Data Right**

Xero welcomes the opportunity to contribute to The Treasury's Inquiry into the Future Directions of the Consumer Data Right (CDR). Xero has been deeply engaged with government stakeholders on developing the Consumer Data Right and its first designation to enable open banking. Xero is at the same time working with New Zealand and Canadian governments to establish jurisdictional open banking, and is the largest single end point of our customers' open banking data in the United Kingdom (UK). Xero has a strong interest in working with governments to design a seamless and innovative open data environment to allow small businesses to benefit from enhanced control of their data.

This paper draws and extends on previous submissions to The Treasury (Treasury) and the Australian Competition and Consumer Commission (ACCC). It also proposes a series of principles to increase participation, competition and innovation under a fully implemented CDR regime.

Born in the cloud, Xero connects businesses with the accounting tools, apps and thousands of data points business owners need in one place, available at any time, on any device. Through secure, direct data feeds with banks and enterprise suppliers, our customers can streamline bank reconciliations, expense management, and cash flow visibility. Whether it's doing taxes, getting the books in order, or setting out the business growth strategy, Xero brings data and information into one place, quickly and easily. Today, Xero has over 2.2 million subscribers.

Xero also offers secure API connections to over 800 cloud business applications (apps) in the Xero marketplace, helping our small business customers to pass and receive data to and from their service providers. Research from Xero's [2018 Digital Connectivity report](#) found Australian small businesses connected to at least one app experienced revenue growth about 50 percent higher and employment growth almost double that of businesses without connected apps.

*Future role and outcomes of the Consumer Data Right*

The benefits of the CDR will only be achieved if consumer and competitor participation is encouraged through reasonable barriers to entry. Xero acknowledges policy makers have the

difficult task of balancing participation with protection. If balance is not struck accordingly, the regime will fail to reach its potential.

Xero strongly believes barriers to entry should be as low as possible to encourage participation but high enough to ensure the appropriate protection. Key barriers include cost, which rises with the complexity and breadth of regulation. For example, Xero expects efficiency could be realised through the recognition of existing Australian and international accreditations or standards, which would reduce the cost and complexity of overlapping compliance.

Leveraging existing accreditation frameworks will minimise disruption to existing data transfer mechanisms while the economy transitions to CDR implementation. Mismanagement of CDR accreditation could disrupt the flow of data from small business to accountant, which would be highly disruptive to business operations economy-wide.

High accreditation barriers could also disrupt the flow of data to productivity enhancing business tools, which businesses use routinely to manage operations. If accreditation measures hinder productivity, consumers may choose to manage their affairs outside the CDR framework with solutions that would have less governance or oversight. This could elongate the life of less efficient data transfer mechanisms such as screen-scraping, and would undermine consumer trust and outcomes of the CDR.

Ensuring that accreditation encourages participation will be especially pertinent as higher risk CDR elements are introduced, such as 'write access' as explored in further detail below.

### *International context*

Xero is used in over 180 countries globally, and we see great opportunity for businesses and consumers in aligning the CDR with other international jurisdictions. International alignment could streamline CDR ecosystem participants' access to open data regimes in new markets. This would work to both import competition, leading potentially to better domestic consumer outcomes, and enable Australia to export new technology solutions with a far lower regulatory burden. Recognising the accreditation of existing open data participants or establishing a global accreditation framework is key to fostering interoperability and exporting a new wave of Australian data companies.

### *Read access*

To ensure the competitive benefits of the CDR are realised through adequate participation, it is crucial CDR read data is clearly segregated from transformed data. Data that has been

enhanced is valuable and a source of competitive advantage. By casting the CDR net so wide that it captures enhanced data, policy makers risk forcing businesses to shun the CDR in preference of a system that protects their intellectual property. Clear delineation on the other hand will allow businesses to plan and invest with certainty, greatly increasing the incentive to participate.

Xero believes read access should not be undervalued. For example, accounting data created within Xero based on read access data is hyper-accurate compliance data. This information forms the backbone of SME activities including BAS statements and tax returns. As the economy becomes more digitised and our R&D efforts in artificial intelligence and machine learning accelerate, we anticipate accounting data will continue to become less manual, further increasing its accuracy, utility and value to both Australian consumers and the businesses from whom they buy and sell. CDR does not necessarily require write access to be a powerful economic asset.

### *Write access*

Xero supports write access within the CDR regime to create a framework which offers Australian small businesses the same features as international peers. Write access will provide another layer of innovation and consumer control. However, write access will also increase the risk and complexity of the CDR and may raise barriers to entry. If not managed carefully, write access could be a barrier that discourages CDR participation and competition.

Xero recommends Treasury consider the UK and New Zealand experience with write access and factor it into the CDR accordingly. From our perspective, uncertainty remains in the UK open banking regime regarding payment initiation. Just which participants are subject to Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) obligations has been unclear. This complexity and uncertainty creates a dilemma in particular for capital constrained entrepreneurs, who are unable to effectively plan for their future. While ensuring streamlined industry participation, Treasury should factor the customer experience into their considerations.

Customers will benefit most from write access if all forms of payments can be initiated. For example, customers would likely expect full coverage of payments initiation including single, batch and recurring. Customers are likely to expect control of all facets of direct debit requests with the ability to externally control bank accounts including being able to edit direct debits and receive updates to the authorisation. These customer expectations must be managed securely in the future regime design without the creation of barriers that thwart participation and competition.

### *Linkages and interoperability with existing frameworks and infrastructure*

Xero believes the CDR should mirror the open banking framework in the UK as much as is feasible. Compatible regimes will enable participants to access larger markets while consumers benefit from greater competition.

Utilising elements of the UK framework also allows the CDR to learn from the challenges experienced overseas. These challenges include Strong Customer Authentication (SCA) requirements, 90 day re-authorisation and the application of anti-money laundering and counter-terrorism financing obligations. Awareness of complications will help Treasury develop a regime to tackle complexity and deliver benefits to consumers with greater trust. If possible, it would be worthwhile for Treasury to speak to users within the UK regime to ensure a full picture of the possibilities and pitfalls already encountered.

In Xero's view, it would be highly advantageous for the CDR scheme to recognise, leverage and align with existing frameworks. Recognising existing, comparable accreditation frameworks would create an efficient scheme that supports broad participation in the CDR and full attainment of its potential consumer benefits.

Xero has previously submitted that comparable frameworks include the Australian Taxation Office (ATO) Digital Service Provider (DSP) Operational Framework, the related Security Standard for Add-on Marketplaces (SSAM) and Tax and BAS agent requirements. Xero considers that by recognising these existing accreditations, CDR regime participation will be fast-tracked while disruption of existing secure data transfer processes will be minimised. Minimising disruption should be central to development and implementation of the CDR. Prematurely removing existing data transfer mechanisms or disallowing a transition period of both existing and CDR API enabled data transfer will negatively impact consumer outcomes. The CDR should be designed in a manner where the market decides the data transfer mechanism. In Xero's view, in time, this mechanism will be through the CDR, but consumer choice is important to reinforce trust in the regime.

Xero is cognisant of possible requirements for entities consuming government APIs to verify users to satisfy client verification obligations in order to enhance security and protect against fraud. Should verification requirements proceed the Government should ensure appropriate public infrastructure exists and is readily consumable to ensure a compliance process which is as seamless as possible. Public infrastructure should include at a minimum a secure, government maintained, no or low cost baseline identity verification service. Should it be decided CDR participants require client verification processes, this framework should be leveraged, recognising any existing compliance processes to nullify duplication. Ensuring

seamless transitions of existing accreditations including possible client verification will keep barriers to entry manageable, while ensuring protection for consumers. However, any CDR client verification requirements must also be fit for purpose.

A potential CDR client verification requirement should be commensurate to the risk rating of the data being transferred. For example, it would not be appropriate for lower risk data holders and recipients to be held to broader AML client verification processes which include requirements such as verifying the identity of beneficial owners and their source of funds or monitoring for suspicious transactions. It would however be appropriate to have client verification processes which ensure anti-fraud measures and security of users is managed. It is again a matter of balance to ensure that consumers are adequately protected, without placing unnecessary compliance burdens and disproportionate downward pressure on participation. Striking this balance will ensure consumer trust in the CDR regime, while encouraging ADR participation, competition and innovation.

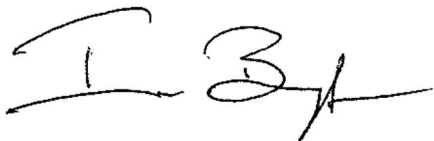
#### *Leveraging CDR infrastructure*

Barriers to entry should be as low as possible while providing adequate safeguards. Treasury should consider the risk characteristics of data created by sectors designated under the CDR. Security requirements should correspond to the risk profile of the data. Ensuring low risk data is not subject to overzealous security processes will ensure participation and innovation, delivering economy-wide consumer benefits.

#### *Conclusion:*

I thank the Treasury for the opportunity to contribute to the Inquiry into Future Directions for the Consumer Data Right. I look forward to discussing Xero's submission in further detail and sharing our international open banking and data experience with the Treasury.

Kind regards



Ian Boyd, Xero Partnerships Director