

Date: August 28, 2026
To: Board of Governors
From: Staff¹
Subject: Proposals to Update Third-Party Risk Management Guidance

ACTIONS REQUESTED: Approval to publish for public comment in the *Federal Register* (1) proposed interagency third-party risk management guidance applicable to all banks; and (2) a proposed third-party risk management guide for Board-regulated traditional community banking organizations (traditional CBOs, defined below). Staff also requests authority to make technical, non-substantive changes to the proposals prior to publication in the *Federal Register*.

EXECUTIVE SUMMARY:

- Based on the Federal Reserve’s supervisory experience and feedback from stakeholders, the existing third-party risk management guidance has four key limitations: (1) it has been interpreted too broadly; (2) it provides insufficient focus on tailoring risk management principles; (3) it has unintentionally incentivized process-driven approaches over risk-focused practices; and (4) it has been read to discourage banks from engaging with newer and innovative third-parties.
- To address these shortcomings, staff recommend issuing (1) revised third-party risk management guidance applicable to all banking organizations (All-Bank Guidance), and (2) a third-party risk management guide for traditional CBOs (Traditional CBO Guide).
- The proposed All-Bank Guidance would provide risk management principles to assist banking organizations in identifying, assessing, and managing risks associated with third-party relationships. It would be issued jointly with the Office of the Comptroller of the

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Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (Agencies).²

- The proposed Traditional CBO Guide would serve as an additional resource to help traditional CBOs operationalize the high-level principles in the All-Bank Guidance. Traditional CBOs are banking organizations with less than \$30 billion, which focus on serving their local communities.³ The Traditional CBO Guide would be issued by the Board and would apply only to Board-regulated banking organizations.
- Both proposals would provide 60 days for public comment.

BACKGROUND:

As technology becomes more central to banking, banks of all sizes are increasingly outsourcing functions and otherwise relying on third-party relationships, which can enhance efficiency and reduce costs. However, the use of third parties introduces risk, requiring banks to engage in third-party risk management.

The OCC, FDIC, and the Board last provided third-party risk management guidance in 2023, when they jointly issued *Interagency Guidance on Third-Party Relationships: Risk Management* (2023 Guidance),⁴ responding to industry’s request for uniform guidance across all three agencies.⁵ The 2023 Guidance applies to banking organizations of all sizes and applies to relationships with all third parties, including those without a direct contractual relationship with the bank.⁶ The three agencies subsequently issued *Third-Party Risk Management: A Guide for Community Banks* in 2024⁷ as a supplemental resource for community banks that sought to clarify the application of the 2023 Guidance to community banks by providing examples of tailored application of the Guidance to those banks.

² For purposes of the proposed All-Bank Guidance, banking organizations also include insured credit unions as defined in the Federal Credit Union Act (12 U.S.C. 1752(7)).

³ The proposed Traditional CBO Guide is not intended for community banking organizations with more complex business models or third-party relationship profiles, such as complex bank-fintech partnerships (e.g., where a bank makes products or services available through an arrangement with one or more fintech companies and the fintech company, rather than the bank, markets, distributes, or otherwise provides access to the products or services).

⁴ Issued by the Board through SR Letter 23-4 and later issued in its entirety through CA Letter 24-2.

⁵ The 2023 Guidance replaced the Agencies’ individual guidance on the topic (e.g., at the Board, it superseded SR 13-19 / CA 13-21).

⁶ The 2023 Guidance addressed “any business arrangement between a banking organization and another entity, by contract or otherwise.”

⁷ Issued by the Board through SR Letter 24-2 / CA Letter 24-1.

DISCUSSION:

The Federal Reserve's supervisory experience and feedback from stakeholders indicate that the 2023 Guidance has been interpreted in an overly broad manner, could benefit from increased tailoring and prioritization, and has been read to discourage engagement with newer and innovative third parties. Additionally, the experience and feedback have been that the 2023 Guidance and 2024 community bank guide do not sufficiently support smaller banks, which would benefit from operational-level details about how to perform third-party risk management.

Proposed All-Bank Guidance

In response to these concerns, staff is recommending that the Agencies propose to rescind and replace their existing guidance on third-party risk management and issue more streamlined guidance. The All-Bank Guidance would provide third-party risk management guidance applicable to all banking organizations and would address these concerns by:

- **Establishing a principles-based approach that is non-binding.** The All-Bank Guidance is structured as a set of principles for banking organizations to consider for third-party risk management. The proposal explicitly states that it, as with all supervisory guidance, does not set forth enforceable standards or prescriptive requirements, and that accordingly, non-compliance with the guidance will not result in supervisory action against a banking organization on that basis.
- **Emphasizing a risk-based approach.** The All-Bank Guidance emphasizes the importance of taking into account both the magnitude of harm a third-party relationship could cause and the likelihood that the harm will occur. For lower risk-relationships, the All-Bank Guidance states that a banking organization may reasonably rely on less detailed due diligence information or on public or alternative sources, may determine that standard form contracts are sufficient, or may rely on less detailed or less frequent reporting for ongoing monitoring. Furthermore, banking organizations may reasonably accept some amount of residual risk based on an assessment of their risk appetite and tolerance and ability to conduct activities in a safe and sound manner.
- **Recognizing innovative approaches to third-party risk management.** The All-Bank Guidance identifies innovative approaches to third-party risk management, including co-ventures and consortia for joint due diligence or developing standard contracts, using

standard-setting and certification organizations for assessments, and hiring consultants to supplement expertise.

The All-Bank Guidance would note that banking organizations' third-party relationships may raise additional consumer compliance considerations that may be relevant to, but that are not directly addressed in, the proposed guidance. The proposal poses certain topic-specific questions and invites comments on all aspects of the proposed guidance.

Proposed Traditional CBO Guide

In tandem with the All-Bank Guidance, Board staff recommends proposing for comment a third-party risk management guide intended only for traditional CBOs.⁸ The Traditional CBO Guide would function as a companion document to the All-Bank Guidance. The Traditional CBO Guide has been designed with the explicit goal of assisting traditional CBOs in understanding and conducting third-party risk management. It would articulate how the principles in the proposed All-Bank Guidance can be applied in practice by traditional CBOs.

The Traditional CBO Guide is divided into two main sections. The first section discusses four high-priority third-party risk management topics for the types of third-party relationships that traditional CBOs typically maintain: operational resilience, system and information security, compliance with rules and regulations, and financial resilience.

The second section identifies eight categories of third parties that smaller banking organizations often engage with, namely, core service providers, information technology infrastructure providers, cybersecurity providers, payment processing and digital banking providers, loan management system providers, card issuing and processing providers, Bank Secrecy Act/Anti-Money Laundering and financial crime platform providers, and fraud prevention and detection providers. For each third-party type, the Traditional CBO Guide discusses (1) how the overarching considerations discussed in the first section apply; and (2) additional risk management considerations specific to the third-party category. In the case of certain categories, the Guide also includes a discussion of risk management strategies a traditional CBO may consider when transitioning to a new provider.

⁸ Traditional community banking organizations are defined in the TCBO Guide as banking organizations with less than \$30 billion in assets that focus on serving their local communities.

Consumer compliance is not in scope for the purposes of the Traditional CBO Guide. The proposed Traditional CBO Guide would be issued for comment, including on specific aspects of the proposal.

Board documents proposed to be rescinded: With the issuance of the final All-Bank Guidance, the Agencies would rescind the 2023 Guidance (issued by the Board through SR 23-4)⁹ and *Third-Party Risk Management: A Guide for Community Banks* (issued by the Board through SR 24-2 / CA 24-1). Additionally, the Agencies would rescind the *Joint Statement on Banks' Arrangements with Third Parties to Deliver Bank Deposit Products and Services*, issued by the Board through SR 24-5.

RECOMMENDATIONS: For the reasons discussed above, staff recommends that the Board approve the proposed All-Bank Guidance and proposed Traditional CBO Guide for publication in the *Federal Register*. Staff also recommends that the Board authorize staff to make technical, non-substantive changes to the proposals prior to publication in the *Federal Register*.

Attachments

⁹ CA 24-2 reposted the statement from SR 23-4 in its entirety. The Division of Consumer and Community Affairs will make its own decision about whether and how to retain CA 24-2.