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Proposal and Comment Information

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

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Submitter Information

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Please see my attached public comment regarding the Proposed Third-Party Risk Management Guidance (Docket OP-1881).

My submission offers three recommendations to strengthen the practical application of proportionate third-party risk management:

1. Clarify financial harm assessment: Distinguish routine vendor expenditure from potential financial harm, including termination costs, replacement expenses, business interruption losses, and customer remediation costs.
2. Distinguish vendor concentration from operational dependency: Recognize that service breadth, spending concentration, and operational dependency are separate considerations. A relatively low-cost vendor may still present significant operational risk when alternatives are limited or switching is difficult.
3. Incorporate exit feasibility into initial risk assessment: Consider alternative provider availability, transition timelines, and contractual constraints when initially assessing third-party risks, rather than addressing these factors only during termination planning.

These recommendations are intended to improve the consistency and precision of risk assessments while preserving the guidance's principles-based, proportionate approach without introducing additional reporting obligations.

I submit these comments in my individual capacity.

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

Dockets: OCC-2026-0793 (OCC) | OP-1881 (Federal Reserve) | NCUA-2026-1684 (NCUA)

Subject: Proposed Third-Party Risk Management Guidance, 91 FR 58536

Submitted by: Dare Abiodun, independent commenter, personal capacity

Clarifying Harm Magnitude, Vendor Dependency, and Exit Feasibility in Proportionate Third-Party Risk Assessment

Introduction

The proposed Third-Party Risk Management Guidance (91 FR 58536, September 15, 2026) establishes a sound principles-based framework for third-party oversight. The agencies' central proposition, that the depth and rigor of risk management should be proportionate to the reasonably assessed risks of each relationship, is well-conceived and workable for banking organizations of varying size and complexity.

These comments do not contest that framework. They address three specific implementation questions that arise from Section B.1.iii and footnote 13 of the proposed guidance, where limited clarification could help banking organizations apply the proportionality principle more precisely without creating new compliance obligations or prescriptive requirements.

The three recommendations concern: (1) the composition of the financial harm dimension in harm-magnitude assessment under Section B.1.iii; (2) the distinction among service breadth, spending concentration, and operational dependency in the context of the concentration-risk discussion in Section B.1.iii and footnote 13; and (3) the appropriate timing of exit-feasibility assessment relative to initial risk rating under Section B.1.iii and termination planning under Section B.2.iv.

Recommendation I: Clarify the Scope of Financial Harm in Harm-Magnitude Assessment (Section B.1.iii)

The implementation question. Section B.1.iii identifies potential financial harm as a relevant consideration when assessing the magnitude of harm that could result from a third-party relationship. The proposed guidance does not specify which financial consequences matter most to that analysis, and it should explicitly distinguish ordinary vendor expenditure from actual potential harm.

The current cost of a vendor relationship, meaning the recurring service payments made for value received, is not itself a measure of potential harm. Financial harm from a vendor failure or significant disruption can be considerably broader, encompassing a range of reasonably foreseeable consequences beyond existing contractual obligations: contractual termination fees and penalties; the incremental cost of replacing the service above current pricing, including implementation, integration, and migration expenses; business interruption losses arising from service unavailability before an alternative is operational; and customer remediation costs resulting from service disruptions affecting customers directly.

The point is not that every third-party relationship carries significant financial harm potential, nor that every contractual commitment represents a harm exposure. The point is that harm-magnitude assessment under Section B.1.iii is better served by considering the plausible range of financial consequences that failure or disruption could produce in the specific relationship being assessed, rather than treating the current cost of the relationship as a proxy for that assessment. These consequences can often be estimated

from existing contract records, accounts payable data, and operational knowledge, without requiring new infrastructure.

Proposed clarification.

The agencies may wish to note within or adjacent to Section B.1.iii that financial harm in the risk-assessment context refers to the range of financial consequences a banking organization could reasonably face if a third-party relationship failed or required significant remediation.

The following language is offered for consideration:

“In assessing the financial dimension of potential harm under Section B.1.iii, banking organizations may find it useful to consider the range of financial consequences that could reasonably result from a vendor failure or significant service disruption. These may include contractual termination costs, incremental costs of obtaining replacement services (including implementation and integration expenses), business interruption losses during any transition period, and customer remediation costs arising from service disruptions affecting customers, in addition to any payment obligations that continue after service interruption. The current cost of the vendor relationship, representing the recurring charge for services received, is not itself a measure of this potential harm.”

This clarification does not require new data systems or reporting obligations. It directs existing financial and contract records toward a more complete and realistic assessment of harm exposure.

Recommendation II: Distinguish Service Breadth, Spending Concentration, and Operational Dependency (Section B.1.iii and Footnote 13)

The implementation question. The concentration-risk discussion in Section B.1.iii and footnote 13 appropriately identifies certain vendor relationships as warranting closer attention based on the scope and nature of the services provided. The guidance does not, however, clearly distinguish among three related but analytically distinct concepts: service breadth (the number or scope of functions a vendor supports), spending or service concentration (the share of total vendor expenditure or service volume directed to a single provider), and operational dependency (whether the banking organization could transition to an alternative provider within a timeframe that limits harm to its operations, customers, or financial condition).

These three dimensions serve different purposes in risk assessment and can diverge significantly. A vendor supporting many functions, or representing a significant share of vendor expenditure, may provide services that are available from multiple alternative providers and that can be transitioned with limited disruption. Conversely, a vendor providing a single specialized service at modest cost may be deeply integrated into critical infrastructure, with few alternatives and a transition timeline that would expose the institution to significant operational risk if the relationship failed.

Risk assessments that do not distinguish among these concepts may reach different conclusions than they would if they evaluated operational dependency on its own terms. Service breadth and spending concentration are observable and easily quantifiable; operational dependency requires a different kind of assessment, one focused on alternative provider availability, transition feasibility, and service integration. The agencies may wish to clarify that service breadth, spending concentration, and operational dependency are distinct considerations that may each inform the assessment of potential harm, depending on the nature and circumstances of the third-party relationship.

Proposed clarification. The following language is offered for consideration:

“In assessing concentration-related risks under Section B.1.iii, banking organizations may find it useful to distinguish among service breadth (the number or scope of functions a third party supports), spending or service concentration (the degree to which expenditures or service volumes are concentrated in a single provider), and operational dependency (whether the banking organization could feasibly transition to an alternative provider within a timeframe that limits harm to its customers, operations, or financial condition). A third party may support extensive functions or represent significant expenditure without giving rise to high operational dependency if suitable alternatives exist and transition is practicable. A third party providing a single service at modest cost may nonetheless represent significant operational dependency if the service is deeply integrated into critical operations and transition is not feasible within a reasonable timeframe. Operational dependency, assessed through factors such as alternative provider availability, transition timelines, and service integration, is an important consideration alongside service breadth and spending concentration when evaluating potential harm.”

Recommendation III: Incorporate Exit-Feasibility Analysis into Initial Risk Assessment (Section B.1.iii and Section B.2.iv)

The implementation question. Section B.2.iv appropriately addresses termination planning and exit feasibility as part of the third-party relationship lifecycle. While the proposed guidance addresses exit feasibility and emphasizes oversight throughout the third-party relationship lifecycle, a clearer connection between exit-feasibility considerations and initial risk assessment under Section B.1.iii could help banking organizations apply these principles more consistently. The timing of this analysis has practical consequences.

How large the potential financial and operational harm from a vendor failure or disruption turns out to be depends in significant part on what the institution can do about it. Whether a banking organization can transition to an alternative provider quickly, at reasonable cost, and without significant operational disruption is a factor that directly affects the realistic magnitude of harm. An institution that conducts exit-feasibility analysis only when termination is under active consideration will perform that analysis too late for it to inform the initial risk rating of the relationship or the level of ongoing oversight it receives.

The cross-cutting principle in Section B.2.v recognizes the value of integrating information across the third-party relationship lifecycle. Making explicit that exit-feasibility considerations belong at the initial assessment stage as well as the termination-planning stage would be a practical application of that principle.

Proposed clarification. The agencies may wish to reinforce the connection between Sections B.1.iii and B.2.iv by clarifying how exit-feasibility considerations can inform initial risk assessment as well as subsequent termination planning. The following language is offered for consideration:

“Exit feasibility, including the availability of alternative providers, expected transition timelines, and contractual constraints on termination, is directly relevant to a realistic assessment of harm magnitude under Section B.1.iii. The degree to which a banking organization could exit a third-party relationship without significant operational disruption or cost affects how large the potential harm from a failure or disruption actually is. Banking organizations may find it useful to incorporate exit-feasibility considerations into their initial risk assessment and to revisit those assessments when contract terms, market conditions, or service integration levels change materially, consistent with the lifecycle approach reflected in Sections B.2.iv and B.2.v.”

For community banks and smaller institutions, this analysis can typically be addressed through a straightforward contract review and operational assessment as part of standard vendor evaluation, without requiring dedicated systems or specialized personnel.

Conclusion

The proposed Third-Party Risk Management Guidance provides a well-designed framework for risk-proportionate third-party oversight. The three clarifications proposed above address specific implementation questions that the current text leaves open: which financial consequences should inform the assessment of potential harm; how service breadth, spending concentration, and operational dependency relate and differ for risk-assessment purposes; and at what stage exit-feasibility analysis should enter the risk assessment process rather than remaining solely a termination-planning input.

Each recommendation is consistent with the guidance's existing structure and principles-based approach. None requires new regulatory reporting, prescriptive thresholds, or mandatory analytical tools. Each is intended to help banking organizations of all sizes apply the agencies' proposed proportionality framework with greater precision and consistency.

These comments are submitted in appreciation of the care the agencies have devoted to developing this guidance.

Respectfully submitted,

Dare Abiodun

Independent Commenter

Personal Capacity