Diogo Pina Chiquelho's <u>comments</u> on

BCBS - Principles for management of third parties risks (2024 consultive)

Date: 2024/10/07

- **§11, 1st bullet point:**

Third-party service provider (TPSP): An entity or individual which performs services, activities, functions, processes or tasks directly for a bank.

Comment: This definition is not rigorous. According to its literal meaning, a bank employee can be defined as a TPSP, since he/she is an individual who provides a service, activity, function, process or task directly to a bank. Thus, the definition should state that the entity or individual does not perform the services, activities, functions, processes or tasks on the basis of an employment relationship with the bank.

- **Page 3, footnote 11:**

Comment: It would make more sense if footnote 11 did not refer to the definition of TPSP arrangement but concerned the phrase *The term TPSP arrangement excludes arrangements between a TPSP and any party in the supply chain (ie an nth party to the bank).* Nth parties are really relevant for outsourcing matters and the quoted sentence gives the impression that nth parties are almost irrelevant, so footnote 11 could be an appropriate disclaimer. Another option, due to its relevance, would be to integrate it into the main text and not be a footnote.

- **Page 3, footnote 11:**

This allows for a broader application to all TPSP arrangements and highlights the different risk management approaches for TPSPs compared with nth parties.

Comment: I cannot understand the meaning and purpose of the quoted sentence. Firstly: how excluding nth parties can allow a broader application to all TPSP arrangements) Secondly: what is the importance of highlighting the different risk management approaches for TPSPs compared with nth parties? If we are talking about principles to manage *third risk parties* (which must include all third parties, which nth parties also are) why it its relevant to highlight the differences? Furthermore, throughout the document, it seems that the same approach is not being followed, since the importance of including the nth parties is emphasised (vd. §47).

- **Page 3:**

Intragroup TPSP: A TPSP that is part of a banking group and provides services predominantly to entities within the same group. Intragroup TPSPs may include a bank's parent company, sister companies, subsidiaries, service companies or other entities that are under common ownership or control.

Comment: What is the meaning of predominantly? What if a TPSP provides services *predominantly* to entities that are not part of its group, but also provides a few but relevant services to entities of its group, is the latter not considered an intragroup TPSP? That would not make sense. I suggest to delete the word *predominantly*.

- **Page 7, §18:**

The bank's third-party life cycle and services under TPSP arrangements should be integrated into the three lines of defence.

Comment: Through the document it is understandable what is the purpose of the quoted sented, ie the monitoring and management of an third-party life cycle must include all lines of defence. Although, the sentence is not adequate since it is not clear. I suggest changing to something like: *The three lines of defence must be actively involved in the control and management of the bank's third-party life cycle and services under TPSP arrangements.*

- **Page 9, §34:**

Banks should have an appropriate and proportionate process for selecting and assessing the prospective TPSP before entering into a TPSP arrangement.

Comment: These types of processes should be always documented and systematized by banks. These principles should emphasise the importance of keeping documented processes of a third-party life cycle and services under TPSP arrangements, not only for this specific point.

- **Page 12, §44:**

Banks should maintain levels of staffing and competency (including education, certifications or qualifications, skillsets, language proficiency, experience and training) to meet the needs of the TPSP arrangement within their TPSP portfolios.

Comment: I agree with the sentence quoted, but these principles should state the critical, important or essential services, tasks or processes should not be totally outsourced, which means that banks should always keep in-house staff and resources performing activities related to the outsourced tasks activities, also to act as a contact point between the bank and the TPSP, as the PMO of that contract and to motivate constant interaction between the bank and the TPSP.

- **Contracting/Termination:**

Comment: In order to reinforce the role of contracts in the termination phase and guarantee greater security for the bank, the principles should state that contracts should include a clause stating that if the supervisor determines that the bank should terminate the TPSP agreement or replace the TPSP, contracts can protect banks by clarifying that such a determination by the supervisor constitutes just cause for breach of contract.