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Proposal and Comment Information

Title: Proposed Third-Party Risk Management Guide for Traditional Community Banking Organizations, OP-1880

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Submitter Information

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I support the agencies' emphasis on tailoring third-party risk management activities to the reasonably assessed risk of individual third-party relationships. This approach should improve institutions' ability to direct finite risk-management resources toward relationships presenting the greatest potential for material harm.

I recommend that the final guidance further clarify what constitutes a reasonable, supportable basis for applying reduced oversight to a third-party relationship. The guidance should establish principles for the decision rather than prescribe particular questionnaires, artifacts, contractual terms, review frequencies, or risk-scoring methodologies.

Specifically, an institution should be able to demonstrate reasonable tailoring when it has: (1) identified the material risks reasonably associated with the relationship; (2) considered the potential magnitude and likelihood of resulting harm; (3) considered relevant mitigating factors; (4) determined the resulting level of oversight in accordance with established risk appetite and tolerances; and (5) retained sufficient documentation to explain the basis for that determination.

Where these conditions are satisfied, the agencies should clarify that an institution may reasonably reduce or omit individual risk-management activities when those activities are unlikely to materially improve its understanding or management of the relationship's risk. For example, an institution should not be expected to obtain an artifact, negotiate a contractual provision, perform a periodic assessment, or conduct an independent review merely because that activity is customary when the institution can reasonably demonstrate that the activity would not materially affect its risk assessment or treatment decision.

I also recommend that examiners evaluate the reasonableness of the institution's decision based on information reasonably available when the decision was made, rather than whether subsequent events demonstrate that the third party ultimately presented greater risk than anticipated. Risk-based supervision necessarily permits reasonable judgments that occasionally prove incorrect.

This clarification would preserve the principles-based nature of the guidance while providing institutions sufficient supervisory certainty to implement genuine risk-based differentiation. It would also reduce the incentive to retain uniform or checklist-based processes solely because they are easier to defend during an examination.