LINGFEI YANG

Proposal and Comment Information

Title: Proposed Third-Party Risk Management Guidance, OP-1881

Comment ID: FR-2026-0031-01-C06

Submitter Information

Name: Lingfei Yang

Submitted Date: 09/15/2026

I am submitting the attached comment in response to the Proposed Third-Party Risk Management Guidance (OP-1881).

I am a quantitative risk professional with experience in credit risk modeling, regulatory capital, stress testing, and model risk management at large financial institutions. My comment addresses how residual risk should be assessed when third-party data are used to address limitations in a banking organization's internal data.

Specifically, I recommend that the final guidance clarify that residual-risk assessment may consider both the risks introduced or increased by a third-party relationship and the risks or limitations that the relationship is intended to address. I also recommend that effective controls under other applicable prudential frameworks be considered where they address the same underlying risks.

Please see the attached comment for the full analysis, supporting regulatory references, and proposed language.

September 15, 2026

Office of the Comptroller of the Currency
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration

Re: Proposed Third-Party Risk Management Guidance

OCC Docket ID OCC-2026-0793; Board Docket No. OP-1881; FDIC RIN 3064-ZA58; NCUA Docket No. NCUA-2026-1684

Dear Sir or Madam:

Introduction

I am a quantitative risk professional with experience in credit risk modeling, regulatory capital, stress testing, and model risk management at large financial institutions. I submit this comment in my personal capacity; the views expressed are my own and do not represent those of any current or former employer.

My comment addresses one aspect of the Proposed Third-Party Risk Management Guidance ("Proposed Guidance"): how a banking organization should assess changes in risk when third-party data are used to address an existing data limitation, and how controls under other applicable prudential frameworks should inform the resulting residual-risk assessment.

Based on my experience with quantitative risk models that rely on external data, I recommend that the agencies clarify that residual-risk assessment may consider both the risks introduced or increased by a third-party relationship and the risks or limitations that the relationship is intended to address. Effective controls maintained under other applicable prudential frameworks should also be considered where they address the same underlying risks.

Background

The Proposed Guidance expressly includes software and data providers among third parties supporting business-line- or product-specific activities.[1] It also defines residual risk as the risk remaining after mitigating measures are applied and encourages a holistic approach that recognizes where risk-management strategies may be complementary or redundant.[2]

A banking organization may have insufficient internal historical data for a product/porftolio such as lending products to cover severe economic stress period. External historical data can address that limitation, but their use may introduce other risks, including uncertainty regarding data quality, representativeness, parameter estimation, etc.

In this situation, external data are not simply an additional source of third-party risk. They are being used to address a limitation in the banking organization's own data while creating a different set of risks that must be assessed.

Analysis

The agencies' 2026 Model Risk Management Guidance expressly recognizes third-party products that include "data, parameter values, or complete models" and applies model risk management principles to those products. The guidance addresses the quality of model inputs and data constraints and provides for validation, ongoing monitoring, and outcome analysis of vendor products.[3]

Federal Reserve capital-planning guidance provides a related example. It recognizes that external data may be appropriate when internal data limitations arise from systems limitations, acquisitions, new products, or other

factors. When external data are used, the guidance calls for firms to assess whether those data reasonably approximate the underlying risk characteristics of their portfolios or business lines and to adjust estimation methods or outputs, as appropriate, for identified differences between internal and external data.[4]

Similar principles appear in regulatory-capital frameworks. For example, the Basel Framework's minimum requirements for the internal ratings-based approach address the use of external data in credit-risk parameter estimation, including long-run representativeness and comparability of populations, lending standards, and relevant economic or market conditions. The framework also requires a margin of conservatism related to the likely range of estimation errors, with greater conservatism where data or methods are less satisfactory.[5]

These requirements illustrate the risk trade-off that can arise from a third-party relationship. If external historical data are used because internal observations do not adequately cover stressed conditions, the external data may reduce a limitation associated with the bank's own historical experience while introducing representativeness, comparability, or estimation uncertainty. Some of those newly introduced risks may then be addressed through data-comparability analysis, model validation, ongoing monitoring, adjustments, or conservatism under another applicable prudential framework.

A residual-risk assessment that considers only the risks introduced by the use of third-party data, without considering the risk limitation that the data are intended to address and the controls applied to the resulting risks, may not fully reflect the overall change in the banking organization's risk profile.

The relevant assessment is therefore not whether the third-party relationship increases or decreases risk in the abstract. Rather, it is how the relationship changes specific risks: which risks are reduced, which are introduced or increased, how those risks are mitigated, and what material residual risks remain.

This does not mean that unrelated risks should be offset against one another. Recognition should be risk-specific rather than framework-specific. A margin of conservatism may address estimation uncertainty arising from limited or less representative data; it does not address vendor continuity, cybersecurity, confidentiality, or contractual risk. Those risks would still need to be assessed separately.

Recommendation

I recommend that the final guidance clarify that a banking organization may consider both the risks introduced or increased by a third-party relationship and the risks or limitations that the relationship is intended to address when assessing residual risk. The assessment may also recognize effective controls maintained under other applicable prudential frameworks where those controls address the same underlying risks.

One possible clarification would be:

> "In assessing residual risk associated with a third-party relationship, a banking organization may consider both the risks introduced or increased by the relationship and risks or limitations that the relationship is intended to address. The banking organization may also consider effective mitigating measures maintained under other applicable risk-management or prudential frameworks to the extent those measures address the same underlying risks. Risks not addressed by such measures should be assessed separately."

This clarification would support a more complete assessment of how a third-party relationship changes the banking organization's risk profile while preserving separate assessment of material risks that remain unmitigated.

Conclusion

Third-party data used in quantitative risk models can address limitations in internal historical experience while introducing separate data and estimation risks. Applicable model-risk, capital-planning, regulatory-capital, or other prudential frameworks may also mitigate some of those resulting risks.

The final guidance should therefore clarify that residual-risk assessment may consider the risk trade-off created by the third-party relationship, together with effective cross-framework controls addressing the same underlying risks, while requiring unrelated or unmitigated risks to be assessed separately. This would provide a

more complete assessment of how the relationship changes the banking organization's risk profile and of the material residual risks that remain.

Thank you for considering this comment.

Respectfully submitted,

Lingfei Yang

References

1. OCC, Board of Governors of the Federal Reserve System, FDIC & NCUA, Proposed Third-Party Risk Management Guidance, "Third-Party Relationship Identification," p. 15 (2026).
2. OCC, Board of Governors of the Federal Reserve System, FDIC & NCUA, Proposed Third-Party Risk Management Guidance, Section B.2.v, "Cross-Cutting Oversight Topics," pp. 29–30, and Section B.3, "Residual Risk Acceptance," pp. 32–33 (2026).
3. OCC, Board of Governors of the Federal Reserve System & FDIC, Revised Guidance on Model Risk Management, Section VII, "Vendor and Other Third-Party Products" (2026).
4. Board of Governors of the Federal Reserve System, Guidance on Supervisory Assessment of Capital Planning and Positions for LISCC Firms and Large and Complex Firms, Appendix A, "Use of Data" (SR 15-18, Dec. 18, 2015).
5. Basel Committee on Banking Supervision, Basel Framework, CRE 36.64–36.67.