

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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Date: May 19, 2023  
To: Board of Governors  
From: Staff<sup>1</sup>  
Subject: Interagency Guidance on Third-Party Relationships: Risk Management

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**ACTIONS REQUESTED:** Staff requests approval of the draft final *Interagency Guidance on Third-Party Relationships: Risk Management* (guidance). Staff also seeks authority to make minor and technical changes to the guidance prior to publication in the Federal Register.

**EXECUTIVE SUMMARY:**

- The guidance establishes principles for all banking organizations to consider when developing and implementing risk management practices governing their third-party relationships.
- The concepts discussed in the guidance are relevant for all third-party relationships and are provided to banking organizations to assist in the tailoring and implementation of risk management practices commensurate with each banking organization's size, complexity, risk profile, and the nature of its third-party relationships.
- The guidance would be issued jointly by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency (the agencies) to promote consistency in supervisory approaches. The guidance would replace each agency's existing general guidance on this topic.
- The agencies plan to develop additional resources to assist smaller, non-complex community banking organizations in managing relevant third-party risks.

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<sup>1</sup> Michael Gibson, Arthur Lindo, Kavita Jain, Stephen Curren, Chandni Saxena, David Palmer, and Timothy Geishecker (Division of Supervision and Regulation); Eric Belsky, Drew Kohan, and Matthew Dukes (Division of Consumer and Community Affairs); and Mark Van Der Weide, Reena Sahni, Jay Schwarz, Claudia Von Pervieux, and Evans Muzere (Legal Division).

## **DISCUSSION:**

On July 19, 2021, the agencies published for comment proposed guidance for banking organizations on managing risks associated with third-party relationships (proposed guidance).<sup>2</sup> The proposed guidance laid out a risk management framework covering various stages in the life cycle of third-party relationships, including planning, due diligence, contract negotiation, ongoing monitoring, and termination, and provided examples of risk management considerations at each stage. The agencies invited comment on all aspects of the proposed guidance and posed questions related to scope, tailoring, types of third-party relationships, due diligence and collaborative arrangements, subcontractors, and information security.

The agencies collectively received 82 comment letters from banking organizations, financial technology (fintech) companies and other third-party providers, trade associations, consultants, nonprofits, and individuals. Commenters generally supported the proposed guidance and its principles-based approach. Interagency staff have made changes in response to comments as appropriate, including those related to the following key areas:

- Tailoring: Explicitly stating that a sound third-party risk management framework for a banking organization considers the level of risk, complexity, and size of the banking organization, and the nature of each third-party relationship. The guidance also notes that not all third-party relationships present the same risks and that banking organizations should tailor their practices to the risks presented.
- Supervisory approach: Noting that the scope of supervisory reviews of a banking organization's third-party risk management will similarly be tailored based on the degree of risk and the complexity associated with the banking organization's activities and its third-party relationships.
- Fintech partnerships: Explicitly scoping in bank-fintech partnerships, including those that involve novel or complex structures, where the fintech may interact directly with and serve as the intermediary providing the banking service to the end customer.

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<sup>2</sup> "Proposed Interagency Guidance on Third-Party Relationships: Risk Management," 86 Federal Register 38182 (July 19, 2021): <https://www.federalregister.gov/documents/2021/07/19/2021-15308/proposed-interagency-guidance-on-third-party-relationships-risk-management>.

- Incorporating illustrative examples: Providing additional informative details while retaining a principles-based approach, and clarifying that examples of considerations included in the guidance are merely illustrative and are not requirements.
- Support for community banks with limited technical resources: Acknowledging suggestions made by commenters that may help small banks reduce due diligence burden, such as resorting to collaborative industry efforts (such as pooling resources) and relying on independent third-party certifications.

Board staff intend to develop resources and training for Federal Reserve supervisory staff. In addition, Board staff will work with the other agencies to develop additional resources to assist smaller, non-complex community banks in managing relevant third-party risks.

#### **RECOMMENDATIONS:**

Staff recommends that the Board approve the attached draft final *Interagency Guidance on Third-Party Relationships: Risk Management*. Staff also recommends that the Board grant authority for staff to make minor and technical changes to the guidance prior to publication in the Federal Register.

Attachment