

GUSTAVO PESSOA

Proposal and Comment Information

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

Comment ID: FR-2026-0031-01-C24

Subject

Docket No OP-1881 — Comments on Proposed Third-Party Risk Management Guidance

Submitter Information

Name: Gustavo Pessoa

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Dear Secretary McDonough,

Please find attached my comments on the Proposed Third-Party Risk Management Guidance, Docket No. OP-1881.

I am an economist and professor at Fundação Getulio Vargas São Paulo and submit this contribution in my individual capacity. The response addresses the question in footnote 15 about characteristics of higher-risk relationships, with particular attention to payment continuity, the timing of financial obligations and the evidence supporting acceptance of residual risk. It also considers how the proposed flexibility can support consistent supervisory judgments without turning illustrative practices into a checklist.

I intend the attached response and my name to be available on the public record under the notice's publication arrangements. My professional profile is available at <https://profgustavopessoa.com/en/>.

Thank you for considering these comments.

Yours sincerely,
Gustavo H. R. Pessoa

Proportionate oversight of third party dependencies

Gustavo H. R. Pessoa

Economist and Professor, Fundação Getulio Vargas São Paulo

Individual academic response without institutional representation

22 October 2026

I welcome the proposed emphasis on allocating oversight according to the risks of each third-party relationship. The 2023 guidance already endorsed tailoring and discussed acceptable residual risks in contract negotiations. The present proposal makes risk acceptance more prominent and gives greater weight to the practical limits of information and bargaining power. My comments concern how those choices can remain intelligible when a provider supports payments or access to funds. They address footnote 15 and sections B1 to B4 of the proposed guidance. [1][2]

Risk characteristics under footnote 15

A short, non-exhaustive discussion of risk characteristics would be useful, provided it helps explain a judgment rather than automatically assigns a classification. The most useful characteristics describe the connection between a service interruption and harm to the particular banking organization or its customers. A provider category or contract value alone cannot establish that connection.

For services affecting payments, the assessment could identify the time available before an interruption prevents a financial obligation from being met, the availability of reliable records needed to act, and the feasibility of a workable substitute within that period. These considerations would help distinguish a service that is operationally inconvenient to lose from one whose interruption could impair access to funds. They would inform the assessment of magnitude and likelihood already set out in section B1iii. [1]

Consider a hypothetical bank using one provider for payment processing and another for a service that can safely pause. Equal expenditure on those contracts would not imply equal exposure. A processing outage close to a payment deadline might require a funding response before an alternative provider could be engaged. The relevant question is whether the bank has a credible means of meeting the obligation while service is unavailable.

The discussion should also distinguish low assessed likelihood from insufficient information. A short incident history or an untested recovery arrangement may leave substantial uncertainty. That uncertainty need not automatically make a relationship unacceptable, but it should remain visible in the reasoning rather than disappear inside a low-risk label.

A clear basis for accepting residual risk

Section B3 appropriately recognizes that a beneficial relationship may remain necessary when additional mitigation is impracticable. The 2023 guidance also acknowledged limited negotiating power and acceptable residual risks. The issue is therefore how to explain acceptance under the revised approach, rather than whether acceptance should be permitted. [1][2]

For a relationship capable of causing material financial harm, the final guidance could illustrate a concise decision record explaining the unresolved exposure, the practical alternatives considered and the circumstances that would prompt reconsideration. This would apply the proposed governance provisions to an important decision; it would not require a separate register or a standardized assessment for every supplier. Existing approval papers or risk reporting may provide an adequate record.

Limited bargaining power explains why a contractual protection was unavailable. It does not, by itself, reduce the consequence of losing the service. Making this distinction explicit would help a bank justify continued use without implying that weak negotiating leverage makes the relationship intrinsically safer.

Equally, a decision to continue need not imply indefinite acceptance: management may reasonably tolerate an exposure while pursuing a feasible improvement or transition.

The evidence supporting acceptance should be proportionate to what remains at risk. A brief explanation may suffice for an easily replaced service. Where a bank depends on a provider to maintain access to customer funds, a more developed account of the available response would be appropriate. The purpose is to make the decision reviewable, not to reward the volume of documentation.

Recovery funding and compensation

The proposal already addresses resilience planning, termination and the mitigating value of insurance, indemnification and guarantees. These discussions could be linked more explicitly through the timing of financial consequences. A claim that eventually reimburses a loss and an arrangement that enables an obligation to be met when due perform different economic functions. [1]

In a hypothetical interruption, a provider may owe compensation under a contract while the bank needs funds immediately to preserve payment continuity. Even an enforceable claim may require time to establish and collect. A proportionate assessment would consider when compensation is realistically available alongside the bank's capacity to manage the intervening period. It would not assume that a contractual recovery supplies cash when the disruption occurs.

This clarification would also make comparisons between alternatives more informative. A cheaper service accompanied by generous compensation may still leave a difficult interruption to fund. A more expensive arrangement may offer a credible temporary operating option. Neither choice is universally preferable. The bank should be able to weigh the costs against its own exposure and available resources, without an examiner treating a particular insurance clause or backup provider as mandatory solely under this guidance.

Reassessment and consistent supervision

The proposed monitoring and governance sections already support reassessment as circumstances change. For the relationships discussed here, the decision record could identify changes that would challenge the basis for acceptance. Examples include materially greater reliance on the provider, evidence that recovery takes longer than assumed, or the loss of a substitute on which the original assessment depended. These are suggested triggers for reviewing a judgment, rather than a new fixed reporting cycle. [1]

A bank should also be able to reduce oversight when evidence supports a lower exposure. Otherwise, risk-based prioritization would operate only in the direction of accumulating work. The useful discipline is to explain why the assessed risk and corresponding oversight changed, including when information became more reliable or a dependency was removed.

The final guidance should preserve its clear distinction between supervisory guidance and enforceable requirements. Supervisory assessment of a risk decision would be more predictable if it considered the information reasonably available when the decision was made, the bank's explanation and its response to subsequent developments. An adverse outcome may expose an assumption that needs correction; it does not alone establish that the original judgment was unreasonable. This approach would retain accountability while allowing banks to choose different, defensible ways of managing comparable dependencies.

References

[1] [OCC Federal Reserve FDIC and NCUA Proposed Third Party Risk Management Guidance 2026](#)

[2] [Federal Reserve FDIC and OCC Interagency Guidance on Third Party Relationships Risk Management 2023](#)