World Council

October 9, 2024

Submitted electronically

Basel Committee on Banking Supervision
Centralbahnplatz 2, 4051
Basel, Switzerland

Re: Principles for the sound management of third-party risk

Dear Sir or Madam:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on the Basel Committee on Banking Supervision's (the Committee's) consultative document on the Principles for the Sound Management of Third-Party Risk (TPRM).[1] Credit unions are cooperative depository institutions and World Council is the leading trade association and development organization for the international credit union movement. Worldwide, there are over 80,000 credit unions in over 100 countries with over USD 3.5 trillion in total assets serving over 400 million physical person members.[2]

World Council supports the Basel Committee's objective to update its principles related to third-party services given the continuing advancements on digitalisation. The credit union movement recognizes that risks continue to evolve as digitalisation grows and that regulations and guidance need to adapt. However, as uniquely structured, mission driven financial institutions it is vital that international guidance account for the differences amongst financial institutions, especially those best designed to reach underserved communities. Prudential regulations worldwide look to the standards set by the Committee and often fail to adjust for community based financial services unless it is unequivocally clear there is encouragement to do so from the Committee. WOCCU respectfully requests the Committee clarify that proportionally adapting these standards is needed. Clarifying the need for proportionality throughout the TPRM and in a few key areas such as risk management and contracting will support the overall regulatory standards for financial institutions globally.

Credit unions, unlike large international banks, are focused on providing safe and sound, dignified services to their local community. Increasing profit is not a credit union's goal. While credit unions focus on meeting their costs to provide services while ensuring long-term financial sustainability, they do not have the same level of resource as other financial institutions. They also do not have the same range of third-party service provider options as large international banks. Our organization represents credit unions working in 100 countries, all with different operating environments and unique local financial service needs. It is challenging for regulatory bodies to adapt international standards, designed to account for the risks of large banks operating across borders, for not-for-profit member owned local credit unions. Credit unions do not present a risk to the overall financial system market but play a critical role in reaching

[1] *See* Basel Committee on Banking Supervision's Consultative Document Principles for the sound management of third-party riks *available at*: https://www.bis.org/bcbs/publ/d577.pdf.
[2] World Council of Credit Unions, *2022 Statistical Report* (2023), *available at*: https://www.woccu.org/documents/2022_Statistical_Report_EN.

underserved communities and promoting financial inclusion. Our first-hand experience with a wide range of regulatory environments confirms the effect proportionality has on the availability of safe and reliable financial services in a local community. Insisting that rules and supervision practices are consistent with risk profiles and individual financial systems is a key message needed throughout TPRM to ensure safely run credit unions are sustainable.

WOCCU supports the focus on strong risk management and appropriate controls. However, there are certain recommendations and requirements that require significantly more resources and do not offer the same benefit to credit unions or its supervisory authority. For example, requiring a complete and up-to-date registry of all TPSP arrangements outlining the key elements of each arrangement is one example of a resource intensive requirement that could be broadened to specifically note that adaptation may be required for community-based financial institutions structured as credit unions. Given the amount of staff time and cost associated with the task, as well as the smaller scale of the service, only critical third-party digital vendors may need to be documented in this format.

While the Committee notes that these principles are primarily directed at large internationally active banks, but smaller financial institutions can also benefit from these Principles. It is important that the Committee highlight the need for adaptation throughout the entire document. The cost of asking credit unions to follow identical guidance and devote similar levels of resource to completing these tasks does not only impact the overall costs to credit unions but also the ability of underserved populations to access financial services.

WOCCU appreciates the TPRM note relating to proportionality. "Proportionality focuses primarily on how banks' management of risks related to TPSP arrangements might vary based on a bank's business model, complexity, cross-border presence, function, risk profile, scale, structure and size."[3] However, based on prudential regulators past unwillingness to adapt international standards for community-based financial institutions, WOCCU respectfully requests that this important concept be more forcefully included throughout the TPRM.

World Council recognizes the Basel Committee's continued efforts to provide standards to support the risk-management and stability of the financial sector worldwide. WOCCU agrees that the impact of digitalisation needs further regulatory guidance. However, we encourage the Committee to clarify and highlight the need to apply its standards proportionally. World Council greatly appreciates the Basel Committee considering the comments submitted in this letter. Should you have any questions, please contact me at erinohern@woccu.org.

Sincerely,

Erin OHern

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World Council of Credit Unions

[3] *See* Page 5, Basel Committee on Banking Supervision's Consultative Document Principles for the sound management of third-party riks *available at*: https://www.bis.org/bcbs/publ/d577.pdf.