IT Handbook Presentation
Supervision of Technology Service Providers

Visual	Narrative

1.

IT Handbook Presentations

Supervision of Technology Service Providers

Short Music Open

2.

Presentation Topics

- **Comparison**
- **Organization**
- **Content covered**

As an introduction to the Supervision of Technology Service Providers, or TSP, Booklet, this presentation will discuss:

- How the TSP content in the new booklet compares to similar content in the 1996 IS Examination Handbook,
- How the newer content is organized, and
- What information the booklet covers.

3.

1996 TSP-related Chapters

- **IS Supervision by Risk**
- **Examination Planning**
- **Examination Techniques**
- **IS Examination Ratings and ROE**
- **Multiregional Data Processing Servicer Program (MDPS)**
- **Shared Application Software Review Program (SASR)**

The TSP Booklet replaces the content from chapters two through seven of the 1996 IS Examination Handbook. These specific chapter titles are shown here.

Because of its process-oriented nature, the TSP booklet does not have a significant amount of new content.

4.

Comparison

Federal Financial Institutions Examination Council

FFIEC

Supervision of Technology Service Providers **TSP**

MARCH 2003

IT EXAMINATION HANDBOOK

UPDATED

For the most part, readers will find updates to support changes in agency policies and processes that have been made since the last handbook and some reorganization of the older content.

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5.

No Change

- ▭ **Supervisory strategies**
- ▭ **Report review processing**
- ▭ **Report distribution**

Content relating to:

- Supervisory strategies,
- Report processing, and
- Report distribution

is essentially the same as that provided in the earlier Handbook.

6.

Definition

Technology Service Provider

- ▭ **Independent data centers**
- ▭ **Joint venture/limited liability corporations**
- ▭ **Bank service corporations**

The new booklet introduces the term Technology Service Provider, TSP, and defines TSPs as independent data centers, joint venture/limited liability corporations, and bank service corporations.

7.

Why TSP examinations?

- ▭ **Number of institutions**
- ▭ **Concentration of risk**
- ▭ **Systemic risk**

Why do we conduct TSP examinations?

With the growing dependence of financial institutions on technology service providers, TSP supervision remains an important regulatory concern. Institutions need to be aware of TSP-associated risks .

TSP-associated risks are critical regulatory concerns because of:

- ▪ The large number of institutions using TSPs,
- ▪ The substantial concentration of potential risk,
- ▪ The potential for systemic consequences.

Examiners can address these risks and provide guidance to examiners evaluating the customer institutions' risk management efforts through the examination of TSPs.

8.

Presentation Topics

- ▭ Comparison
- ▭ **Organization**
- ▭ Content covered

With the emphasis on TSPs in mind, let's take a look at how the booklet is organized.

Visual	Narrative

9.

Booklet Goals

- **Establishing uniform processes**
- **Setting expectations for management of TSP relationships**

After a brief introduction, which outlines the booklet goals of:

- Establishing uniform processes for the supervision of TSPs and
- Assuring examination policies reinforce a financial institution's obligation to accept primary responsibility for oversight and management of their TSP relationships

The booklet is divided into four main sections.

10.

Sections

- **Risk-based Supervision**
- **Supervisory Process**
- **Multi-Regional Data Processing Servicer Program**
- **Shared Application Software Reviews**

The four sections in the main body of the booklet are:

- Risk-based Supervision
- Supervisory Process
- Multi-Regional Data Processing Servicer Program
- Shared Application Software Reviews

11.

Appendices

- **Examination Planning Procedures**
- **Examination Priority Ranking Sheet**
- **Report of Examination**
- **Uniform Rating System for Information Technology**

The booklet also provides a set of valuable tools in the four appendices:

- Appendix A –Examination Planning Procedures
- Appendix B –Examination Priority Ranking Sheet
- Appendix C –Report of Examination with instructions, and
- Appendix D –Uniform Rating System for Information Technology

12.

Presentation Topics

- **Comparison**
- **Organization**
- **Content covered**

Let's take a look at each section, one at a time.

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13.

Sections

- **Risk-based Supervision**
- Supervisory Process
- Multi-Regional Data Processing Servicer Program
- Shared Application Software Reviews

Risk-based supervision is a method used to determine what areas, in a given organization, present significant risks and are therefore areas that need examination.

14.

Focus Time and Resources

Risk-based supervision of TSPs allows examiners to focus their time and resources on the areas of the highest potential risk to the serviced financial institutions.

15.

Common Risks

- **Management of technology**
- **Integrity of data**
- **Confidentiality of information**
- **Availability of services**
- **Financial stability**

The Risk-based Supervision section outlines five areas of underlying risk common to all IT activities:

- **Management of Technology**, which includes planning and overseeing IT resources and ensuring those resources support the strategic goals of the organization,
- **Integrity of Data,** including the accuracy and reliability of information and systems,
- **Confidentiality of Information**, through protection of information from unauthorized access,
- **Availability of Services**, demonstrated by the effectiveness of business continuity plans and adherence to service-level agreements, and
- **Financial Stability**, sufficient to support ongoing operations and avoid cash shortages during times of rapid growth.

16.

Sections

- Risk-based Supervision
- **Supervisory Process**
- Multi-Regional Data Processing Servicer Program
- Shared Application Software Reviews

The supervisory process section of the booklet outlines, in detail, the responsibilities and processes for examination of a TSP.

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17.

Exam-related Activities

Readers will find exam-related activities from scheduling through the distribution of final reports, described in this section.

18.

Sections

- Risk-based Supervision
- Supervisory Process
- **Multi-Regional Data Processing Servicer Program**
- Shared Application Software Reviews

The Multi-Regional Data Processing Servicer Program, or MDPS, is designed to address TSPs that:

19.

MDPS

- **Mission-critical applications**
- **Large number of institutions**
- **Multi-agency regulation**

OR

- **Multiple data centers**
- **Different geographical regions**

- Provide mission-critical applications for a large number of financial institutions that are regulated by more than one agency or
- Work from a number of data centers located in different geographic regions.

20.

Systematic Risk
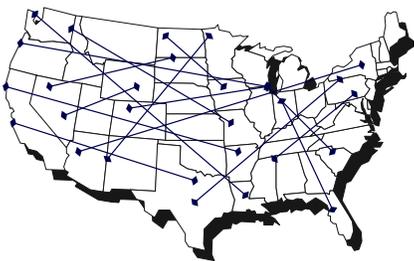
By the very volume and nature of the services provided by such companies they pose a high degree of systemic risk to industry.

The FFIEC member agencies conduct interagency IT examinations of MDPS companies, providing the TSP with a consolidated examination report.

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21.

Enhanced Supervisory Program

Agencies also supplement on-site examinations of MDPS companies with the Enhanced Supervisory Program, or ESP. The ESP provides for interim reviews of material changes in a company's activities or condition.

22.

Common Risks

- **Management of technology**
- **Integrity of data**
- **Confidentiality of information**
- **Availability of services**
- **Financial stability**

This allows agencies to more promptly recognize and supervise risks associated with systemically significant service providers.

23.

MDPS Section

- **Provides examination guidelines**
- **Defines responsibilities**
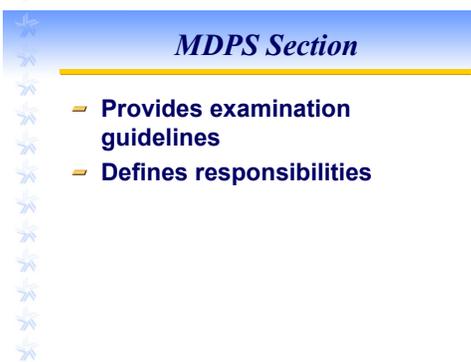
The MDPS section of the booklet provides examination guidelines and defines responsibilities for the agency in charge of a specific examination.

24.

Sections

- Risk-based Supervision
- Supervisory Process
- Multi-Regional Data Processing Servicer Program
- **Shared Application Software Reviews**

Shared Application Software Reviews, SASRs, are conducted only for companies that provide critical software to a large number of financial institutions.

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25.

SASRs

The agencies select software packages for review by considering the type of software and the customer base in relation to the potential usage of the resulting examination guidance.

26.

SASRs

Reduced
- Time
- Resources

The SASR provides examiners with information about risks associated with specific software, reducing the time and resources used when repeatedly examining the same software in multiple institutions.

27.

Internal Distribution

★FFIEC

- ✫ **Board of Governors of the Federal Reserve System**
- ✫ **Federal Deposit Insurance Corporation**
- ✫ **National Credit Union Administration**
- ✫ **Office of the Comptroller of the Currency**
- ✫ **Office of Thrift Supervision**

SASRs are distributed internally among FFIEC member agencies.

28.

Appendices

- **Examination Planning Workprogram**
- Examination Priority Ranking Sheet
- Report of Examination
- Uniform Rating System for Information Technology
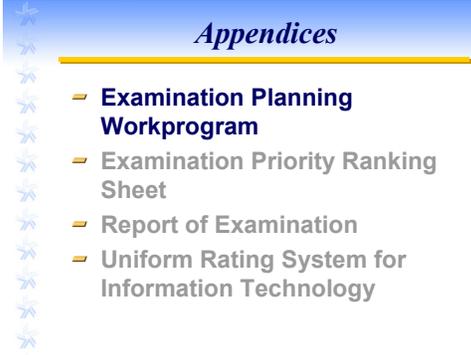
The booklet appendices provide four TSP-examination tools.

The Examination planning procedures outline what an examiner should consider when planning a TSP examination.

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29.

Appendices

- Examination Planning Workprogram
- **Examination Priority Ranking Sheet**
- Report of Examination
- Uniform Rating System for Information Technology

The Examination Priority Ranking Sheet is a new tool being released as part of the TSP Booklet.

30.

Priority Ranking Sheet

- **Identify TSPs**
- **Establish exam frequency**
- **Identify MDPS candidates**

The ranking sheet will assist Examiners in Charge, or EICs, to identify TSPs for examination, to establish exam frequency for a particular TSP, and to identify candidates for the MDPS program.

31.

Appendices

- Examination Planning Workprogram
- Examination Priority Ranking Sheet
- **Report of Examination**
- Uniform Rating System for Information Technology

The Report of Examination does not vary significantly from the one that examiners have been using.

32.

Report Of Examination

- **Cash flow**
- **Ratio changes**

However, examiners should note some small changes that have been incorporated into the report. These changes include the addition of a cash flow statement and some changes in financial statement ratios.

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33.

Reports Of Examination

The Reports of Examination are the property of the FFIEC member agencies. A copy of the report is always provided to the TSP being examined and, in some agencies, to the financial institutions that use that provider.

34.

Reports Of Examination

Institutions can also request the reports for a TSP providing services to them from their primary regulator.

35.

Appendices

- Examination Planning Workprogram
- Examination Priority Ranking Sheet
- Report of Examination
- **Uniform Rating System for Information Technology**

The Uniform Rating System for Information Technology, or URSIT, reflects the updated rating system implemented in 1999 and formally incorporates the URSIT into the TSP Booklet.

36.

URSIT

- **Audit**
- **Management**
- **Development and acquisition**
- **Support and delivery**

The URSIT provides for rating TSP IT operations in the areas of:

- Audit,
- Management,
- Development and acquisition, and
- Support and delivery.

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37.

TSP Booklet

That completes our overview of the Supervision of Technology Service Providers Booklet.

Examiners, TSPs, and financial institutions will find this booklet to be an important resource, providing guidance for risk-based TSP supervision and the examination process.