

Press release

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FSB consults on toolkit for enhancing third-party risk management and oversight

The Financial Stability Board (FSB) today published for public consultation a [toolkit for financial authorities and financial institutions as well as service providers for their third-party risk management and oversight](#).

The toolkit has been developed against a backdrop of digitalisation of the financial services sector and growing reliance of financial institutions on third-party service providers for a range of services, some of which support their critical operations. These dependencies can bring many benefits to financial institutions including flexibility, innovation and improved operational resilience. However, if not properly managed, disruption to critical services or service providers could pose risks to financial institutions and, in some cases, financial stability.

The primary emphasis of the toolkit is on critical services given the potential impact of their disruption on financial institutions' critical operations and financial stability. In light of changing industry practices and recent regulatory and supervisory approaches to operational resilience, the toolkit takes a holistic view of third-party risk management, which is wider than the historical focus on outsourcing. The principle of proportionality is applicable throughout the toolkit, allowing the tools to be adapted to smaller, less complex institutions or to intra-group third-party service relationships.

The toolkit aims to:

- reduce fragmentation in regulatory and supervisory approaches to financial institutions' third-party risk management across jurisdictions and different areas of the financial services sector;
- strengthen financial institutions' ability to manage third-party risks and financial authorities' ability to monitor and strengthen the resilience of the financial system; and
- facilitate coordination among relevant stakeholders (i.e. financial authorities, financial institutions and third-party service providers).

The FSB is inviting comments on this consultative document. Responses should be sent to fsb@fsb.org by 22 August 2023 with the subject line "Third-Party Risk Management and Oversight". Responses will be published on the FSB's website unless respondents expressly request otherwise.

Notes to editors

In November 2020, the FSB undertook a public consultation on a discussion paper on regulatory and supervisory issues relating to outsourcing and third-party relationships, which identified a number of issues and challenges. For instance, financial institutions have to ensure that their contractual agreements with third parties grant to them, as well as to supervisory and resolution authorities, appropriate rights to access, audit and obtain information from third parties. The discussion paper noted a common concern about the possibility of systemic risk arising from concentration in the provision of some outsourced and third-party services to financial institutions. These risks may become higher as the number of financial institutions receiving critical services from a given third party increases. Where there is no appropriate mitigant in place, a major disruption, outage or failure at one of these third parties could create a single point of failure with potential adverse consequences for financial stability and/or the safety and soundness of multiple financial institutions.

The FSB published an overview of responses to the public consultation in June 2021. Based on feedback to the discussion paper, in September 2021 the FSB's Standing Committee on Supervisory and Regulatory Cooperation decided to develop a toolkit for financial regulatory and supervisory authorities focused on their oversight of financial institutions' reliance on critical service providers, including common terms and definitions on third-party risk management.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.