Response to FSB Consultation Paper Dated 22nd June 2023

With regards to the "Enhancing Third-Party Risk Management and Oversight" consultation paper dated 22nd June 2023, having reviewed the documents please see below feedback for your review.

i. **Common Terms and definitions**

The terminology "Third-party service relationship" could be perceived as confusing. The document explains this to mean a provision of one or more services or parts thereof. Noting that in the TPRM world in general concerns and oversight relates to "services", there don't appear to be any observable value adding the word "service" to the terminology. Below are some suggested terminologies:

- **Third party engagement (s)**
- **Third part arrangement (s)**
- **Third party relationship (s)**

ii. **Clearer understanding & definition of what "Third Party Services" means is needed. The need to do away with the terminology "outsourcing" and "non-outsourcing" and reference to "third party service" is an admirable evolution especially considering operational resilience, however this is likely to cause misunderstanding in the industry and lead to confusion in terms of risk management, ownership, and provision of appropriate and targeted oversight of third-party services in general.**

There is a need to understand the risk composition of ownership of services, activities and functions and the consequences including penalties pertaining to disruption or complete failure of delivery when speaking to third party services, this needs to be understood in the context of outsourcing and non-outsourcing. There are different risk hierarchy & scales of impact to a financial institution of an outsourced function and a non-outsourcing function, even in the case where both services are deemed to be critical to the operations of the firm. One could lead to a conduct issue for the financial institution "***service recipient***" (outsourcing) while the other may have a lower risk impact due in the events of failure or disruption, but because the financial institution does not own the service it could be a conduct issue for the "***service provider***" if regulated or no issue if unregulated (non-outsourcing). **See below for further explanation.**

- **Outsourcing service & provider** – This is a service, function, or activity that an approved financial institution are required to perform to satisfy our approval from the financial authorities but have decided for any number of reasons to outsource to a third party. While we can outsource the process, we cannot outsource our ownership, responsibility, or accountability and hence the risk remains with the financial institution. Our third party's inability to perform that service, function or activity in any form could result in a conduct issue for us as noted previously we cannot transfer our responsibility or accountability. This type of third party could therefore result in a conduct issue for the firm and would constitute a greater hierarchy of risk to the financial institution and hence risk oversight. Such services may be best referred to as regulatory outsourcing, differentiating them therefore from other types of service provisions received by the financial institution.

- **Non-outsourcing service & provider-** In terms of ownership, the responsibility for the provision of non-outsourcing services, activities or functions does not logically lie with the financial institution. In terms of ownership of risk, of course any failure or disruption of the service would have either a direct or in-direct impact on the financial institution to a lesser or greater extent. These are often support services that would not be captured as outsourcing but may still be critical to the operations of the firm. It's important to note that financial institutions have very little control over these services or third-party operations and hence ability to manage and mitigate the risks may be limited or be challenging. In the world of operational resilience, these vendors maybe critical and may also feature in the identification of critical third party and systematic service provider, but the control and mitigation of any risks stemming from them would come from the service provider and/or the financial authorities and not the service recipient as would be the case in terms of outsourcing. Therefore, from a risk mitigation perspective, it's about the impact of failure or disruption on the risk profile of the financial institution, rather than them having ownership, responsibility, or accountability for the service deliverable.

iii. **On page 5, there is no definition of what constitutes as "non-outsourcing", this is important as the risk composition of outsourcing and non-outsourcing for a financial institution would be different (please see above).**

iv. **On page 6, there is an explanation of what constitutes as critical provider, however there is a need to explanation what constitute as a "material service provider". We explain material through the risk composition derived from risk assessment of the control environment of the service provider, with the view that a critical service provider with an excellent control environment may have a marginally reduced risk to a financial institution's operation (hence not material), but one which is critical but have an unsatisfactory control environment may be material. However, this is a dynamic process that would be subject to change following cyclical review.**

v. **On page 7, paragraph 1, there is a disagreement with the statement** *"correspondent banking, lending, deposit-taking, provision of insurance, clearing and settlement, and custody services, are generally not considered as third-party service providers, and the financial services they provide are not in the scope of third-party service relationships. While these financial services might be objectively critical for any financial institutions that rely on them, the risks they raise are addressed through other, often more specific financial regulatory and supervisory frameworks."* While these would not be outsourcing, these would be "third party service providers" and maybe deemed as "systematic Third Parties". The actual statement itself appears to contradict footnote 15 on page 8.

vi. **Page 15 speaks to** "service provider's obligation to take out insurance against certain risks", it would be good to give some examples to which risk(s) the FSB believes insurance should be reserved.