

Question 1 of 3

P2.T7.811.1

According to the Guidance on Managing Outsourcing Risk (by the Board of Governors of the Federal Reserve System), with respect to a third-party service provider arrangement, the overall due diligence process by a financial institution should at least include a review of each of the following **EXCEPT** which is not essential?

- A. Ensure service provider has an appropriate background check program for its employees
- B. Financial review of service provider's most recent annual report and financial statements
- C. Evaluate the service provider's performance along with environmental, social, and governance (ESG) factors
- D. Evaluate the adequacy of standards, policies, and procedures, including adherence to applicable laws, regulations, and supervisory guidance

Question 2 of 3

P2.T7.811.2

Cityace Bank is a financial institution who is outsourcing a vital customer-facing function to a third-party service provider. Cityace wants to follow the Board's Guidance on Managing Outsourcing Risk, and if they do indeed follow the Board's guidance, then each of the following is true **EXCEPT**, which is not true?

- A.** Cityace should avoid outsourcing risk management activities, especially interest rate risk and model risk, because these are core competencies
- B.** If the service provider is foreign-based, Cityace should ensure the provider is in compliance with applicable U.S. laws, regulations, and regulatory guidance
- C.** Cityace should ensure an effective process is in place to review and approve any incentive compensation that may be embedded in service provider contracts
- D.** Cityace should consider especially the following risks in outsourcing: compliance risks, concentration risks, reputational risks, country risks, operational risks, and legal risks

Question 3 of 3

P2.T7.811.3

Planetholding International Bank is entering a contract with its third-party service provider, Tristechnology Inc, to outsource the management of its website. Each of the following are likely contract provisions **EXCEPT**, which is unlikely to be a contract provision?

- A. Confidentiality and security of information
- B. Business resumption and contingency plan
- C. Scope of service (including reference to service level agreement and ability to subcontract)
- D. Loss waterfall allocation mechanism (including sufficient credit value adjustment for website downtime)