

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: June 25, 2021
To: Board of Governors
From: Staff¹
Subject: Interagency Proposed Guidance on Third-Party Risk Management

ACTIONS REQUESTED: Staff requests approval to publish in the Federal Register the attached notice seeking public comment on proposed guidance for banking organizations on managing the risks of third-party relationships (proposal). The proposal would be issued jointly with the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC). Staff also seeks authority to make technical, non-substantive changes to the attached materials to prepare them for publication in the Federal Register.

EXECUTIVE SUMMARY:

- Each of the agencies has previously issued guidance for its respective supervised banking organizations addressing third-party relationships and appropriate risk management practices. However, each agency did so independently and at different times, and the existing guidance is therefore not consistent among agencies.
- To modernize and promote consistency in third-party risk management guidance, the proposed guidance is based on the OCC's existing third-party risk management guidance from 2013. It would offer a framework based on sound risk management principles for banking organizations to consider in developing risk management practices for third-party relationships.
- The proposed guidance recognizes differences in the nature, level of risk, and complexity of banking organizations and their third-party relationships. The proposal includes a number of questions to encourage broad public comment on utility, relevance, comprehensiveness, and clarity of the guidance for banking organizations with different risk profiles and organizational structures.

¹ Legal Division (Mark Van Der Weide, Charles Gray, Jay Schwarz, Claudia Von Pervieux, Evans Muzere, and Alyssa O'Connor); Division of Supervision and Regulation (Michael Gibson, Norah Barger, Molly Mahar, Nida Davis, Anna Lee Hewko, Juan Climent, Katie Ballintine, Timothy Geishecker, and Jinai Holmes); and Division of Consumer & Community Affairs (Eric Belsky, Phyllis Harwell, Jeremy Hochberg, and Matthew Dukes).

DISCUSSION:

I. Background

As the banking industry becomes more complex and technologically driven, banking organizations are forming numerous and more complex relationships with other entities to remain competitive, expand operations, and help meet customer needs. Banking organizations' expanded use of third parties, especially those with new or innovative technologies, may also add complexity, including in managing consumer compliance risks, and otherwise heighten risk management considerations.

The agencies seek to modernize and promote consistency in their third-party risk management guidance; better address use of, and services provided by, third parties; and more clearly articulate risk-based principles on third-party relationship risk management that could be tailored to banking organizations of all sizes and complexity. Agency staffs determined that the OCC's 2013 guidance and its related 2020 FAQs provide the most current and comprehensive discussion of third-party risk management for the agencies' supervised banking organizations. The OCC issued the 2020 FAQs to clarify its third-party risk management guidance and discuss evolving industry topics, including technological innovations.

II. Proposed Guidance

The proposed guidance would largely adopt the text of the OCC's existing 2013 guidance, and includes changes to reflect the extension of the scope of applicability to banking organizations supervised by all three federal banking agencies. It describes the importance of a banking organization appropriately managing the risks of its third-party relationships, commensurate with their level of risk, and describes the need for more comprehensive and rigorous oversight and management of third-party relationships that support critical activities. The proposed guidance offers a framework based on sound risk management principles that banking organizations may use in developing practices for managing all stages in the life cycle of a third-party relationship. It emphasizes that a banking organization's use of third parties does not diminish its responsibility to perform an activity in a safe and sound manner and in compliance with applicable laws and regulations, including consumer protection laws and regulations.

Banking organizations could scale their use of the framework as appropriate based on the level of risk, complexity, and size of the banking organization and on the nature of the third-party relationship. In particular, the agencies are seeking comment on the degree to which the proposed guidance appropriately addresses third-party relationships and risk management practices and whether further clarifications or modifications are needed to tailor the guidance for banking organizations of varying sizes and levels of complexity. In addition, the proposal includes the OCC's 2020 FAQs as an exhibit, and would seek public comment on the extent to which the concepts discussed in the OCC's 2020 FAQs should be incorporated into a final version of the guidance.

RECOMMENDATIONS: For the reasons discussed above, staff recommends that the Board (1) approve the attached notice for publication in the Federal Register and (2) authorize staff to make technical, non-substantive changes to the attached materials to prepare them for publication in the Federal Register.

Attachment