



Federal Regulatory Agencies' Administrative Guidelines

Implementation of Interagency Programs for the Supervision of Technology Service Providers

OCTOBER 2012

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Introduction

The Board of Governors of the Federal Reserve System (FRS), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) (each individually, Agency, and collectively, Agencies) has statutory authority to supervise third-party servicers that enter into contractual arrangements with their regulated financial institutions.¹

Federal and/or state banking agencies participating on interagency technology service provider (TSP) examinations are precluded from levying any examination-associated fees against the examined TSP.

Examiners conduct examinations of financial institutions and their TSPs based on guidance in the *FFIEC*² *Information Technology Examination Handbook* (IT Handbook) and this booklet, the “Administrative Guidelines” (Guidelines). These Guidelines, which should be used in conjunction with the “Supervision of Technology Service Providers Booklet” (TSP Booklet), describe the process the Agencies follow to implement the interagency programs for the supervision of all TSPs, including those in the Multi-Regional Data Processing Servicers (MDPS) program.

Examiners must follow the Risk Based-Examination Priority Ranking Program (RB-EPRP) to determine overall levels of risk that TSPs present to their client financial institutions, and to prioritize and establish the frequency of TSP examinations. Additionally, examiners must use the Uniform Rating System for Information Technology (URSIT)³ to evaluate a financial institution’s or a TSP’s overall risk exposure and risk management performance and to determine the degree of supervisory attention necessary to ensure that weaknesses are addressed and risks are properly managed.

¹ 12 USC 1464(d)(7), 1867(c)(1). The Consumer Financial Protection Bureau (CFPB) has authority as described in 12 USC 5514(e), 5515(d), and 5516(e). See CFPB Bulletin 2012-03 (Apr. 13, 2012), available at http://files.consumerfinance.gov/f/201204_cfpb_bulletin_service-providers.pdf. The National Credit Union Administration (NCUA) does not have independent regulatory authority over technology service providers. The Agencies coordinate the interagency programs to supervise third-party servicers through the Federal Financial Institutions Examination Council (FFIEC).

² The FFIEC was established on March 10, 1979, pursuant to Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA), Public Law 95-630. The FFIEC members include the FRS, the FDIC, the NCUA, the OCC, the State Liaison Committee (SLC), and the CFPB.

³ Refer to Appendix A of the TSP Booklet for the complete description of composite and component ratings of the URSIT.

Supervisory Process

This section addresses the interagency process the Agencies follow to ensure a unified, consistent, and transparent approach to supervising TSPs.

Risk-Based Supervision

The examination process the Agencies follow is based on the concept of ongoing, risk-based supervision.

Ongoing supervision of TSPs is an approach that

- provides continuous evaluation and assessment of the risk profile and risk-bearing capacity of examined TSPs;
- supports the performance of supervision and examination activities based on the identified risk profile;
- gives the flexibility necessary to modify planned supervisory activities based on changes to the risk profile;
- permits the performance of risk-based supervisory activities throughout the examination cycle; and
- considers the findings from all supervisory activities conducted during an examination cycle when assigning an information technology (IT) rating and completing the corporate Report of Examination (ROE).

Risk-based supervision of TSPs is designed to

- identify existing or potential risks that could adversely affect serviced financial institutions and to assign appropriate risk ranking;
- evaluate overall integrity and effectiveness of risk management practices;
- evaluate policies and practices to ensure they help client financial institutions comply with applicable banking laws, rules, regulations, and guidance;
- communicate findings, recommendations, and corrective actions in a clear and timely manner to TSP management and its board of directors, client financial institutions, and the Agencies' supervisory personnel;
- assess effectiveness of corrective actions committed or taken to address identified deficiencies; and
- monitor significant changes in products, services, or risk management practices that could adversely affect risk profiles of TSPs or those of their client financial institutions.

Risk Based-Examination Priority Ranking Program

In September 2005, the Agencies' representatives to the FFIEC Task Force on Supervision (TFOS) approved the Agencies' RB-EPRP for permanent implementation of the supervisory process of all TSPs, including those in the MDPS program. The RB-EPRP reflects the risk-based approach the Agencies use to determine the examination priority of TSPs. TSPs with higher risk rankings are subject to more frequent and extensive examinations.

The Agency assigned as Agency-In-Charge (AIC) for the supervision of a TSP is responsible for leading the implementation of the supervisory program and ensuring the examinations are consistent with the RB-EPRP. Consistent with the "Examination Responsibility" section of the TSP Booklet, the Agencies are the supervisory office for the companies in the MDPS program and assign the AIC for each company. The Agencies' regional/district offices are the supervisory offices for all other examined TSPs, and they assign the AIC.

Risk Assessment

URSIT: The Agencies use URSIT to consistently assess and rate IT-related risks of financial institutions and their TSPs.

Risks Associated with TSPs: Operational risk is the primary risk associated with TSP processing. Operational risk also may affect other risks, such as credit, interest rate, liquidity, price, compliance, strategic or reputation.

Examination Priority Ranking: During each supervisory activity, examiners should determine the degree of risk posed by the TSP to the safety and soundness of the serviced financial institutions. When evaluating the risks of the TSP and related impact on client financial institutions, examiners should consider the seven categories of risk discussed under Section VI of the Examination Priority Ranking (EPR) form,⁴ which is part of the ROE.

The AIC must coordinate the assignment of a risk ranking to each TSP under his or her supervision, along with the examining team, and document the ranking through the EPR form. The EPR form **should not** be edited or altered in any way once the risk ranking is assigned.

The risk ranking assigned to a TSP determines the examination cycle the Agencies follow:

"A" ranking: 24-month examination cycle

"B" ranking: 36-month examination cycle

⁴ For instructions about completing the ERP form, refer to Appendix C, Report of Examination.

“C” ranking: 48-month examination cycle

All examined TSPs should receive at least one full scope examination and one interim supervisory review during each examination cycle.

Examiners should discuss the risk assessments with TSP management and factor them into the IT rating and supervisory strategy of the TSP.

Risk Management

Examiners may identify situations that require corrective action; for example, a TSP that has weak risk management controls. In such cases, the TSP’s serviced institutions may have to take remedial actions because they have the ultimate responsibility to properly manage their risks.

The quality of risk management is an assessment of how well risks are identified, measured, controlled, and monitored. Examiners should consider the following factors in evaluating the quality of risk management:

- Directorate oversight;
- Extent of the TSP’s technical and managerial expertise;
- Quality of the TSP’s policies and procedures;
- Adequacy of the TSP’s controls and operational processes;
- Quality of the audit function;
- Volume and extent of problems reported by client financial institutions; and
- Timeliness, accuracy, adequacy, and completeness of management information systems used to measure performance, make sound decisions about risk, and assess the effectiveness of processes.

Audit and Internal Controls

Examiners should assess the adequacy of audit and internal controls. This assessment assists examiners in making effective use of supervisory resources, establishing the scope of current and future supervisory activities, and determining the quality of the TSP’s risk management. For additional guidance on what examiners should review in information systems’ audit and internal control functions, refer to the “Audit” and “Management” booklets of the IT Handbook.

Roles and Responsibilities

AIC

Generally, the AIC assignment covers two consecutive examination cycles for each examined TSP. The AIC is responsible for

- assigning a Central Point of Contact (CPC);
- developing, in collaboration with the other Agencies, a risk-based supervisory strategy that ensures concerns of the Agencies are addressed adequately;
- ensuring effective implementation of approved supervisory strategy;
- ensuring appropriate resources are available for planned supervisory activities, including attendance at exit meetings;
- leading and coordinating performance of all supervisory activities;
- completing, in collaboration and agreement with the other Agencies, the supervisory products and output associated with various supervisory activities outlined in the strategy, including written reports, IT ratings, risk rankings, and enforcement action, if applicable;
- distributing applicable supervisory product and output to TSP management and to the other Agencies; and
- obtaining an accurate TSP customer list and sharing it with the other Agencies.

CPC

Each Agency assigns a qualified IT examiner to serve as its CPC for each MDPS company, and, where appropriate, for regional TSPs.⁵ The CPC representing the AIC is designated as the Lead CPC. The Lead CPC serves as the primary contact for management of the TSP for all interagency examination strategy development, supervisory and examination activities, and issue resolution.

The CPC team works closely together to establish and maintain a sound understanding of the operations of its assigned TSP. The CPC team dedicates sufficient time to planning and executing an effective, ongoing risk-based supervisory process.

The Lead CPC is responsible for the administration and overall performance of all supervisory activities for the TSP. These responsibilities include, but are not limited to,

⁵ Agencies that do not have sufficient regulatory interest in a TSP may choose not to have a designated CPC.

- adhering to FFIEC guidelines throughout the examination cycle;
- ensuring the CPC team develops and maintains an effective risk-based supervisory strategy covering the TSP's examination cycle;
- assisting the AIC in scheduling interagency examinations with the necessary resources to execute the activities;
- coordinating and communicating all supervisory activities, findings, and actions with the full CPC team to support the individual CPC's ability to communicate with his/her respective supervisory office for the TSP;
- coordinating all interaction and communication with the management of the TSP, ensuring CPC team participation; and
- reviewing written communications stemming from all supervisory activities and resolving areas of discrepancy or concern by members of the CPC team, the Agencies, or TSP management.

For TSPs that do not have designated CPCs, the examiners assigned by the AICs as responsible for the supervision and oversight of the TSPs are the Lead CPCs. These examiners carry out their responsibilities in collaboration with the examiners from participating Agencies.

Site/Activity Examiner-In-Charge

Generally, an Examiner-In-Charge (EIC) is assigned responsibility for a specific site or examination activity. These EIC assignments are usually carried out by the Lead CPC, CPC team members, or occasionally, by other examiners who assist the CPC team. These EICs are responsible to the CPC team for the administration, coordination, and overall performance, of participating examiners with regard to the assigned TSP site or examination activity. The EIC informs the Lead CPC of examination progress and findings. The EIC is responsible for

- communicating examination plans to TSP management and coordinating on-site activity before the examination begins;
- organizing and conducting meetings with TSP management ensuring participation by the examining team; and,
- leading the discussions with TSP management to address findings, necessary remedial actions, and recommendations stemming from the examination activity.

Note: To simplify the content of these Guidelines and to avoid confusion, the terms “Lead CPC” and “CPC team” are used throughout this document. While these terms apply primarily to examiners responsible for the supervision of companies in the MDPS program, the terms also apply to the EICs and assisting examiners assigned responsibility for examining regional TSPs on a one-time basis.

Frequency and Scheduling of Examinations

Frequency

The number, frequency, and timing of supervisory activities during an examination cycle depend on the TSP's risk profile; i.e., the lower the risk, the less often examinations need to be performed. As discussed in the RB-EPRP section of these Guidelines, examiners should determine the level of risk the TSP presents to its client financial institutions and should ensure that the examiners' conclusions are reflected on the EPR form of the Confidential section of the ROE. For complete details of the ROE, see Appendix C of this booklet.

Schedule

Scheduling and administration of TSP examinations are managed on an interagency basis by the Agencies.

Examination of Regional TSPs

Regional TSPs are local and smaller in size or complexity and have a smaller financial institution client base than those in the MDPS program. In general,

- regional/district representatives of the Agencies meet periodically to discuss upcoming TSP examinations and availability of necessary resources and to ensure that technology service centers are examined in accordance with RB-EPRP guidelines. As regional/district boundaries vary among the Agencies, an Agency may need to participate in more than one scheduling meeting. State regulatory agencies that have statutory authority to examine TSPs, and that are interested in joining the interagency examinations, are invited to participate in these interagency meetings.
- interagency meetings establish the TSPs to be examined, dates of the planned supervisory activities, number of examiner resources needed, and the AIC responsible for leading the supervisory activities.
- examinations are conducted jointly or on a rotated basis, as agreed to by the Agencies. When unforeseen events arise that prevent an Agency from participating as previously agreed, that Agency notifies the AIC promptly so that alternative arrangements can be made.
- when joint examinations cannot be scheduled, one Agency is designated to perform the examination on behalf of all interested Agencies. When the overall condition of the TSP is determined to be less than satisfactory, all Agencies make their best effort

to participate in all subsequent examinations until the TSP's condition improves to satisfactory, as defined in the URSIT.

Examination of MDPS Companies

An MDPS company is a large and complex TSP designated by the Agencies for special monitoring and collaborative interagency supervision at the national level. Generally, a TSP is considered for examination under the MDPS program when the TSP processes mission-critical applications⁶ for a large number of financial institutions that are regulated by more than one Agency, thereby posing a high degree of risk, or when the TSP provides services through a number of technology service centers located in diverse geographic regions. The companies in the MDPS program pose a significant risk to the banking system if one or more have operational or financial problems or fail.

Consistent with the "Examination Responsibility" section of the TSP Booklet, responsibility for the examination of MDPS-designated companies is based on the class of insured financial institutions serviced. The Agencies participate in key decisions of MDPS supervision.

MDPS Examination Schedules

- By September 30 of every year, the Agencies' Examination Oversight Group (EOG) reviews, updates, and submits to the Agencies for consideration an AIC rotation schedule covering the next seven years. Once approved, the Agencies distribute the schedule to their respective regional/district offices, CPCs, and back-up CPCs, if applicable.
- Generally, AIC assignments are for two consecutive examination cycles; however, exceptions may exist and are subject to the Agencies' approval.
- The timing of examinations, interim supervisory reviews, and other risk-based supervisory activities is determined by the CPC team, led by the Lead CPC. The planned activities are included in the written supervisory strategy, which is approved by the Agencies.
- As a general rule, the CPC team participates in all significant supervisory activities to ensure complete knowledge and understanding of the MDPS company, its operations, and the risks it represents to client financial institutions.
- Before reassigning the AIC designation to one of the other Agencies, the current AIC is responsible for completing all supervisory activities scheduled through the agreed-upon transition date. This includes organizing all work papers and related documentation, informing TSP management about the AIC rotation, and facilitating a smooth transition to the incoming AIC.

⁶ An application or system is mission-critical if it is vital to the successful continuance of a core business activity. An application also may be mission-critical if it interfaces with a designated mission-critical system. Products of software vendors also may be mission-critical.

- The incoming Lead CPC should participate in the supervisory activities leading up to the AIC's rotation. This ensures that the incoming Lead CPC is fully aware of unresolved issues, is familiar with TSP contacts and management, and is prepared to lead the CPC team's efforts to develop and implement a risk-based supervisory strategy for the next examination cycle.

Adding/Removing a TSP to and From the MDPS Program

Adding a TSP to the MDPS program: The Agency making the recommendation to add a TSP submits to the other Agencies a memorandum providing supporting information to demonstrate that the TSP meets the qualifications of an MDPS company. If the company is a regional TSP, the current AIC also submits an ERP form with the recommended risk ranking and an indication of concurrence by the other Agencies' regional/district offices. If the recommendation is approved, the Agencies assign AIC responsibilities for the next examination cycle and notify their respective district/regional management of the approval.

Removing a TSP from the MDPS program: A process similar to the one described above is followed. If the Agencies approve the recommendation, the regional/district offices responsible for the geographical area where the TSP is headquartered are notified of the change in responsibility for the supervision of the TSP. The Agency currently designated as AIC remains in place until the next scheduled rotation.

Supervisory Activities and Output

Discovery Reviews

These activities are conducted when an Agency identifies a TSP that is not part of the interagency supervisory programs and that may merit consideration for ongoing supervision. The reviews may be performed on a joint interagency basis and are exploratory in nature to learn more about the TSP and the level of risk it poses to client financial institutions.

The output from these reviews is solely for the Agencies' internal use. Examiners should not provide a copy of these reviews to the TSP. See Appendix A of these Guidelines for the template and instructions to complete the Discovery Review.

Examinations

Examinations of TSPs are on-site, in-depth, risk-based assessments covering a wide variety of servicer activities and risk management to identify existing or potential risks that can adversely affect serviced financial institutions. Examinations differ from discovery and interim supervisory reviews in that an examination results in the assignment of URSIT ratings.

The output of an examination is the ROE, which includes certain pages that are mandatory. Refer to Appendix C for the template and the instructions to complete the ROE.

Interim Supervisory Reviews

These activities are scheduled to maintain ongoing, effective, risk-based supervision between examinations. An interim supervisory review (ISR) is designed to supplement the in-depth examinations and allow examiners to identify significant changes in management, products, services, or risk management practices affecting serviced financial institutions. ISRs also allow examiners to follow up on previously identified issues or concerns and to confirm business line and TSP risk designations that support the resulting EPR. ISRs vary in scope and frequency, depending on the TSP's condition and degree of risk.

Because ISRs are multipurpose and can vary in scope, objective, and frequency, the related output is intended only for the Agencies' internal use. See Appendix F for the template and instructions to complete an ISR.

Written communication to TSP management addressing the findings and conclusions of an ISR is not necessary or required. The exit meeting with TSP management takes care of all necessary communication.

There may, however, be situations when ISRs identify significant weaknesses or concerns that result in a downgrade of components and composite IT ratings. In these unusual cases, the CPC team and Agencies may decide to issue an official communication to the TSP's board and management and to inform the TSP's client financial institutions of the regulatory concerns. The Lead CPC informs TSP management of the Agencies' decision and provides them with a courtesy copy of the Agencies' intended communication to their client financial institutions.

Because the output of the ISR is for Agencies' internal use only, the CPC team elevates the activity to an examination and use the applicable pages of the ROE. The Lead CPC notes in the Scope portion of the Open section of the ROE that the activity originally began as an ISR. The Agencies transmit the ROE, with a memorandum, to their respective regulated financial institutions that are clients of the TSP. See Appendix F for the recommended memorandum template.

Shared Application Software Reviews

Shared Application Software Reviews (SASR) are reviews of software programs or systems (core and non-core products) in use at financial institutions. They include specialty software products, such as those used for asset management, Bank Secrecy Act and anti-money laundering (BSA/AML), consumer compliance, and retail credit. The reviews help identify potential systemic risks and reduce the time and resources needed to examine the financial institutions using the products. The SASRs can also be used to support interagency safety and soundness initiatives when focusing on higher-risk applications being used by larger financial institutions.

The output from these reviews is a SASR report solely for the Agencies' internal use. Examiners should not provide a copy to the TSP, independent software vendor that owns the package, or user financial institutions. See Appendix H for the template and instructions to complete a SASR report.

Planning

Planning is essential to effective supervision. The goal of planning is to develop detailed risk-based strategies for providing effective and efficient supervision of each TSP. Planning requires careful and thoughtful assessment of a TSP's current and anticipated risks, giving special attention to mergers and acquisitions, new products or services offered, the TSP's financial condition, and management changes. Planning requires gathering, organizing, and analyzing available information. The extent of advance preparation needed depends on the complexity of the TSP's structure and on the type of services provided. Sources of information include, but are not limited to,

- previously approved supervisory strategy;
- meetings with TSP management;
- previous examination reports, work papers, and recommendations to management;
- supervisory actions and correspondence;
- interim correspondence and memorandums related to the TSP;
- internal and external audit reports, when available;
- third-party reviews, when available;
- financial statements and stock research reports, when available;
- U.S. Securities and Exchange Commission filings for public companies;
- the TSP's Web site; and,
- news reports.

Meetings with management can include discussions about changes that have taken place since the previous supervisory activity or that are expected to occur in the near future; e.g., relocations, mergers, acquisitions, major system conversions, changes in hardware and software, new products and services, changes in major contract services, staff or management changes, and changes in internal audit operations. This also is a good time to ask TSP management to begin the process for generating the list of serviced financial institutions, if one is being requested. Refer to Appendix G for the Uniform Customer List of TSPs.

The Lead CPC should coordinate with the CPC team for the review of any preliminary materials, procedures, and other documentation needed for the scheduled supervisory event.

Supervisory Strategy

Supervisory strategies are dynamic documents reviewed and updated as needed, based on the TSP's risk profile and related, emerging risks. The strategy should be risk-based and address the goals and objectives to be achieved during the examination cycle as well as activities and examiner resources necessary to accomplish the goals and objectives.

A supervisory strategy is required for all TSPs and should consider the size, complexity, nature, and risk profile of the TSP. To facilitate consistency, examiners should follow the format provided in Appendix B.

In general, a supervisory strategy should include

- statutory and policy-based examination requirements applicable to the services provided to client financial institutions.
- supervisory history.
- description of the TSP, including
 1. overview of the TSP's business activities, functions, and services provided to client financial institutions;
 2. evaluation of the TSP's inherent risk profile and risk management practices;
 3. evaluation of operating strengths and weaknesses, including areas of concern previously identified by examiners, auditors, or third parties; and
 4. overview of the TSP's market factors; e.g., mergers and acquisitions.
- supervisory objectives based on the TSP's risk profile and appropriate statutory or Agencies standards
 - objectives that are the foundation for all activities and work plans;
 - well-defined objectives that provide focused and effective activities and ensure consistent application of appropriate supervisory policy and guidance; and
 - objectives that are clear, attainable, specific, and action-oriented.
- supervisory activities⁷ planned to achieve the objectives
 - each activity should support the overall supervisory strategy and link directly to one or more of the objectives;
 - activities that are clearly defined and focused on ensuring that risk management systems operate effectively; and

⁷ Supervisory activities include, but are not limited to, on-site and off-site examination activities, SASRs, interim supervisory reviews, periodic visits, periodic meetings and communications of examining team, and contacts and communications with TSP management.

- examination findings that are clearly recorded, including a brief description of how they were communicated to the TSP.

The Lead CPC develops the supervisory strategy in collaboration with the CPC team. In developing the strategy, the CPC team should determine the overall objectives of the activity, scope of examination work, and estimated workdays required for completion. For examination of TSPs with more than one data processing center, the CPC team should evaluate the subsidiary data centers for risk. The examination should cover the headquarters location and any data center chosen in the planning stage, based on the level of risk that the data centers pose to client financial institutions. During the task of setting the scope for specific supervisory activities, and throughout the performance of such activities, the Lead CPC maintains regular communication with the AIC's supervisory office responsible for the TSP, the members of the CPC team, and, when applicable, with contacts of the other participating Agencies.

Upon completion, the Lead CPC submits the supervisory strategy to the AIC's supervisory office responsible for the TSP for the Agencies' review and approval. The completed supervisory strategy should be submitted in a timely manner, **at least 150 calendar days before** the proposed start date of the first planned examination activity of the new supervisory cycle. Once approved, the strategy is shared formally with the other Agencies. The following section addresses the submission of supervisory strategies for MDPS companies.

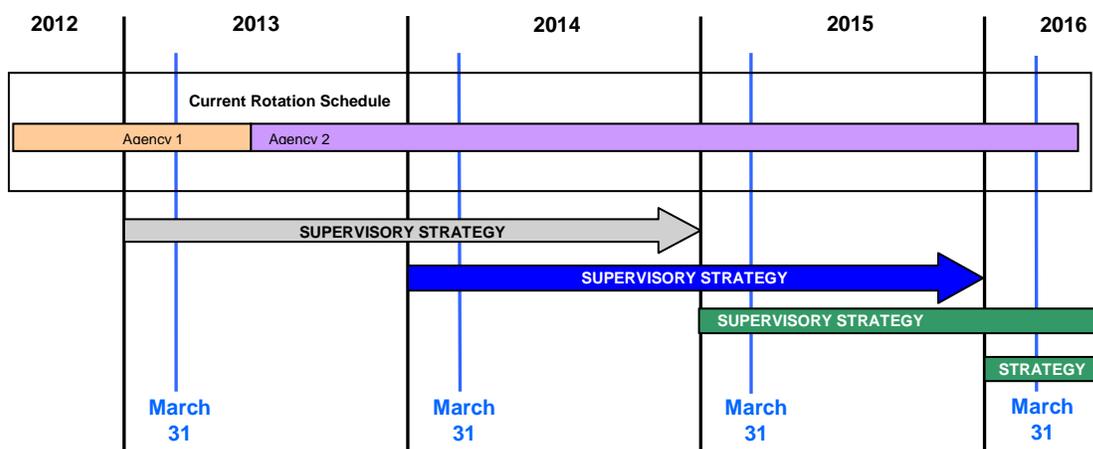
The Lead CPC is responsible for submitting any significant changes to the supervisory strategy to the AIC's supervisory office for the Agencies' review and approval. These modifications should be promptly communicated and can include changes to sites being examined, examination starting or completion dates, or staffing requirements. Once approved, the updated strategy is distributed to the participating Agencies and CPC team.

MDPS Supervisory Strategies

Supervisory strategies for companies in the MDPS program should include content similar to that previously described. Additionally,

- development of the supervisory strategy is a collective effort of the assigned CPC team, under the leadership of the Lead CPC.
- annually, and no later than March 31, each CPC team submits a two-year supervisory strategy for the Agencies' approval. Once approved, the AIC distributes the final supervisory strategy to the other Agencies.
- the following diagram illustrates a typical supervisory strategy timeline. For example, the CPC team **submits** a two-year, 2013-14 supervisory strategy to the Agencies by March 31, 2013. Once approved, the strategy is implemented, as represented by the gray bar. By March 31, 2014, the CPC team **submits** a two-year, 2014-15 supervisory

strategy to the Agencies. Once approved, the strategy is implemented, as represented by the blue bar. This annual process continues, as depicted by the two green bars.



In any given year, the CPC team reviews the planned activities for the remaining year of the existing supervisory strategy, makes any adjustments necessary, and adds the planned activities for the second year of the new supervisory strategy. The rotation of AIC assignment and the EPR-assigned examination cycle are independent from, and are not disrupted by, this process.

If material changes to an approved supervisory strategy are warranted, the Lead CPC makes the changes in collaboration with the CPC team and submits the revised strategy to the Agencies for approval.

In all cases, the review and approval process of a new or updated supervisory strategy is to be completed **within 30 days of its receipt** by the Agencies. Once approved, the AIC is responsible for distributing the revised supervisory strategy to the other Agencies.

Work Plans

Work plans detail the scope, timing, and resources needed to fulfill specific examination activities, described in the supervisory strategy of a TSP. Work plans are instructions from the EIC of the activity to the participating examiners. The EIC should send the work plans to the participating examiners **at least 30 days before** the start of the on-site supervisory activity.

A well-written work plan addresses the pertinent strategic elements detailed in the supervisory strategy of the TSP, ties examination activities to the strategy, and describes the functions by, and expectations for, each of the participating examiners.

Request Information

At least four weeks before the start of an on-site supervisory activity, the Lead CPC should communicate with the TSP's key management and send a Request Letter (copying the CPC team), notifying the TSP management of the upcoming supervisory activity. The communication should include a description of the examination logistics (e.g., dates, names of participating examiners, and locations), and a list of items the TSP should provide in advance or have ready and available to the examiners upon their arrival.

Entrance Meeting

The Lead CPC should schedule an entrance meeting with key TSP management to introduce the CPC team and to identify primary points of contact for the areas to be reviewed. The meeting should include discussion of all issues, concerns, and questions raised during the planning and scoping of the examination, including the following, as applicable,

- significant management or audit concerns;
- significant planned or anticipated changes and developments in IT hardware or software;
- financial performance;
- economic and competitive conditions in market area;
- plans for meetings with management or audit to update them on examination status;
- significant changes since the last examination;
- significant planned or anticipated changes in operations, strategies, services offered or client base;
- effects of new developments since the last examination (e.g., changes in control or management); and
- actions taken to correct issues identified in prior examination or in audit reports.

The Lead CPC should also arrange for the CPC team to meet frequently with TSP management to inform them of the progress of the supervisory activity.

Work Papers

Work papers serve to document the examination procedures followed; findings, conclusions, corrective actions to be taken by the TSP; management commitments to implement corrective actions; and future supervisory action to be followed by the CPC team.

Work papers should be prepared for every area reviewed during the supervisory activity and should provide clear, concise, and sufficient information for a reviewer to understand what was done, and why and how examiners arrived at conclusions, including Matters Requiring Attention (MRA) and IT ratings. Examiners may obtain documentation by inspection, observation, inquiry, confirmation, or analytical tests.

The Lead CPC is responsible for reviewing supervisory activity-related work papers and for ensuring that the overall quality of work papers is consistent with the Agencies' standards.

Work papers are the joint property of the Agencies responsible for the supervision of the TSP. Examiners must secure work papers at all times, and they may not release them to anyone outside of the Agencies without proper authorization.

Examiners must maintain control over all sensitive supervision-related information stored on their computers in accordance with the policies and requirements of their respective Agencies. After completion of the supervisory activity, examiners and administrative staff should ensure that work papers are transferred and stored with the AIC and should immediately remove supervision-related information from their computers. If examiners keep electronic files, they should protect the confidentiality of the information in the files by sharing them only through secure communication channels that protect the documents from unauthorized access.

When AIC duties rotate, the outgoing AIC provides all work papers, including those in electronic format, to the incoming AIC.

Exit Management Meeting

The objective of the exit meeting is to communicate clearly to TSP senior management the CPC team's findings, conclusions, and recommendations, and to obtain management's commitment to any required corrective actions.

The Lead CPC arranges the exit meeting and coordinates the participation by the CPC team and the AIC's supervisory office, if necessary. The agenda should include the main issues to be addressed in the draft examination document, previously provided to management for their information.

Before the exit meeting takes place, examiners should have reviewed all findings, conclusions, and recommendations with lower- and mid-level management of the TSP to ensure all information has been obtained and the conclusions are well supported and factual. The Lead CPC should research any disagreements to validate the examination concerns and to build additional support where needed.

Also, before the exit meeting takes place, the Lead CPC, through the CPC team or assigned examiners, should ensure the supervisory offices of **all** participating Agencies are familiar and agree with the results of the supervisory activity; MRAs, if applicable; recommended corrective actions; recommended URSIT; and potential informal or formal enforcement actions, if applicable.

Board Meeting

For TSPs with composite ratings of 1 or 2, the Lead CPC has the discretion to schedule a meeting with the board of directors if such event is deemed necessary to bring issues of concern to the board's attention. The Lead CPC coordinates the participation by the CPC team, other participating examiners, and the AIC's supervisory office, if necessary.

The Lead CPC is responsible for scheduling a meeting with the board of directors of TSPs with composite ratings of 3, 4, or 5 to discuss the examination findings. Before holding this meeting, the AIC of the TSP should ensure that the supervisory offices of the other Agencies agree with the recommended draft ROE, URSIT, and enforcement action, if applicable. A representative from the supervisory office of the AIC should attend the meeting, and representatives from the supervisory offices of the other Agencies should also attend, if possible.

ROE

As discussed in the “Supervisory Activities and Output” section of these Guidelines, the interagency supervisory programs for TSPs have uniform formats for reports that examiners should use to record the results from these activities -- Discovery Review, Examination, and Interim Supervisory Reviews. Examiners should closely follow the instructions provided in the respective appendix, as well as those in this section that discuss the preparation, format, review, and distribution of the ROE for IT examinations of TSPs.

Preparation

The Lead CPC is responsible for the completion of the ROE for the corporate examination; ROEs for separate sites or data centers, if applicable; and ISRs generated during the examination cycle.

The corporate ROE should include a brief overall description of the company and the supervisory activities conducted during the examination cycle. The corporate ROE should also contain an assessment of the major risks to the serviced financial institutions, actions required for mitigating or managing those risks, and management’s responses to the requirements. For TSPs with multiple sites or data centers examined during the examination cycle, the corporate ROE should include a list of the data centers examined and refer the reader to the “as of” date of the separate ROEs issued.

ROEs of subsidiary sites should adhere to the written communication completion requirements outlined in these Guidelines and should be issued immediately after completion of the examination. To secure prompt corrective action, the AIC should not hold the ROEs of subsidiary sites until the corporate exam is performed.

For all supervisory activities that result in written communication to the TSP, the Lead CPC submits to the AIC’s supervisory office the complete draft document **within 45 calendar days after** the close of the examination activity (generally the date of the exit management meeting), and after securing agreement by the CPC team. The supervisory office has an **additional 15 calendar days** to review, revise, and approve the written communication.

ROE Package

The ROE package consists of a letter to the board of directors of the TSP, the Open section of the ROE, and the Confidential section of the ROE, which includes the financial information spreadsheets. Additionally, a current customer list may be part of the ROE package, if the CPC team decides to obtain one.

Letter to the Board

The Agencies issue the ROE to the TSP with a cover letter addressed to the board of directors. This letter should describe briefly the purpose of the supervisory activity, bring special items to the attention of the board, and include the assigned URSIT.

The letter should also request the directors' careful review of the attached ROE and their recording of such review in their minutes. The letter should remind the board of the confidential nature of these documents and indicate that unauthorized disclosure of any of the contents of the letter and ROE is subject to the penalties under 18 USC 641.

The letter transmitting the corporate ROE should be signed by the supervisory office of the AIC. When a separate ROE is issued for a stand-alone data center, the letter to the board transmitting the data center ROE should be signed by the supervisory office of the AIC acknowledging, in the first paragraph, the examiner or the Agency that conducted the site activity under the direction of the AIC.

Ratings: Each examination of a TSP should result in the assignment of a set of component and composite ratings, based on the TSP's overall condition, using the URSIT. Subsidiary data centers may be assigned individual ratings; however, these separate ratings should be taken into consideration when assigning the overall corporate rating of the TSP.

When considering assigning a composite rating of 3 or lower, the CPC team should inform its respective supervisory offices.

Because a rating of 3 or lower may result in informal or formal enforcement action, the interagency supervisory programs require consensus by all participating Agencies. To facilitate prompt preparation of enforcement documents, the Lead CPC should ensure that the Agencies' supervisory offices provide the name and contact information of the appropriate legal counsel who would collaborate in the development of enforcement documents. In the event that consensus of findings, recommended URSIT, or enforcement action is not reached at the CPC team or supervisory office level, the issues must be raised for a resolution up the Agencies' respective supervisory chain of command.

ROE

The ROE consists of the Open and Confidential sections. The latter includes the financial information.

Open Section

The Open section of the ROE should include all significant findings, conclusions, and MRAs, with the appropriate management responses to such requirements. These findings could be related to operating weaknesses or deficiencies, unsafe and unsound practices, non-compliance with guidance, regulations, enforcement actions, etc. The Open section **should not** include the assigned URSIT.

All ROEs, including those of subsidiary, stand-alone data centers, should be signed by the Lead CPC and the supervisory office of the AIC. The ROE for the stand-alone data center should include, in its first paragraph, an acknowledgement of the EIC or the Agency that conducted the examination under the direction of the AIC.

Confidential Section

The Confidential section of the ROE should include the EPR form agreed upon by all Agencies; matters of a proprietary or competitive nature related to the TSP, such as previously assigned ratings; comments that support operating and procedural deficiencies; and internal control weaknesses identified during the exam. The EPR form should reflect the aggregate risk of the TSP when the risk levels at individual processing sites vary.

Financial Information

The narrative financial analysis and conclusions are included in the Confidential section of the ROE under the heading “Financial Analysis.”

This section consists of a spreadsheet that allows examiners to enter multiple periods of financial information to analyze significant balance sheet, income statement, cash flow statement results, and trends of key ratios.

The financial information section includes instructions for populating the spreadsheet, definitions for the ratios, and assessment criteria to qualify the financial condition of the TSP.

The financial condition of certain TSPs requires examiners to perform an expanded financial review. Instructions for this expanded review and a summary of key analytical points is included in Appendix D for examiners’ consideration in their analysis of the company.

Customer List

The customer list is solely for the internal use of the Agencies to validate and identify correctly the financial institutions that are entitled to a copy of the ROE or that may be affected by the TSP’s operations.

At the CPC team's discretion, the customer list may be included as part of the ROE package or obtained at a different time. See Appendix G for detailed instructions about the Uniform Customer List for TSPs.

Supervisory Office Review of ROE

The Lead CPC is responsible for collecting and reviewing all documents related to all supervisory activities completed during the examination cycle. Once examiners who participated in the supervisory activity have completed their assignments, they should forward to the Lead CPC their conclusion documents with any findings they recommend be included in the ROE.

The Lead CPC develops the ROE, secures the CPC team's agreement with the content, and submits the draft ROE to the AIC's supervisory office for final review, approval, and distribution. The Lead CPC may also provide a copy of the draft ROE to TSP management for their information.

Review of ROEs of MDPS Companies

The Agencies administer the MDPS program through the ITS. Therefore, all communication, discussions, and reviews of supervisory documents, where warranted, should be done directly by the Lead CPC and CPC team with their respective Agency representative.

Because of the complexity of some of the MDPS companies, risk-based supervision may include examinations of stand-alone data centers, products (i.e., SASRs), or functions. These assignments are usually accomplished by an examiner assigned EIC responsibility, although such examiner may not be a designated member of the CPC team and may be from an Agency other than the AIC. When the EIC is not from the AIC, the EIC should keep in mind that he/she is working under the AIC's direction, through the Lead CPC. Therefore, reviews and discussions of supervisory activity-related findings and documents should be conducted with the Lead CPC.

When required by individual Agencies' policies or procedures, or simply to inform a supervisor of the CPC or EIC's accomplishment during an examination, the CPC or EIC for data center or activity may provide a **courtesy** copy of the draft ROE to his/her supervisor. This courtesy copy is for informational purposes only; it **is not** provided for the CPC or EIC's supervisor to review or edit the document. Reviewing and editing an MDPS ROE is the responsibility of the Lead CPC and the supervisory office of the AIC.

ROE Distribution

The AIC is responsible for the distribution of the ROEs. As a general rule, the ROEs are distributed to three groups: the board of directors of the examined TSP, the participating Agencies, and the serviced financial institutions.⁸

The four parts that generally make up the ROE package are distributed as shown in the following table.

ROE Components	TSP	Serviced Financial Institutions	Agencies
Board letter	X		X
Open section	X	X	X
Confidential section			X
Financial information			X
Client list (optional)			X

Each Agency is responsible for distributing the ROEs to its regulated financial institutions that are either included in the customer list or can demonstrate that they had an active contract at the time of the examination.

The Agencies distribute automatically all ROEs with a composite URSIT of 4 or 5. Depending on the circumstances, the Agencies may also distribute ROEs with a composite URSIT of 3; however, as a general rule, ROEs with composite URSIT of 1, 2, or 3 are provided to client financial institutions upon their request.

Because the Agencies' statutory authority is to examine a TSP that enters into contractual relationship with a regulated financial institution, the Agencies cannot provide a copy of a TSP's ROE to financial institutions that are either considering outsourcing activities to the examined TSP or that enter into a contract after the date of the examination.

The FDIC is responsible for providing copies of TSP ROEs to the state regulatory agency that has statutory authority to examine the TSP, has supervisory interest in the TSP, and/or participated in the examination of the TSP. The state regulatory agency may not provide copies of the ROE to other state regulatory agencies and does not need to provide copies to its regulated institutions because the FDIC provides copies to state non-member banks.

⁸ The Agencies also provide CFPB with access to service provider examination reports in accordance with the provisions of section 1022(c)(6)(B)(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. *See* 12 USC 5512(c)(6)(B)(i).

Appendix A: Discovery Review

Process

Identification of TSPs

With a regulatory structure that allows for market innovation, there is the potential for an infinite number of companies to offer services and products to financial institutions. There are a variety of ways through which the Agencies may learn of new TSPs, including

- an agency's process for implementing the Bank Service Company Act (BSCA) requirement that financial institutions notify their primary regulator of the existence of a service relationship within 30 days of entering into a contract or the performance of the service, whichever occurs first [12 USC 1867 (c) (2)].
- information technology and/or safety and soundness supervisory activities of financial institutions.
- the TSPs' marketing efforts, news, and press articles.
- direct contact by a TSP to a regulatory agency.

Initial Contact With TSPs

The Agency that identifies a new TSP informs the other Agencies about the company and its interest in the operations, products, or services. The Agency invites interested Agencies to join in all Discovery Review (DR)-related activities. As agreed to by the Agencies, the role of "Lead Agency" may be taken by the Agency that identifies the new TSP or by another Agency that may have a higher level of supervisory interest (i.e., the company provides services to a higher number of the Agency's regulated financial institutions).

If the BSCA's applicability is not clear at this early stage, the Agencies need to obtain a legal opinion from their respective legal counsels. To facilitate legal counsels' rendering an opinion, the Agencies try to secure a copy of a contract the TSP has entered into with a regulated financial institution. If unable to obtain a sample contract from an FI, a copy of a contract and the list of regulated financial institutions may be obtained from the TSP during the DR. In cases of unusual or new service offerings, additional information about the nature of the services offered may need to be gathered during the DR. This information is useful for legal counsel's final determination about the BSCA's applicability.

After performing sufficient research on the newly identified TSP, the Lead Agency makes the initial contact with the TSP stating the regulatory interest in learning more about the company's operations, products, and services in view of the contract(s) the company has entered into with regulated financial institutions.

An interagency, introductory, person-to-person meeting with the TSP's management should be set up. Such a meeting can be most effective to secure additional information about the company, to explain the Agencies' authority under the BSCA, and to notify management of the Agencies' intent to perform a DR.

Discovery Reviews

If deemed necessary, the interested Agencies conduct a joint DR once initial research, contact, and meetings confirm the regulatory authority. The Lead Agency prepares and sends an entry letter to the TSP asserting the Agencies' supervisory authority and notifying TSP management of the date for the planned DR.

To achieve a comprehensive DR, the Agencies should consider participation by examiners with expertise in the TSP's activities. For example, the Agencies should consider including in the DR team, examiners with consumer compliance, BSA/AML, retail credit, asset management, or other expertise, as necessary.

Supervisory Recommendation

After performing the DR, the examining team arrives at one of the following conclusions:

1. The company does not meet the BSCA criteria for a TSP; therefore, the Agencies do not have authority to examine it.
2. The TSP represents little or no risk to its client financial institutions, and it should not be included in the interagency supervisory program at this time; however, it may be helpful to perform additional exams periodically (e.g., every two or three years) to reassess the level of risk.
3. The TSP represents a significant level of risk to its client financial institutions, and it merits consideration by the Agencies to include the TSP in the interagency supervisory programs.

Regardless of the DR examining team conclusions (1, 2, or 3 described above), a DR report is to be completed using the template and instructions included on the next page of these Guidelines.

If the DR team conclusion is 3, and there is a legal determination of supervisory authority, the Lead Agency prepares the DR report and a cover memorandum with a recommendation to the Agencies' supervisory offices for either MDPS companies or regional TSPs. The recommendation should briefly state the DR team's consensus regarding the items listed below. If there is no consensus among the examining team members, the recommendation should include the position and rationale of the Agency or Agencies that are not in agreement, in addition to the following items:

- The reasons the TSP should be subject to interagency examinations;
- The Agency willing to take the first AIC role;
- A recommended, potential date for conducting the first examination;

- A summarized purpose and scope for the first examination;
- The estimated examiner resources that would be required; and
- A request that each of the interested Agencies appoint a CPC.

The Agencies' appropriate supervisory offices decide on the DR exam team's recommendation. Once the appropriate supervisory offices approve the recommendation, the CPC for the AIC contacts the new TSP and inform its management about the Agencies' decisions.

Template and Instructions

Discovery Review - Required and Optional Pages

The DR report should contain matters the Agencies consider to be appropriate for documenting and supporting decisions as well as the DR team's recommendations. The DR report is for internal regulatory use only and should **not** be shared with the TSP or client financial institutions.

Cover Page (Required)

The DR should use the standard interagency cover page.

Examination Summary (Required)

This page should be completed for all DRs. The Examination Summary provides general information about the activity being completed and may also include limited historic and background information about the TSP being reviewed.

EPR Form

The EPR form **must be completed only** if the DR examining team recommends that the TSP be incorporated into the interagency supervisory program. All applicable sections under the EPR must be completed. Any comments or remarks should be made under an appropriate subheading in the Administrative Remarks section.

The DR Lead Agency should retain all documentation deemed necessary for supporting the priority designation and the Agencies' agreement/disagreement. The supervisory office of the lead examiner may request submission of the supporting documentation on a random basis or in instances of Agency disagreement.

Examiners should follow the instructions in Appendix C for completing the EPR form.

Administrative Remarks (Required)

These remarks should document the DR examining team's findings and evaluation of the TSP. This page should also contain supporting information on the reasons the TSP is or is not being recommended for inclusion in the interagency program. Any comments deemed appropriate by the examining team to document and support the risk ranking should be included under an appropriate subheading.

Statistical Data (Optional)

This section, if included, should contain statistical information necessary to supervise adequately the TSP and to process the DR report. Examiners should request this information before or at the start of the DR.

If this section is to be included in the DR report, examiners should follow the instructions in Appendix C.

System and Organization Information (Optional)

If these pages are to be included in the DR report, examiners should follow the instructions in Appendix C.

Financial Information (Optional)

If examiners determine these pages need to be included in the DR report, they should include data for the last three fiscal years, at a minimum.

Examiners should follow the instructions in Appendixes C and D for completing these pages.

Additional Information (Optional)

Examiners may use this page to address any specific requirements of the interested Agencies; for example, the location of work papers or TSP management contacts.

Customer List (Required)

The customer list is a separate component of the DR report. Although it is not required that the TSP submit the first customer list in the uniform format required by the Agencies, it should be up-to-date, complete, and accurate. At a minimum, the list should include the following for each regulated FI: legal name, city and state, and services provided by the TSP (e.g., core processing or Internet banking). If available, include the applications used to provide the services. This will help the exam team prepare and submit a customer list in the uniform format. The TSP should submit subsequent list in the prescribed format.

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Federal
Financial
Institutions
Examination
Council



Discovery Review Of Technology Service Provider

(SERVICER NAME)

(CITY, STATE)
As of (Date of Exam)

**THIS DISCOVERY REVIEW DOCUMENT IS STRICTLY CONFIDENTIAL AND ONLY
FOR THE INTERNAL USE OF THE FEDERAL REGULATORY AGENCIES**

This discovery review document is the joint property of the Federal Regulatory Agencies. The information contained in this document is based upon the records and books of the entity, upon statements made by direction, officers, and employees, and upon information obtained from other sources believed to be reliable and correct.

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ID/Charter No: [Charter #]

EXAMINATION SUMMARY

I. Technology Service Provider:
 Name: _____
 Corporate Address: _____ City: _____ State: _____ Zip: _____

II. Current Examination: Type of Examination: Discovery Review
 Agency-In-Charge: _____ Record Number: FRB RSSD OCC Charter FDIC CERT NCUA Charter
 Examination Opened: _____ Examination Closed: _____ URSIT Ratings: Not Applicable

III. Examination Staff:

Examiner/Agency	Work Hours	
	On Site	Off Site
1 _____		
2 _____		
3 _____		
4 _____		
5 _____		
6 _____		
7 _____		
8 _____		
9 _____		
10 _____		
Total		
GRAND TOTAL		

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ID/Charter No: [Charter #]

RISK BASED EXAMINATION PRIORITY RANKING

V. Business Line Risk Ranking: _____ **Higher** _____ **Average** _____ **Lower**

Business Lines (Check ALL that apply and designate as; H-higher, A-average, or L-lower risk as they pertain to this company.)

H	A	L	
			Aggregation services processing
			Asset management/trust (fiduciary activities) processing
			ACH processing
			Asset liability management processing
			Business continuity/disaster recovery services
			Credit card merchant processing
			Core bank processing
			Corporate electronic banking/cash management processing
			Check processing
			Credit card processing & issuance

H	A	L	
			EFT/POS processing
			Imaging and electronic safekeeping
			Informational Web site hosting
			Managed security services
			Mortgage processing
			Remote electronic banking
			Retail payment clearing and settlement
			Transactional Web site hosting
			Wholesale payment clearing and settlement
			Other (explain)

VI. Technology Service Provider Risk Ranking: _____ **Higher** _____ **Average** _____ **Lower**

Risk Factors (Select only ONE, Higher, Average, or Lower for each Factor.)

Factor	Higher Risk	Average Risk	Lower Risk
1	Large client base (250 or more supervised financial institutions, or based on other measures, e.g., aggregate client assets affected; transaction volume).	Moderate sized client base (at least 25 but not more than 249 supervised financial institutions, or based on other measures, e.g., aggregate client assets affected; transaction volume).	Small client base (less than 25 supervised financial institutions, or based on other measures, e.g., aggregate client assets affected; transaction volume).
2	Company rated URSIT "3, 4, or 5" at the last examination, or concerns exist and has not yet been assigned URSIT ratings.	Company rated URSIT "2" at the last examination; or minimal concerns exist and URSIT ratings have not yet been assigned.	Company rated URSIT "1" at the last examination; or has not yet been assigned URSIT ratings.
3	Audit program does not provide effective oversight; SAS 70 reports or other audit reviews are not comprehensive.	Audit program provides limited oversight; SAS 70 reports or other audit reviews cover most areas.	Audit program provides effective oversight; SAS 70 reports or other audit reviews are comprehensive.
4	Company is using new or untested technology or products. Company is undergoing significant organizational change.	Company is using stable technology and products, but implements significant upgrades. Company has minimal organizational changes.	Company is using stable technology and products. Company has stable organizational structure.
5	Significant problems or concerns, that require supervisory follow-up, have been reported by client institutions or their examiners.	Minimal problems or concerns, that require supervisory follow-up, have been reported by client institutions or their examiners.	No problems or concerns, that require supervisory follow-up, have been reported by client institutions or their examiners.
6	Significant concerns over financial condition exist that require active supervisory monitoring and follow-up.	Minimal concerns over financial condition exist. Monitoring may be warranted, but active follow-up is not considered necessary.	No concerns over financial condition that require supervisory follow-up.
7	Services are contracted out to third parties (foreign or domestic), and there are concerns that risk-mitigation controls are inadequate.	Services are contracted out to third parties (foreign or domestic), but risk mitigation controls are considered adequate.	Services are not contracted out to third parties (foreign or domestic).

VII. Examination Priority Ranking: _____ **A** _____ **B** _____ **C** _____ **NA***

* NA, Non-Applicable, refers to TSPs not warranting interagency examination at the current time. Not all TSPs have to be ranked A, B, or C.

VIII. Agency Agreement on Priority Ranking: _____ **Yes** _____ **No***

* If "No," explain in the narrative section of this document.

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ID/Charter No: [Charter #]
ADMINISTRATIVE REMARKS <hr/>
Start text here...
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ID/Charter No: [Charter #]	
SYSTEMS AND ORGANIZATION INFORMATION	
System Description (Mission Critical Systems Only)	
Hardware:	
Operating System:	
Software:	
Access Control:	
Teleprocessing:	
Organizational Structure	
Staff Size:	Operations: _____ S&P: _____ Total: _____
Examination Contact:	
Officers/Managers:	
If financial institution, give total assets:	_____ Total deposits: _____
Ownership:	
Directors:	
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ID/Charter No: [Charter #]

ADDITIONAL INFORMATION

Subsequent Examination Strategy

Include recommended supervisory activity going forward and recommended examination priority ranking, if applicable.

Examination Request Letter

Send to:
[Name of TSP]
[Street]
[City, State ZIP]

Report Distribution

This Report is **NOT** for distribution to financial institutions; it is only intended for internal Federal Regulatory Agency use.

File Copy:	File Copy Location
Washington File:	Washington D.C. Copy Location
FDIC:	Regional Office
FRB:	Federal Reserve Bank
OCC:	Washington D.C. Office
NCUA:	Washington D.C. Office
Field Office:	Organization

Work Paper Information

Provide detail regarding location of the work papers. Are they hard copy or electronic?

Appendix B: Supervisory Strategy

Template and Instructions

The following outlines key elements that Lead CPCs and CPC teams should consider when developing risk-based supervisory strategies for TSPs.

Title Page

It should clearly identify the TSP, the supervisory office for whom the strategy is being prepared (e.g., Agencies' supervisory offices for either MDPS companies or regional TSPs), the AIC; the Lead CPC; the CPC team, if one has been assigned; the examination cycle that the strategy covers; and the date the document is submitted.

Table of Contents

Examiners should list the sections of the supervisory strategy and the page numbers to allow for clear separation of the information contained within the document.

Company Overview

In this section, examiners should include a **brief** company overview, which may consist of its history, organizational structure, management evolution, ownership, and location of processing centers. The purpose of this section is to help the reader to become familiar with the company.

Risk Profile

This part should include the examiners' discussion of the risk level of the overall company. Information from the EPR form can be used. Topics discussed in this section may include, but are not limited to,

- supervisory history: a discussion of recent examination activities findings, IT ratings, financial condition, outstanding issues.
- previous examination results, MRAs, follow-up performed, current status of identified weaknesses.
- risk analyses of each stand-alone site/data center, product, or service examined separately, if applicable, with a priority ranking of sites for examination purposes.
- site descriptions: risk weighting of sites or locations, if applicable.
- product descriptions.
- outstanding, pending, or potential legal actions and their related effect on the TSP's financial condition.
- analysis of financial condition.

Scope, Objectives, and Activities

This section should include **brief and concise** examiners' discussions of the planned supervisory activities for the examination cycle. Examiners should articulate clearly what is to be accomplished over the entire examination cycle, specific areas of focus and reasons they will be targeted (e.g., audit, information security; Gramm–Leach–Bliley Act (GLBA); disaster recovery; and business continuity). The supervisory strategy should contain a table of all supervisory activities, including ISRs, product reviews (i.e., SASRs), follow-up visits, quarterly monitoring, and CPC team meetings. Examiners should also include a plan for communicating with TSP management before, during, and after the examination (e.g., consolidated or separate ROEs, and meetings with management and with the board of directors, if applicable). At a minimum, information for each supervisory activity should include

- names and locations of sites to be examined.
- names of products to be reviewed (SASRs).
- planned start and end dates.
- AIC of examination.
- site EIC(s).
- number of work days and examiners requested from, or committed by, each Agency.
- date and location or manner of CPC team meetings (e.g., in person or conference call).
- type of supervisory activity output (e.g., ROE, ISR, and internal conclusion memorandum).

Administrative Matters

In this section, examiners should include matters pertaining to the administration of the examination process. Examiners should describe the processes for reporting on meetings with management and coordinating findings from site EICs, or coordinating and reporting findings of assigned examiners and the CPC team, keeping the Lead CPC, CPC team, and the supervisory office, fully informed of findings and supervisory activities.

Contact Information

Examiners should include general contact information for communication throughout the examination cycle; that is, contact information for the AIC, Lead CPC, CPC Team, EICs, and key TSP management, especially those designated as regulatory liaisons or contacts.

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SUPERVISORY STRATEGY

EXAMINATION CYCLE: (MM/DD/YEAR- MM/DD/YEAR)

Company Name

City, State

Submitted to

**Federal Regulatory Agencies
Washington, D.C.**

OR

**(Title) Regional/District Supervisory Office
(City, State)**

Prepared by

Lead CPC
Agency-in-Charge

Submitted on: (Date)

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CONTENTS

COMPANY OVERVIEW.....	3
RISK PROFILE	3
SCOPE AND OBJECTIVES	3
ACTIVITIES	3
ADMINISTRATIVE MATTERS	4
CONTACT INFORMATION	4

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Company Overview

(Start text here and use as much space as needed)

Risk Profile

(Start text here and use as much space as needed)

Scope and Objectives

(Start text here and use as much space as needed)

Activities

Name and location of site(s) to be examined	Planned start and end dates	Type of activity /output ¹	EIC	Workdays and examiners scheduled by agency	Comments, specific objectives, or specific instructions

¹ Identify as ROE, Interim Review, or SASR.

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ID/Charter No: [Type text]

Administrative Matters

(Start text here and use as much space as needed)

Contact Information

(Start text here and use as much space as needed)

Appendix C: Report of Examination

Template and Instructions

Examiners should follow these guidelines when preparing an IT ROE.

Open Section - Required and Optional Pages

Cover Page (Required)

IT ROEs of TSPs should use the standard cover page.

Table of Contents (Optional)

The use of this page is at the AIC's discretion. If used, the table of contents should list the sections in the order of their appearance in the ROE.

Examiner's Conclusions (Required)

Information should include the following:

Scope and objectives of the examination: A concise description of areas examined and procedures employed.

Summary of major findings: A general description of major examination findings. Examiners should present findings in the order of their importance and should include references to areas where they identified significant operational and procedural deficiencies or internal control weaknesses. Examiners should refer readers to the specific Supporting Comments page(s) for detailed descriptions of these findings and recommendations for corrective action.

The last paragraph under this subheading should include a list of the TSP management members who attended meetings where examination findings were discussed. The list should be limited to those persons with broad responsibility for the major areas examined (e.g., IT audit, IT management, development and acquisition, and support and delivery). TSP senior management responsible for information systems operations should always be included.

Examiners should direct comments in the summary section to the attention of the board of directors and senior management. **Comments should be brief, non-technical, and limited to the most significant issues.** Examiners should describe the findings in terms of the risk(s) presented and current or potential effect on the serviced financial institutions and their customers.

Conclusions: A summary of the overall condition of the information systems examined, including comments on the improvement or deterioration of the operation. Examiners should avoid single-word evaluations, such as "good," "fair," "poor," "strong," or "weak." The summary should include, as appropriate, **brief** comments about past

performance (with emphasis on effecting corrective measures), the seriousness of existing weaknesses, and future prospects for the information system. Information on any corrective action that management agreed to take should be included.

Signatures: The Lead CPC must sign the ROE at the bottom of the Examiner's Conclusions page. Other signatures required by the supervisory office of the AIC should follow, including appropriate names and titles.

MRAs (Required)

Examiners' use of the MRA page is primarily dictated by the nature and severity of the examination findings. If there are no issues that require management action, examiners should simply record "None" on this page. This approach is purposefully followed to make it clear to the reader that there are no MRAs.

Whenever there are deficiencies that must be included in this page, the Lead CPC proceeds as follows to comply with the Agencies' individual requirements:⁹

- If the FRB is the AIC, the Lead CPC divides the content of the MRA page into the following subheadings and itemizes the exam findings accordingly:
 - Matters Requiring Immediate Attention
 - Matters Requiring Attention
- If the FDIC or the OCC is the AIC, the Lead CPC lists the MRAs in order of severity (i.e., the most urgent at the top), without the aforementioned subheadings.

Examiners should describe **briefly and concisely** each serious weakness and the specific corrective action required. TSP management's **brief** response to the criticism should be recorded as well as any commitment and time-frame for correcting the deficiency.

Observations or recommendations that do not require management action **should not** be included in this page **or** in the ROE.

Supporting Comments (Required)

This section should include comments addressing operating and procedural deficiencies and internal control weaknesses identified during the examination. Detailed comments should support the findings cited in the Examiner's Conclusions section. Supporting comments should be categorized within the URSIT component categories, in the order of relative importance, and consistent with the Examiner's Conclusions page.

Each URSIT component section (audit, management, development and acquisition, and support and delivery) should start with a summary supporting the rating assigned to that component. Comments should convey a clear assessment of the condition of each

⁹ OCC: 6/10/10 MCBS MRA Reference Guide, 7/5/05 Internal Memorandum from Senior Deputy Comptroller Timothy W. Long to MCBS Examiners, and 8/8/05 Internal Large Banks Memorandum 2005-01 from Deputy Comptrollers to Large Bank Examiners. FRB: 1/24/08 SR 08-1 / CA 08-1 to the Officer in Charge of Supervision and Appropriate Supervisory and Examination Staff at each Federal Reserve Bank.

function. The actual numerical rating **should not** be included on the Supporting Comments pages; the rating should be included **only** in the Confidential section and the board letter. Items deemed confidential in nature should be included **only** in the Confidential section of the ROE. Ratings justifications contained on the Supporting Comments page **should not** be repeated in the Confidential pages.

Comments for each deficiency should, at a minimum, include

- a detailed description of the deficiency, including support (e.g., legal or regulatory references) for citing the deficiency.
- risk to the organization and serviced financial institutions, if not addressed by management.
- examiner's recommendation to address the deficiency.
- management's response and corrective action plan, including time frame(s) for completion.
- the examiner's analysis of management's response (if necessary).

The description of examination findings must be in terms of the risks they present to, and their effect on, the TSP and its serviced financial institutions.

Examiners should make every effort to obtain management's commitment to a reasonable time frame for implementing corrective measures. Examiners should highlight and reinforce deficiencies noted in previous examinations. If a significant number of repeat deficiencies are noted, examiners should raise these to MRAs and give consideration to downgrading the applicable ratings. If the issues do not rise to the level of MRAs, this information should be reported in the Examiner's Conclusions section and a comment should be included in the Management section of the report.

Observations/recommendations: The Supporting Comments section should only contain substantive items. Examiners **should not** include less significant items, such as best practices or suggestions that may improve the TSP's performance but that do not require management action or examiner follow-up. Examiners may provide TSP management with a copy of any observations or recommendations and should retain these in the examination work papers.

Directors' Signature Page (Required)

Examiners should include this page in all IT ROEs provided to the TSP. Once the final ROE is received by the TSP, the board of directors, or a committee thereof, should review fully the ROE at a following meeting as instructed in the board letter. Once this review has occurred, the directors, or a committee thereof, should sign and date the Director's Signature page to attest that each of them have personally reviewed and understands the contents of the ROE.

Confidential Section - Required and Optional Pages

This section should contain matters that are not considered appropriate for disclosure in the Open section of the ROE. Examiners **should not** repeat in this section information discussed in the Open section.

Examination Summary (Required)

This page should be completed for all TSP examinations. It provides basic information about the TSP, type of examination, participating Agencies, and limited historic data. The Type of Examination item should indicate whether the examination is joint or rotated. The authoring AIC should be identified by the appropriate abbreviation, (e.g., FDIC, FRB, or OCC). For multi-site examinations, work hours reported in the corporate ROE should include the total time for all locations examined.

EPR Form (Required)

Examiners should complete the EPR form **only** for the corporate or TSP roll-up examination. Although risk levels at individual processing sites may vary, the EPR form should reflect the aggregate risk of the TSP. The Lead CPC considers the risk assessments of individual processing sites when determining the overall risk ranking of a TSP.

Completing the EPR Form

- **Sections I to IV:** Describe the TSP being examined, names of participating Agencies and examiners, and previous IT ratings of the TSP.
- **Section V – Business Line Risk Ranking:** Examiners should choose **all** applicable business lines and rank each as either High, Average, or Lower risk, as they relate to the risk of the TSP. For example, if the TSP provides automated clearing house (ACH) processing, does this line of business represent a high-, average-, or low-risk activity for the TSP? If this business line is provided only to a few small financial institutions, it may be a low-risk activity. If, on the other hand, this service is provided to many of its client financial institutions, it may be an average- or high-risk business line for the TSP. The fact that an activity is high risk (e.g., core processing), does not necessarily mean that the activity is a high-risk business line for the TSP.

Examiners should select the Other line item **only** for those rare occasions when a service is provided that is not included in the listed business lines (e.g., investment safekeeping/processing, derivatives, and mutual funds). To determine what is included under each business line, examiners should refer to Appendix E for the definitions of the EPR form.

After ranking each applicable business line, examiners should assess **all** of the business lines and risks as a whole before assigning an overall Business Line Risk Ranking.

- **Section VI – TSP Risk Ranking:** There are seven service provider risk categories: client base, URSIT, audit program, quality of technology or products, level of

problems or concerns, financial condition, and outsourcing or subcontracting. Examiners should choose **all** applicable risk categories; rank each as Higher, Average, or Lower risk; and assign a summary risk ranking. The Lead CPC should assess **all** of the risks before arriving at an overall TSP Risk Category. Rating one risk factor as Higher **does not** automatically result in the TSP having an overall ranking of Higher risk.

- **Section VII – EPR:** This is the overall risk-based examination priority ranking. The Lead CPC should assign an A, B, C, or NA ranking, based on all the elements of the EPR form.
- **Section VIII – Agency Agreement on Priority Ranking:** The Lead CPC indicates whether all members of the CPC team agree with the final ranking of the TSP. Any disagreement should be discussed and documented in more detail in the Administrative Remarks section of the EPR form. The AIC’s supervisory office may request submission of the supporting documentation in instances when the CPC team has not reached consensus.

Administrative Remarks (Required)

These remarks should document the performance evaluation of the TSP in accordance with the URSIT definitions and should include the numeric ratings. For multi-site examinations, all subsidiary data center ratings should be summarized and included in this section. The numeric ratings and accompanying comments should include recommendations for follow-up action and any additional, material comments.

Under an appropriate subheading, examiners should also include in this section any comments deemed appropriate to document and support the EPR.

Statistical Data (Required)

Examiners should request this information before, or at the start of, the examination. This section should contain statistical information necessary to supervise the TSP adequately and to process the ROE.

- **Serviced financial institutions recap:** Because a client list may be obtained as part of the examination, or at any time one is needed, examiners should include **only** a summary listing that provides the total number of financial institutions serviced, grouped by regulatory category.

System and Organization Information (Required)

- **System description:** In this page, examiners should provide details of the major hardware, software, and, if applicable, networking configurations used by the facility.
 - **Hardware:** At a minimum, examiners should specify the manufacturer, model numbers, and estimated life span, if applicable. Detail other information considered important and appropriate.

- **Software:** Indicate the primary programming languages used and the major sources of software (e.g., developed in-house software packages, and contract programmers). If purchased/licensed software packages are used, list the vendor(s).
- **Network:** Indicate the general configuration of the system, specifying remote entry sites and free-standing satellite centers.
- **Organizational structure:** Provide general staffing and examination contact information. The total number of employees may not necessarily be the sum of the numbers appearing in the spaces for development and acquisition and support and delivery personnel. Also, list principal officers and managers responsible for the center's operation by name, title, telephone number, and e-mail address. If the organization being examined as a TSP is a financial institution, provide total asset and deposit figures. If the organization is not a financial institution, the ownership portion of this section should reflect the name and type of the organization (if the owner is not a person). Types of organizations might include financial institutions (bank, savings association, or credit union), financial institution or holding company subsidiary, bank service corporation, private corporation, joint venture, facilities management (specify contracting financial institution), or partnership. List directors by name, their position in the TSP board position, if applicable, and company affiliation (e.g., chief executive officer, Navy Federal Credit Union).

Financial Information (Required)

In this section, examiners record the analysis of the TSP's financial condition, which is detailed in the Financial Information portion of the ROE package (see Appendix D).

The Financial Information portion consists of MS Excel-based spreadsheets that allow the examiners to enter multiple periods of financial information in order to analyze significant balance sheet, income statement, and cash flow statement results and their trends.

At a minimum, examiners should include a summary or conclusion of the financial analysis, referencing the financial statements, financial ratios, and any significant financial statement footnotes.

When the TSP's Financial Condition Assessment is rated as Satisfactory with Concerns or lower, or when identified concerns warrant further analysis, examiners should perform an **expanded review** using the guidelines detailed in the Financial Analysis Considerations for Expanded Review (see Appendix D).

Additional Information (Optional)

Examiners may use this page to address specific requirements of the various Agencies. Information included could be items such as the location of work papers.

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Federal
Financial
Institutions
Examination
Council



***Examination of Technology
Service Provider
MDPS*** *(include only if applicable)*

(Insert specific Site Name or Corporate)

(SERVICER NAME)

(City, State)
As of (Date of Exam)

THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL

This report of examination is the joint property of the Federal Regulatory Agencies, and it is furnished for the confidential use of the examined entity. The information contained in this document is based upon the records and books of the entity, upon statements made by directors, officers, and employees, and upon information obtained from other sources believed to be reliable and correct.

This examination is not an audit and should not be construed as such. It is emphasized that this examination does not replace, nor relieve management of its responsibility for making or providing for adequate audits of the examined entity.

Under no circumstances shall any recipient of this report or any of its directors, officers, employees, outside auditor or legal counsel disclose or make public this report or any portion thereof. Unauthorized disclosure of any of the contents of this report is subject to the penalties in 18 U.S.C. 641. The agency that transmitted this report must be notified immediately if the examined entity receives a subpoena or other legal process calling for the production of this report.

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Form FFIRC 007
Approved by the Federal Financial Institution
Examination Council



**INFORMATION TECHNOLOGY REPORT OF
EXAMINATION**

[Name of MDPS/TSP/Financial Institution]
Data Center

City _____ **County** _____ **State** _____ **Zip**

Date of Examination

Participating Agencies

<u>Agency</u>	<u>Region/District</u>
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Examiners

Lead CPC, Agency _____	Examiner, Agency _____
Examiner, Agency _____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

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Examiner's Conclusions.....	1
Matters Requiring Attention	2
Supporting Comments	3
Directors' Signature Page	4

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MATTERS REQUIRING ATTENTION <hr/>
Start text here...
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2

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ID/Charter No: [Charter #]
SUPPORTING COMMENTS
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FFIEC-ITS-2012
3

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CONFIDENTIAL SECTION

FFIEC-ITS-2012

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ID/Charter No: [Charter #]

EXAMINATION SUMMARY

I. Technology Service Provider:
 Name: _____
 Corporate Address: _____ City: _____ State: _____ Zip: _____

II. Current Examination: Type of Examination: _____
 Agency-In-Charge: _____ Record Number: _____
FRB RSSD OCC Charter FDIC CERT NCUA Charter

Examination Opened: _____ Examination Closed: _____ URSIT Ratings: _____

III. Examination Staff:

Examiner/Agency	Work Hours	
	On Site	Off Site
1 _____		
2 _____		
3 _____		
4 _____		
5 _____		
6 _____		
7 _____		
8 _____		
9 _____		
10 _____		
Total		
GRAND TOTAL		

IV. Prior Examinations:

Date: _____ Rating: _____ Agency-In-Charge: _____
 Date: _____ Rating: _____ Agency-In-Charge: _____
 Date: _____ Rating: _____ Agency-In-Charge: _____

FFIEC-ITS-2012
A-1

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ID/Charter No: [Charter #]

RISK-BASED EXAMINATION PRIORITY RANKING

V. Business Line Risk Ranking: _____ **Higher** _____ **Average** _____ **Lower**

Business Lines (Check ALL that apply and designate as, H-higher, A-average, or L-lower risk as they pertain to this company.)

H	A	L		H	A	L	
			Aggregation services processing				EFT/POS processing
			Asset management/trust (fiduciary activities) processing				Imaging and electronic safekeeping
			ACH processing				Informational Web site hosting
			Asset/liability management processing				Managed security services
			Business continuity/disaster recovery services				Mortgage processing
			Credit card merchant processing				Remote electronic banking
			Core bank processing				Retail payment clearing and settlement
			Corporate electronic banking/cash management processing				Transactional Web site hosting
			Check processing				Wholesale payment clearing and settlement
			Credit card processing & issuance				Other (explain)

VI. Technology Service Provider Risk Ranking: _____ **Higher** _____ **Average** _____ **Lower**

Risk Factors (Select only ONE, Higher, Average, or Lower for each Factor.)

Factor	Higher Risk	Average Risk	Lower Risk
1	Large client base (250 or more supervised financial institutions, or based on other measures, e.g., aggregate client assets affected; transaction volume).	Moderate sized client base (at least 25 but not more than 249 supervised financial institutions, or based on other measures, e.g., aggregate client assets affected; transaction volume).	Small client base (less than 25 supervised financial institutions, or based on other measures, e.g., aggregate client assets affected; transaction volume).
2	Company rated URSIT "3, 4, or 5" at the last examination, or concerns exist and has not yet been assigned URSIT ratings.	Company rated URSIT "2" at the last examination, or minimal concerns exist and URSIT ratings have not yet been assigned.	Company rated URSIT "1" at the last examination, or has not yet been assigned URSIT ratings.
3	Audit program does not provide effective oversight; SAS 70 reports or other audit reviews are not comprehensive.	Audit program provides limited oversight; SAS 70 reports or other audit reviews cover most areas.	Audit program provides effective oversight; SAS 70 reports or other audit reviews are comprehensive.
4	Company is using new or untested technology or products. Company is undergoing significant organizational change.	Company is using stable technology and products, but implements significant upgrades. Company has minimal organizational changes.	Company is using stable technology and products. Company has stable organizational structure.
5	Significant problems or concerns, that require supervisory follow-up, have been reported by client institutions or their examiners.	Minimal problems or concerns, that require supervisory follow-up, have been reported by client institutions or their examiners.	No problems or concerns, that require supervisory follow-up, have been reported by client institutions or their examiners.
6	Significant concerns over financial condition exist that require active supervisory monitoring and follow-up.	Minimal concerns over financial condition exist. Monitoring may be warranted, but active follow-up is not considered necessary.	No concerns over financial condition that require supervisory follow-up.
7	Services are contracted out to third parties (foreign or domestic), and there are concerns that risk-mitigation controls are inadequate.	Services are contracted out to third parties (foreign or domestic), but risk mitigation controls are considered adequate.	Services are not contracted out to third parties (foreign or domestic).

VII. Examination Priority Ranking: _____ **A** _____ **B** _____ **C** _____ **NA***

* NA or Non-Applicable, refers to TSPs not warranting interagency examination at the current time. Not all TSPs have to be ranked A, B, or C.

VIII. Agency Agreement on Priority Ranking: _____ **Yes** _____ **No***

* If "No" explain in the narrative section of this document.

FFIEC-ITS-2012 B-1

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ID/Charter No: [Charter #]
ADMINISTRATIVE REMARKS
Start text here...
FFIEC-ITS-2012
C-1

This is a graphic representation.

		ID/Charter No: [Charter #]
STATISTICAL DATA		
<hr/>		
Serviced Financial Institutions Recap		
Totals for all Institution Types:		
National Banks:		_____
Federal Savings Associations:		_____
Federal Savings Banks:		_____
State Member Banks:		_____
State Non-Member Banks:		_____
Credit Unions:		_____
Total All Institutions:		=====
D-1		

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ID/Charter No: [Charter #]	
SYSTEM AND ORGANIZATION INFORMATION	
System Description (Mission Critical Systems Only)	
Hardware:	
Operating System:	
Software:	
Access Control:	
Teleprocessing:	
Organizational Structure	
Staff Size:	Operations: _____ S&P: _____ Total: _____
Examination Contact:	
Officers/Managers:	
If financial institution, give total assets:	_____ Total deposits: _____
Ownership:	
Directors:	
FFIEC-IS-05	E-1

This is a graphic representation.

ID/Charter No: [Charter #]
FINANCIAL INFORMATION
Start text here...
FFIEC-IS-05
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This is a graphic representation.

ID/Charter No: [Charter #]
ADDITIONAL INFORMATION
Subsequent Examination Strategy
Include the examination priority ranking designation and support.
Examination Request Letter
Send to: [Name of MDPS/TSP/Financial Institution] [Street] [City, State and Zip]
Report Distribution
Data Center Copy: [Name of MDPS/TSP/Financial Institution] (Do not include Confidential Section)
File Copy: File Copy Location
Washington File: Washington, D.C. Office
FDIC: Regional Office
FRB: Federal Reserve Bank
OCC: Washington, D.C. Office
NCUA: Washington, D.C. Office
Field Office: Organization
Work Paper Information
Provide detail regarding location of the work papers. Are they hard copy or electronic? Who will be the next Lead CPC contact to gain access to these work papers?
FFIEC-IS-05
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Appendix D: Financial Information

This information is part of the Confidential section of the ROE. Examiners should request and analyze audited financial statements. If the statements are not available, unaudited statements are acceptable. Examiners should clearly note in their analyses whether the statements are audited or unaudited. The analysis should also note the audit opinions—unqualified, qualified, or going concern—and include the appropriate explanation where necessary. Unaudited financial statements should be identified as review, compilation, or internally prepared. Examiners should ensure that interim financial statements are included on separate pages, footnoted to indicate that they are interim statements, and inserted behind the year-end statements. Examiners should also note in their analysis any regulatory information that is available and what information was considered, for example, Shared National Credit rating or industry information (e.g., Standard & Poor's, Fitch Ratings, or Moody's).

If the TSP is part of a regulated financial organization, examiners should use existing regulatory financial and analytical information (e.g., CAMELS rating, BHC rating) in the review and analysis of the parent company.

If the TSP is a subsidiary of a non-bank holding company or other non-financial corporation, examiners should request and analyze any available financial statements prepared for the TSP. These financial statements may or may not be audited, and the analysis should be appropriately noted. If a separate financial statement of the subsidiary TSP is not normally prepared, financial information may be found in the consolidating financial statement portion of the parent company. Examiners should also request and analyze consolidated financial statements of the parent organization to determine whether other financial factors may favorably or unfavorably affect the subsidiary TSP.

If the TSP is a division or line of business of a non-bank holding company or other non-financial corporation, examiners should request and analyze the financial statements of the organization. The examiner's analysis should include significant financial statement footnotes related to the financial activities of the TSP.

Instructions for Completing the Financial Information Pages

The Financial Information section is an MS Excel-based template that allows examiners to enter multiple periods of financial information in order to analyze significant balance sheet, income statement, and cash flow statement results and their trends.

The template is programmed to make calculations, carry information to other pages, and compute totals, trends, and ratios. Therefore, **it is imperative that examiners do not add or delete rows or columns in the template.** Additional, unprotected lines are available in the balance sheet, income statement, and cash flow statement to add accounts and to facilitate and enhance the examiner's analysis.

Examiners should follow these instructions when populating the template:

1. Use the tab key or the arrow keys to navigate through the Financial Information pages.
2. On the Balance Sheet, enter the most current period “As of” date in the cell labeled FY-0 (FY means fiscal year). This date may be for either the fiscal year end (FYE) or an interim reporting period. Enter the previous FYE date in the cell labeled FY-1, and so on. These dates are copied to all of the financial data pages that follow. Dates should be entered using the format mm/dd/yyyy.
3. Enter the number of months in the current reporting period. For example, if the FYE is December 31 and June 30 data is used, then the number of months would be 6. If the FYE is December 31 and December 31 data is used, then the number of months would be 12.
4. Enter the numeric financial information in the unprotected cells. Enter dollar amounts in thousands.
5. Enter additional needed line items on the blank lines provided.

Some line items have asterisks corresponding to footnotes that explain the line items and the financial information that should be entered. See the Definitions section in this Appendix and the Definitions tab on the template for definitions of terms and analytical guidance.

This is a graphic representation.

FINANCIAL DATA

Condensed Financial Statements for Nonfinancial Institution Servicer

CONDENSED BALANCE SHEET (\$000s)				
As of	FY-0	FY-1	FY-2	FY-3
Months in current period				
ASSETS				
Cash & cash equivalents				
Marketable securities				
Accounts receivable-net				
Inventory				
Prepays				
Deferred taxes				
Other current assets				
Total current assets	0	0	0	0
Property and equipment-net				
Intangibles *				
Goodwill **				
Other long term assets				
Total long term assets	0	0	0	0
Total assets	0	0	0	0
LIABILITIES				
Current portion of long term debt				
Notes payable				
Accounts payable				
Accrued expenses				
Other current liabilities				
Total current liabilities	0	0	0	0
Long-term debt ***				
Subordinated debt				
Other long term liabilities				
Total liabilities	0	0	0	0
Minority interest				
Equity capital				
Total liabilities and capital	0	0	0	0

* Intangibles include Trademarks, Patents, etc.

** Goodwill may also include "Customer Relationships" or similar assets.

*** Long Term Debt includes Capital Leases.

This is a graphic representation.

FINANCIAL DATA

Condensed Financial Statements for Nonfinancial Institution Servicer

CONDENSED INCOME STATEMENT (\$000s)				
As of	FY-0	FY-1	FY-2	FY-3
Total revenue				
Cost of sales *				
Gross profit	0	0	0	0
Operating Expense				
Selling, general, and administrative **				
Research and development ***				
Depreciation and amortization ****				
Other operating expenses				
Total operating expense	0	0	0	0
Total operating profit (loss)	0	0	0	0
Non-operating income and expense				
Interest income				
Other non-operating income				
Interest expense				
Other non-operating expense				
Total non-operating income and expense	0	0	0	0
Income (loss) before taxes	0	0	0	0
Taxes				
Income (loss) before minority interest	0	0	0	0
Loss (income) attributable to minority interest				
Net income (loss) before extraordinary items	0	0	0	0
Extraordinary gains				
Extraordinary losses				
Net income (loss)	0	0	0	0

* The company may report Cost of Sales as more than one line item. Those amounts should be aggregated and entered on this line.

** The company may report SG&A expenses (advertising, marketing, personnel, general, etc.) as more than one line item. Those amounts should be aggregated and entered on this line. Also, see the Depreciation and Amortization Expense (D&A) note below.

*** The company may report R&D expenses as more than one line item. Those amounts should be aggregated and entered on this line.

**** The company may report D&A expenses as separate line items. Those amounts should be aggregated for this line. There may be instances where D&A is not reported on the Income Statement at all. If this is the case, then get D&A from the Cash Flow Statement and enter that amount this line. If D&A is obtained from the Cash Flow Statement, adjust Total Operating Expense by subtracting D&A from SG&A.

This is a graphic representation.

FINANCIAL DATA

Condensed Financial Statements for Nonfinancial Institution Servicer

CONDENSED CASH FLOW STATEMENT (\$000s)				
As of	FY-0	FY-1	FY-2	FY-3
Operating activities				
Net income	0	0	0	0
Depreciation & amortization	0	0	0	0
Other				
Changes in operating assets and liabilities				
Accounts receivable				
Accounts payable				
Accrued expenses				
Net changes in other operating assets and liabilities				
Net cash provided (used) by operating activities	0	0	0	0
Investing activities				
Capital expenditures *				
Proceeds from sale of assets				
Other				
Net cash provided (used) by investing activities	0	0	0	0
Financing activities				
Proceeds from borrowing **				
Principal payments on debt, including capital leases				
Dividends paid				
Other				
Net cash provided (used) by financing activities	0	0	0	0
Increase (decrease) in cash & cash equivalents	0	0	0	
Cash & cash equivalents at beginning of the period	0	0	0	
Cash & cash equivalents at the end of the period	0	0	0	0

* Capital Expenditures can include, among other things, purchases of property, equipment and technology. Acquisitions can be included if it is obvious this is a consistent "growth" strategy.

** This line includes proceeds from Capital Leases, advances on LOCs, Bond issuances, etc.

This is a graphic representation.

FINANCIAL DATA

Condensed Financial Statements for Nonfinancial Institution Servicer

KEY RATIOS (\$000s)				
As of	FY-0	FY-1	FY-2	FY-3
Months in current reporting period	0			
Earnings Performance Analysis				
Year-over-year revenue growth *				
Gross profit margin				
Operating profit margin				
Return on equity *				
Return on assets *				
EBITDA				
Balance Sheet and Liquidity Analysis				
Year-over-year current asset growth				
Year-over-year total asset growth				
Year-over-year current liability growth				
Year-over-year total liability growth				
Current ratio				
Working capital				
Accounts receivable days in collection *				
Cash flow from operations				
Free cash flow				
Leverage Analysis				
Long term debt				
Long term debt to total assets				
Debt to net worth				
Debt to tangible net worth				
Interest coverage ratio				
Debt service coverage ratio *				
EBITDA leverage ratio *				

* Ratios based on annualized Revenues, Net Income, or EBITDA

Additional Analysis for MDPS Companies

The following actions are **required** for all examination of MDPS companies and are **optional** for examinations of regional TSPs.

Analyze the financial data, ratios, 10-Ks, 10-Qs, M&A activities, notes to financial statements, discussions with management, and external sources such as news media and credit rating agencies (e.g., Standard & Poor's, Dunn & Bradstreet, or Fitch) to identify any issues. Based on this analysis, determine the financial condition of the organization. Include the Financial Condition Assessment (discussed in the next section) in the examination conclusion comments.

When the Financial Condition Assessment is rated Satisfactory with Concerns or lower, or when identified concerns warrant further analysis, examiners should perform an expanded financial analysis using the guidelines discussed in the next section and should document any required corrective actions.

Financial Condition Assessment

The following assessment criteria should be used to qualify the financial condition of MDPS companies in conjunction with the MDPS Financial Risk Analysis program. These criteria are consistent with the URSIT.

Strong

The performance of the TSP is consistent with management's strategic goals and its financial condition shows no adverse trends, transactions, market transactions, or business activities that could result in material adverse effects in the foreseeable future.

Satisfactory

The financial condition of the TSP is sound and stable or meeting realistic growth expectations. Market transactions and business activities are considered conservative and are generally consistent with management's strategic goals. Continuing financial performance of this nature would not result in a material adverse change in the TSP's condition.

Satisfactory with Concerns

The financial condition of the TSP is acceptable but may demonstrate modest weaknesses in operating performance, balance sheet structure, or cash flow. While market transactions and/or business activities generally reflect management's strategic goals, the transactions and/or activities are not always well aligned or are more reactive to conditions. Weaknesses in current financial performance indicate no significant supervisory concerns but may require more frequent monitoring.

Weak

The financial condition of the TSP shows well-defined weaknesses. Negative trends are evident, and they may result in material deterioration or impairment. Management lacks a cohesive strategic/business plan to address adverse conditions. As a result, market transactions and/or business activities decisions are reactive to the environment. Management and the board often have difficulty in responding to changes in conditions. Weaknesses may hamper the TSP's ability to continue to meet the needs of its client base. Increased supervisory attention is necessary.

Critically Deficient

The financial condition of the TSP shows material deterioration and/or impairment. A going concern audit opinion may have been issued by the TSP's independent financial auditor. Management and the board of directors lack strategic/business plans to effectively address adverse trends and/or conditions. Management and the board may not have the capability or capacity to effectively respond to changes in conditions. Management's decisions regarding market transactions and/or business activities are reactive and may only be stop-gap measures to ensure the TSP's ability to continue to meet the needs of its client base. Ongoing supervisory attention is necessary.

Expanded Financial Analysis

The focus of this section is to provide a summary of key analytical points for further consideration in the financial analysis of MDPS companies when performing an expanded financial analysis. These points may also be applicable when analyzing companies that are not in the MDPS program. Examiners are not expected to make comments specific to any of these points unless the analysis identifies red flags, concerns, or issues.

Key analytical points include:

- Financial trends
- Liquidity
- Debt
- Leverage

Financial Trends

Analysis of financial trends provides critical information concerning the impact of management's decision to enter new markets or expand products/services, as well as competitive market forces, and general economic conditions. Financial trend analysis generally emphasizes income statement information such as revenues, gross profit margin, operating margin, pretax income, net income, and EBITDA (Earnings Before Interest Expense, Taxes, and Depreciation and Amortization). Significant balance sheet and cash flow trends may also be considered in financial trend analyses.

Examiners should consider the following when analyzing financial trends:

- Are income statement trends consistent with strategic objectives, reflective of competitive market pressures, or impacted by domestic or international geographical economies?
- Are revenues concentrated in customers, domestic or international markets, and/or business lines/products/services generating five or ten percent of the total revenue?
- Are revenue streams sustainable?
 - Does customer turnover pose a risk to revenue sustainability?
 - Do customer contractual relationships pose a risk to revenue sustainability arising from a one-time specific-purpose relationship or to ongoing contractual services expiring within the current or next fiscal cycle?
 - Do domestic/international market and/or business lines/products/services concentrations pose a risk to sustainability arising from difficulty of entry, competitive disadvantage, new or untested market/product/service, market/product/service maturity, changes in economic conditions, or customer demand?
- Is operating profit sustainable?
 - Are cost management strategies creating operating efficiencies in maintaining or improving profitability and/or margins?
 - Do cost management strategies have the potential for negatively affecting key control functions such as security, availability, processing integrity, confidentiality, and privacy, as well as audit?
- Are pretax income and net income sustainable, or do they rely on non-recurring sources?
- Are pretax loss and/or net loss reversible with restructuring revenue, cost of sales, operating costs, or debt service?
- How are income statement trends (e.g., changes in current assets, long-term assets, or retained earnings) affecting the balance sheet?
- How is net income affecting trends in Cash Flow from Operations (e.g., reliance on gains/losses from sale/distribution of assets, non-recurring extraordinary items, revenues/expenses, or non-cash transactions)?
- How are changes in working capital affecting trends in Cash Flow from Operations?

Liquidity

Liquidity analysis provides critical information concerning sources and uses of liquidity. This analysis should focus on understanding how management obtains, manages, and uses all sources of liquidity.

When analyzing liquidity, examiners should consider the following:

- How much cash, cash equivalents, and marketable securities are actually available to internally fund operations, current portion of long-term debt (CPLTD), and dividends, with the understanding that certain amounts of these assets may be restricted?
- How long would unrestricted cash, cash equivalents, and marketable securities support operations (e.g., one month, three months, six months, or one year)?
- Is accounts receivable (A/R) a funding source or a strain on liquidity?
 - Is A/R a strain on liquidity due to
 - Expansion of A/R and slowing of A/R collection?
 - Have invoicing terms changed?
 - Are key customers slowing their payments?
 - Has the company become less efficient in collecting payments?
 - Is there stable/contracting revenues and stable/contracting A/R?
 - Has the customer base matured?
 - Is the customer base stable/contracting due to
 - market saturation?
 - lack of innovation/competitive advantage?
 - management complacency with regard to the customer list or market share?
 - A/R conversion no longer capable of repaying vendor debt?
 - Trade financing stressing relationships with key vendors?
- Do working capital financing arrangements adequately bridge cash conversion cycles?
 - Do these lines of credit appropriately revolve with the business cycle?
 - Do these credit relationships require a period of resting or have they demonstrated the ability to rest?
 - Is there a portion of the outstanding balance that would be considered permanent working capital and is that a significant amount of the average outstanding balance or committed amount?
 - Is the outstanding balance largely unchanging or stagnant?
- Can working capital financing arrangements be used for capital expenditures (CAPEX), acquisitions, or other non-working capital needs?
 - If so, how effective is the facility in supporting the TSP's operational liquidity needs?

- Is this part of a highly leveraged transaction financing?
- Is operating cash flow (OCF) sustainable?
 - Is OCF reliant on gains or adversely affected by losses?
 - What effect do other non-cash transactions have on OCF?
 - Do changes in working capital support or detract from OCF?
- Is free cash flow (FCF) sustainable?
 - Is CAPEX consistent with growth and earnings trends?

Debt

Debt analysis provides key information about how financing activities are used to meet both long-term strategic objectives and short-term funding requirements. This analysis should address how the use of debt is aligned with a company's strategic and tactical objectives. Additionally, it should address management's conformance with both positive and negative financial covenants. Lastly, this analysis should address the company's access to debt in the foreseeable future.

When analyzing debt, examiners should consider the following:

- Is debt in the form of bank debt (e.g., working capital or term debt, bonds, capital leases, or preferred stock)?
- How is bank debt structured (e.g., senior secured/unsecured, bridge, mezzanine, junior secured/unsecured, or senior or junior subordinated debt)?
- Is the debt amortizing? Note: If terms state a 0.25 percent or less per quarter principal reduction or 1 percent or less per year principal reduction, debt is not considered to be an amortizing loan.
 - Is amortization based on a traditional principal and interest (P&I) schedule over a fixed period?
 - Is amortization based on a fixed P&I schedule with an excess cash flow component for further principal reductions quarterly?
- Is bank debt collateralized?
 - Does collateral describe specific assets (e.g., A/R, inventory, or specific fixed assets)?
 - How is collateral value determined?
 - Borrowing base (may include A/R, inventory, and certain fixed assets)?
 - Periodic valuation of assets? Independent valuation?
 - Enterprise valuation methodology? Independent valuation?

- Is the debt in conformance with any positive or negative financial performance covenants?
 - Have financial performance covenants been waived or restated?
- Does the debt maturity ladder show maturing debt within the current operating cycle?
 - Do the TSP's current financial condition, bank/creditor relationships, and/or current market conditions support refinancing debt maturities within reasonable terms?
 - Do the TSP's financial condition, bank/creditor relationships, and/or current market conditions support repayment of debt under agreed terms (e.g., sale of assets or refinance of bridge debt)?
- Does the TSP have indebtedness to related parties such as its parent, affiliates, or owners?
 - What is the purpose of the debt obligation(s)?
 - Is repayment regularly occurring (e.g., scheduled P&I at internal/market terms or interest only at internal/market rates, episodic, as needed, or not expected)?
 - Are dividends a source of repayment/debt service?

Leverage

Leverage analysis includes both the analysis of the balance sheet leverage and repayment capacity. With regard to balance sheet leverage, key information is provided on whether assets are supporting the debt load in the form of long-term debt (funded debt) as a percent of total assets. Additionally, balance sheet leverage provides important information on the capacity of equity to absorb losses, an indicator of long-term solvency. Income statement leverage, in the form of EBITDA, provides information on repayment capacity. Leverage analysis should address the ability of all assets to support the long-term debt needs of the company and the sustainability of EBITDA to service and repay debt.

When analyzing leverage, examiners should consider the following:

- Are assets leveraged to support, for example, capital expansion, product or market diversification, debt consolidation, realignment of core competencies, or return equity to owners through taking the company private?
- How does the leverage strategy affect the company's flexibility? For example, does it facilitate adjusting to changing market conditions, competitive advantage, or access to debt/equity markets?
- How does the TSP's leverage strategy mitigate risk to equity due to potential loss in income?

- What effect has the TSP's leverage strategy had on historical EBITDA performance (e.g., asset leverage is improving revenue generation and/or cost reduction benefits)?
- What are the projected impacts on EBITDA as a result of the TSP's leverage strategy?
 - Are EBITDA projections reasonable and sustainable in the foreseeable future?
 - Is EBITDA support strained when viewed as a multiple of long-term debt plus current portion of long-term debt (CPLTD)?
 - If so, is the strain considered a temporary concern that will be realistically reversed?
 - If the strain on EBITDA is longer term, what is management's plan to resolve the problem?
- Is EBITDA sufficient to amortize debt, particularly senior debt, at market rates for a reasonable period of time?
 - Do EBITDA projections support a reasonable amortization schedule?

Definitions

Earnings Performance Analysis

Year-over-year revenue growth – $\frac{\text{total revenues} - \text{total revenue previous year}}{\text{total revenue previous year}}$ - A significant increase or decrease may indicate unusual activity and should be investigated and explained.

Gross profit margin – $\frac{\text{gross profit}}{\text{total revenues}}$ - A measurement of efficiency in managing production costs. Significant changes period-to-period may indicate problems and should be investigated and explained. Calculating gross profit margin may not be feasible if the TSP does not calculate its cost of sales.

Operating profit margin – $\frac{\text{total operating profit}}{\text{total revenues}}$ - A measurement of management's ability to control costs associated with normal business operations. Significant changes may indicate problems and should be investigated and explained.

Return on equity – $\frac{\text{net income}}{\text{equity capital}}$ - A measurement of the investors' return on their investment. Significant changes period-to-period may indicate unusual activities affecting net income, dividends, treasury stock transactions, etc., and should be investigated and explained.

Return on assets – $\frac{\text{net income}}{\text{total assets}}$ - A measurement of management's efficiency in using company assets to generate earnings. Significant changes period-to-period may indicate unusual activities affecting the balance sheet or net income and should be investigated and explained.

EBITDA – $\text{net income} + \text{interest expense} + \text{taxes} + \text{depreciation and amortization}$ – This calculation is used to analyze profitability because it minimizes the effects of accounting

and financing decisions. EBITDA is commonly applied to leveraged buyouts to indicate the ability of a company to service debt. Significant changes period-to-period should be investigated and explained.

Balance Sheet and Liquidity Analysis

Year-over-year current asset growth – $(\text{total current assets} - \text{total current assets previous year}) / \text{total current assets previous year}$ - A significant increase or decrease may indicate unusual activity and should be investigated and explained.

Year-over-year total asset growth – $(\text{total assets} - \text{total assets previous year}) / \text{total assets previous year}$ - A significant increase or decrease may indicate unusual activity and should be investigated and explained.

Year-over-year current liability growth – $(\text{total current liabilities} - \text{total current liabilities previous year}) / \text{total current liabilities previous year}$ - A significant increase or decrease may indicate unusual activity and should be investigated and explained.

Year-over-year total liability growth – $(\text{total liabilities} - \text{total liabilities previous year}) / \text{total liabilities previous year}$ - A significant increase or decrease may indicate unusual activity and should be investigated and explained.

Current ratio – $\text{total current assets} / \text{total current liabilities}$ - A liquidity ratio that measures the ability to pay short-term obligations. A significant increase or decrease may indicate unusual activity and should be investigated and explained.

Working capital – $\text{total current assets} - \text{total current liabilities}$ - A measurement of operating liquidity available to the company. Significant increases or decreases should be investigated and explained.

Accounts receivable days in collection – $\text{number of days in period} / (\text{total revenues} / \text{accounts receivable-net})$ - The template uses 365 days for prior years and calculates the number of days in the current year. The ratio is a measure of the average amount of time it takes clients to pay invoices. Significant increases or decreases, particularly when contrasted against revenue growth, should be investigated and explained.

Cash flow from operations (OCF) – The template automatically populates this field from the Net Cash (Provided) Used from Operating Activities fields on the Cash Flow Statement - OCF is a measure of the cash generated through the operations of the business. This measure can also be used as a check on earnings. That is, a strong positive net income may not equate to a positive cash flow from operations. Significant increases or decreases, as well as a negative OCF, should be investigated and explained.

Free cash flow (FCF) – $\text{net cash provided (used) from operating activities} - \text{capital expenditures}$ – FCF is a measure of financial performance that represents the cash generated after spending to maintain and/or expand the asset base. FCF provides the opportunity to enhance shareholder value via the development of new products, acquisitions, paying dividends, and reducing debt. A significant increase or decrease

should be investigated and explained. Advanced analysis of FCF can evaluate the company's capacity to use FCF to amortize long-term debt (LTD). Bank terms for highly leveraged transaction (HLT) financing often require very low or no annual principal reductions. Advanced analysis assumes FCF is equal to the annual P&I payment at a realistic market rate and calculates the amortization period of LTD. Amortization periods in excess of 15 to 20 years may indicate potential problems for future financing or refinancing.

Leverage Analysis

Long-term debt – The template populates this field from the LTD fields on the Balance Sheet. Significant increases or decreases should be investigated and explained.

Long-term debt to total assets – $\frac{\text{LTD}}{\text{total assets}}$ - A measure of leverage representing LTD as a percentage of total assets. Increases in LTD with no material change in total assets should be investigated and explained.

Debt to net worth – $\frac{\text{total liabilities}}{\text{equity capital}}$ - A measure of the TSP's ability to absorb losses without losing the ability to service existing debt; the lower the ratio, the greater the buffer to protect creditors. Significant changes period to period should be investigated and explained.

Debt to tangible net worth – $\frac{\text{total liabilities}}{(\text{equity capital} - (\text{intangibles} + \text{goodwill}))}$ - A leverage ratio to assess the ability to service existing debt after adjusting net worth for intangible assets such as goodwill, patents, trademarks, customer lists, etc.

Interest coverage ratio – $\frac{\text{EBITDA}}{\text{interest expense}}$ - A measure to determine how readily interest on outstanding debt can be paid by EBITDA; the lower the ratio, the greater the burden of debt expense. Ratios near or below 1:1, as well as significant increases or decreases, should be investigated and explained.

Debt service coverage ratio – $\frac{\text{EBITDA}}{(\text{CPLTD} + \text{interest expense})}$ - The system populates the current FY period based on the following formula: $\frac{(\text{EBITDA} / \text{number of months in current FY period}) \times 12}{(\text{CPLTD} + \text{interest expense})}$ - A measure of the ability of EBITDA to cover both principal (CPLTD) and interest payments; the lower the ratio, the greater the burden of debt payments. Ratios near, or less than 1:1, as well as significant increases or decreases, should be investigated and explained.

EBITDA leverage ratio – $\frac{(\text{CPLTD} + \text{long-term debt})}{\text{EBITDA}}$ - The template calculates the current FY period based on the following formula: $\frac{(\text{CPLTD} + \text{LTD})}{((\text{EBITDA} / \text{number of months current FY period}) \times 12)}$ - A common measure to determine EBITDA's ability to pay off debt; the greater the ratio, the less the capacity to repay debt. A ratio of five times or greater EBITDA may indicate a potential problem to refinance or obtain financing. A high ratio or upward trends should be investigated and explained.

Appendix E: EPR Form - Definitions of Business Line Risks

The EPR form included in the Discovery Review, Interim Supervisory Review, and the Confidential section of the ROE includes a common list of business lines TSPs engage in. Examiners are asked to identify those business lines that the examined TSP provides to its client financial institutions. Examiners identify all that apply and rank them as Higher, Average, or Lower as they pertain to the serviced financial institutions. Examiners should assess **all** of the business lines and risks together before arriving at an overall Business Line Risk Ranking. Rating one risk factor as Higher risk **does not** automatically result in the TSP having an overall Higher risk rank. The following are definitions of the business lines.

1. **Aggregation services processing:** Includes collecting consumer financial data from multiple sources and presenting the information in a consolidated format. Simple account consolidation is now supplemented with more sophisticated aggregation models offering advanced financial advisory services based on a customer's consolidated portfolio and integrating aggregation services with others such as an inter-company funds transfer. Processing typically includes incorporating aggregation with online banking services and integrating aggregation functionality with existing Internet banking services.
2. **Asset management/trust (fiduciary activities) processing:** Includes traditional trust services (personal trust, corporate trust, and transfer-agent services), employee benefit account services, custody and securities-lending services, private banking, asset management, and investment advisory services. Specific clearing and settlement services are also included within asset management, but are specifically limited to securities processing and are not meant to include other retail and wholesale payment clearance and settlement activities.
3. **ACH processing:** Includes generating ACH transactions. These are payment instructions to either debit or credit customer deposit accounts by financial institutions, or by servicers on behalf of financial institutions, under operating rules established by the National Automated Clearinghouse Association (NACHA). Processing services support ACH credit transactions including payroll direct deposit, Social Security payments, dividend and interest payments, and corporate payments to contractors, vendors, or other third parties as well as debit transactions, including collection of insurance premiums, mortgage and loan payments, consumer bill payments, and corporate cash concentration transactions. ACH services may also include processing Internet-originated and telephone-initiated ACH payments, and electronic check conversion at the point of purchase and lock box locations.

4. **Asset/liability management (ALM) processing:** Includes analytical services supporting financial institution lending and deposit taking, traditional insurance activities, and liquidity risk management. ALM services also include hedging and securitization services, foreign exchange transaction risk, interest-rate exposures, and related commodities trading and investment risks.
5. **Business continuity/disaster recovery services:** Includes the provision of information technology infrastructure components, such as computing facilities and equipment, hardware and software, technical support, records storage, and telecommunication services. Business continuity services would also include the provisioning of facilities and equipment necessary to support business units at relocation sites as well as crisis- and event-management services.
6. **Credit card merchant processing:** Includes transaction processing, authorization, and related account management services supporting a financial institution's merchant credit card acquiring activities. The services typically support daily processing of merchant credit card transactions and include record keeping for both the merchant and credit card associations. Additionally, independent sales organizations (ISO) also provide related merchant services including the installation and maintenance of point-of-sale terminals and telecommunications equipment.
7. **Core bank processing:** Typically includes processing daily transactions, including demand, time, and savings deposit accounting, loans, investments, and general ledger functions.
8. **Corporate electronic banking/cash management processing:** Typically supports treasury management functions. Services usually include retrieving, matching, and reconciling institution account balances and details, current day and forecasted cash positions, and supporting bank account concentration activities. Cash management services also integrate the initiation and delivery of funds transfer and payment instructions and interface with the general ledger and related accounting system. Treasury management services typically integrate debt issuance and payment, investment settlements, foreign exchange, derivatives transactions, accounts payable and receivable, book transfers, cash concentration movements, and payment receipts and disbursements.
9. **Check processing:** Includes processing on-us and interbank check items for collection. Interbank check processing services usually include clearing and settlement activities through direct presentment, a correspondent bank, or clearinghouse. Related processing services include cash letter processing, check truncation, and check storage and retrieval services.
10. **Credit card processing and issuance:** Includes account processing and customer billing and statement preparation, card authorization, and account posting activities, as well as managing account processing with the credit card associations. Related issuance services, include embossing and encoding blank plastic card stock, personal

identification number (PIN) generation, and related tasks associated with distributing credit cards to institution customers.

11. **Electronic funds transfer (EFT)/point-of-sale (POS) processing:** Includes automated teller machine (ATM) and debit card payment transaction processing, and typically includes ATM and debit card issuing services, merchant services, account maintenance and authorization services, transaction routing and gateway services, off-line debit processing services, and clearing and settlement services. Additionally, this definition includes supporting the installation and maintenance of ATM and POS terminals used by financial institutions and merchants, and services such as ATM and POS terminal driving, transaction processing, and cash restocking done by ISOs.
12. **Imaging and electronic safekeeping:** Includes electronic conversion of paper-based documents to electronic image-based documents retrievable using assignable indexes and search criteria. Electronic conversion services also include archival solutions for paper-based documents and storage of digital media off-site for backup and recovery purposes.
13. **Information Web site hosting:** Includes the development of public Web sites and information sources concerning financial institutions and their services. Typically, the Web sites only provide information and do not allow interactive processing with customers beyond potentially giving customers e-mail addresses to communicate with the institutions.
14. **Managed security services:** Includes logical and physical access controls, identification and authentication processing, and network intrusion detection and network monitoring services. Network monitoring services typically include incident response and crisis management activities supporting production operations.
15. **Mortgage processing:** Includes all phases of mortgage lending, from origination and account establishment to servicing existing mortgages. Mortgage servicing activities include payment processing and account management, tax form preparation, and refinancing services.
16. **Remote electronic banking:** It is the interaction with banking systems performed through access devices that is outside the control of the bank and its service providers. The following terms refer to one form or another of remote electronic banking: personal computer (PC) banking, Internet banking, virtual banking, online banking, home banking, remote electronic banking, phone banking, and mobile banking.
17. **Retail payment clearing and settlement:** Includes transmitting, reconciling, and in some cases, confirming retail payment orders or financial instrument transfer instructions before settlement. Settlement services may also be performed on behalf of the financial institution by accessing its settlement accounts.

18. **Transactional Web site hosting:** Includes the development of public Web sites and information sources that provide customers access to electronic banking activities and interactive processing services.
19. **Wholesale payment clearing and settlement:** Wholesale payment clearing and settlement services not related to specific securities transaction processing and reconciliation services include large-value funds transfer services. Large-value funds transfer services typically include foreign-exchange activities and related treasury management functions. Settlement is sometimes performed on behalf of the financial institution by direct access to its settlement accounts.
20. **Other:** Other services or applications not defined above (e.g., investment safekeeping/processing, derivatives, and mutual funds).

Appendix F: Interim Supervisory Review

Template and Instructions

The Interim Supervisory Review (ISR) maintains ongoing supervision between on-site examinations for all TSPs. This report is used to document all supervisory activities **except** for full-scope examinations, discovery reviews, and SASRs. The ISR is a multi-purpose document intended to be very flexible in its use. It can be used for documenting conclusions arising from a variety of on-site and/or off-site supervisory activities. The ISR should contain matters that the Lead CPC and CPC team consider to be appropriate for documenting the supervisory activities performed during the review.

This document is solely for the internal use of the Agencies; however, under certain, unusual circumstances (e.g., the ISR identifies significant and serious deficiencies that require citing MRAs and downgrading the ratings of the TSP), the CPC team and the supervisory offices may decide to issue an official communication to the TSP's board and management and to inform the TSP's client financial institutions of the regulatory concerns. Because the output of the ISR is not for public distribution, the CPC team elevates the activity to an examination and use the applicable pages of the ROE. The Lead CPC notes in the scope portion of the Open section of the ROE that the activity began as an ISR.

The Agencies transmit the ROE to their respective regulated financial institutions that are clients of the TSP with a memorandum based on the following recommended template.

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[Letterhead of Agency transmitting the ROE]

Date: [date when ROE is being distributed]
To: [Chief Executive Officers of financial institutions utilizing the services of (name of TSP)]
From: [name and title of federal regulator transmitting the ROE]
Subject: Interim Supervisory Review of [TSP name] as of [date]

Enclosed is a copy of the report of examination (ROE) addressing the results of the Interim Supervisory Review that started at [TSP name] on [date]. The review was conducted by an interagency team composed of [names of participating agencies, identifying the AIC].

We are sending you this ROE for your evaluation and consideration in managing your vendor relationship with [TSP]. We encourage you to review the attached document as it discusses some regulatory concerns that require corrective action by [TSP] management and board of directors.

Please remember that this communication and the attached ROE are subject to confidentiality restrictions and are provided for your internal use only. Any unauthorized disclosure or use of these documents, except as expressly permitted by (name of agency transmitting the ROE), is subject to the penalties provided in 18 USC 641.

Should you have any questions, please contact [me/name] at [telephone number].

Required and Optional Pages

Cover Page (Required)

ISRs should use the standard interagency cover page.

Examination Summary (Required)

This page should be completed for all ISRs. It provides general information on the activity being completed.

EPR Form (Required only for Corporate)

The EPR form is required to be completed **only** for the ISRs of the TSP's corporate or roll-up activity. Although risk levels at individuals processing sites may vary, the corporate EPR should reflect the aggregate risk of the TSP. The Lead CPC considers the risk assessments of individual processing sites when determining the overall risk ranking

of a TSP. All sections of the EPR should be completed. Any comments or remarks should be made under an appropriate subheading in the Administrative Remarks section.

The Lead CPC should retain all documentation deemed necessary for supporting the priority ranking and the CPC team's concurrence or lack thereof. The supervisory office of the AIC may request submission of the supporting documentation on a random basis or in instances of Agencies' disagreement. Examiners should follow the instructions in Appendix C for completing the EPR form.

Administrative Remarks (Required)

These remarks should document the evaluation of the entity's performance. The administrative remarks provide general information about the TSP and the examiners' findings. Any comments deemed appropriate by the Lead CPC to document and support the EPR should be included under an appropriate subheading.

Statistical Data (Optional)

This section, if included, should contain statistical information necessary to supervise the TSP adequately and process the report. Examiners should request this information before, or at the start of, the examination. Examiners should follow the instructions in Appendix C for completing these pages.

System and Organization Information (Optional)

If these pages are included, examiners should follow the instructions included in Appendix C.

Financial Information (Optional)

At a minimum, examiners should include data for the last three fiscal years. Examiners should follow the instructions in Appendixes C and D for completing these pages.

Additional Information (Optional)

Examiners may use this section to address specific requirements of the various Agencies. Information included could be items such as the location of work papers.

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Federal
Financial
Institutions
Examination
Council



***Interim Review of
Technology Service Provider
MDPS*** *(include only if applicable)*

(Insert specific Site Name or Corporate)

(SERVICER NAME)

(CITY, STATE)
As of (Date of Exam)

**THIS INTERIM SUPERVISORY REVIEW IS STRICTLY CONFIDENTIAL AND ONLY
FOR INTERNAL USE OF THE FEDERAL REGULATORY AGENCIES**

This interim supervisory review document is the joint property of the Federal Regulatory Agencies. The information contained in this document is based upon the records and books of the entity, upon statements made by directors, officers, and employees, and upon information obtained from other sources believed to be reliable and correct.

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ID/Charter No: [Charter #]

EXAMINATION SUMMARY

I. Technology Service Provider:
 Name: _____
 Corporate Address: _____ City: _____ State: _____ Zip: _____

II. Current Examination: Type of Examination: Interim Supervisory Review
 Agency-In-Charge: _____ Record Number: FBB RSSD OCC Charter FDIC CERT NCUA Charter
 Examination Opened: _____ Examination Closed: _____ URSIT Ratings: _____

III. Examination Staff:

Examiner/Agency	Work Hours	
	On Site	Off Site
1 _____		
2 _____		
3 _____		
4 _____		
5 _____		
6 _____		
7 _____		
8 _____		
9 _____		
10 _____		
Total		
GRAND TOTAL		

IV. Prior Examinations:

Date: _____	Rating: _____	Agency-In-Charge: _____
Date: _____	Rating: _____	Agency-In-Charge: _____
Date: _____	Rating: _____	Agency-In-Charge: _____

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ID/Charter No: [Charter #]

RISK-BASED EXAMINATION PRIORITY RANKING

V. Business Line Risk Ranking: _____ **Higher** _____ **Average** _____ **Lower**

Business Lines (Check ALL that apply and designate as, H-higher, A-average, or L-lower risk as they pertain to this company.)

H	A	L		H	A	L	
			Aggregation services processing				EFT/POS processing
			Asset management/trust (fiduciary activities) processing				Imaging and electronic safekeeping
			ACH processing				Informational Web site hosting
			Asset/liability management processing				Managed security services
			Business continuity/disaster recovery services				Mortgage processing
			Credit card merchant processing				Remote electronic banking
			Core bank processing				Retail payment clearing and settlement
			Corporate electronic banking/cash management processing				Transactional Web site hosting
			Check processing				Wholesale payment clearing and settlement
			Credit card processing & issuance				Other (explain)

VI. Technology Service Provider Risk Ranking: _____ **Higher** _____ **Average** _____ **Lower**

Risk Factors (Select only ONE, Higher, Average, or Lower for each Factor.)

Factor	Higher Risk	Average Risk	Lower Risk
1	Large client base (250 or more supervised financial institutions, or based on other measures, e.g., aggregate client assets affected; transaction volume).	Moderate sized client base (at least 25 but not more than 249 supervised financial institutions, or based on other measures, e.g., aggregate client assets affected; transaction volume).	Small client base (less than 25 supervised financial institutions, or based on other measures, e.g., aggregate client assets affected; transaction volume).
2	Company rated URSIT "3, 4, or 5" at the last examination, or concerns exist and has not yet been assigned URSIT ratings.	Company rated URSIT "2" at the last examination, or minimal concerns exist and URSIT ratings have not yet been assigned.	Company rated URSIT "1" at the last examination, or has not yet been assigned URSIT ratings.
3	Audit program does not provide effective oversight; SAS 70 reports or other audit reviews are not comprehensive.	Audit program provides limited oversight; SAS 70 reports or other audit reviews cover most areas.	Audit program provides effective oversight; SAS 70 reports or other audit reviews are comprehensive.
4	Company is using new or untested technology or products. Company is undergoing significant organizational change.	Company is using stable technology and products, but implements significant upgrades. Company has minimal organizational changes.	Company is using stable technology and products. Company has stable organizational structure.
5	Significant problems or concerns, that require supervisory follow-up, have been reported by client institutions, or their examiners.	Minimal problems or concerns, that require supervisory follow-up, have been reported by client institutions or their examiners.	No problems or concerns, that require supervisory follow-up, have been reported by client institutions or their examiners.
6	Significant concerns over financial condition exist that require active supervisory monitoring and follow-up.	Minimal concerns over financial condition exist. Monitoring may be warranted, but active follow-up is not considered necessary.	No concerns over financial condition that require supervisory follow-up.
7	Services are contracted out to third parties (foreign or domestic), and there are concerns that risk-mitigation controls are inadequate.	Services are contracted out to third parties (foreign or domestic), but risk mitigation controls are considered adequate.	Services are not contracted out to third parties (foreign or domestic).

VII. Examination Priority Ranking: _____ **A** _____ **B** _____ **C** _____ **NA***

* NA, or Not Applicable, applies to TSPs not warranting interagency examination at the current time. Not all TSPs have to be ranked A, B, or C.

VIII. Agency Agreement on Priority Ranking: _____ **Yes** _____ **No***

* If "No" explain in the narrative section of this document.

FFIEC-ITS-2012
2

This is a graphic representation.

ID/Charter No: [Charter #]
ADMINISTRATIVE REMARKS <hr/>
Start text here...
<hr/> FFIEC-ITS-2012
3

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ID/Charter No: [Charter #]

STATISTICAL DATA

Serviced Financial Institutions Recap

Totals for all Institution Types:

National Banks:	_____
Federal Savings Associations:	_____
Federal Savings Banks:	_____
State Member Banks:	_____
State Non-Member Banks:	_____
Credit Unions:	_____
Total All Institutions:	=====

This is a graphic representation.

ID/Charter No: [Charter #]	
SYSTEM AND ORGANIZATION INFORMATION	
System Description (Mission Critical Systems Only)	
Hardware:	
Operating System:	
Software:	
Access Control:	
Teleprocessing:	
Organizational Structure	
Staff Size:	Operations: _____ S&P: _____ Total: _____
Examination Contact:	
Officers/Managers:	
If financial institution, give total assets:	_____ Total deposits: _____
Ownership:	
Directors:	
FFIEC-ITS-2012	
5	

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ID/Charter No: [Charter #]
FINANCIAL INFORMATION
Start text here...
<hr/> FFIEC-ITS-2012
6

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	ID/Charter No: [Charter #]
ADDITIONAL INFORMATION	
Subsequent Examination Strategy	
Include the examination priority ranking designation and support.	
Examination Request Letter	
Send to: [Name of MDPS/TSP/Financial Institution] [Street] [City, State and Zip]	
Report Distribution	
Data Center Copy:	[Name of MDPS/TSP/Financial Institution] (Do not include Confidential Section)
File Copy:	File Copy Location
Washington File:	Washington, D.C. Office
FDIC:	Regional Office
FRB:	Federal Reserve Bank
OCC:	Washington, D.C. Office
NCUA:	Washington, D.C. Office
Field Office:	Organization
Work Paper Information	
Provide detail regarding location of the work papers. Are they hard copy or electronic? Who will be the next Lead CPC contact to gain access to these work papers?	
FFIEC-IS-05	G-1

Appendix G: Uniform Customer List

As part of the supervisory process, the Agencies obtain from each supervised TSP a list of financial institutions (FIs) with whom the TSP has entered into a contractual obligation to provide services. Obtaining customer data from a supervised TSP is necessary for the Agencies to carry out their responsibilities, which include

- identifying and validating the TSP's client FIs that are entitled to a copy of the Agencies' supervisory reports;¹⁰
- communicating internally among the Agencies' supervisory offices that are responsible for the FIs serviced by the TSPs;
- responding to incidents (e.g., natural or man-made disasters, and security breaches) that may affect multiple FIs regulated by different Agencies; and
- evaluating systemic risks that may exist with TSPs servicing large numbers of regulated FIs.

The Agencies have a prescribed format that all examined TSPs use to provide FI customer information (all known as Customer List) to examiners. The Customer List is made up of two spreadsheets, as shown in the next section. The first spreadsheet contains data on the regulated client FIs. The second spreadsheet lists the applications used to provide services to FIs. All TSPs are required to collect and retain FI customer information, including each FI's Agency identification number, so that it can be provided to examiners the Customer List in the prescribed format. The Customer List is the primary source of information that the Agencies use to ensure ROEs are distributed only to FIs that have current contractual relationships with the TSP or can demonstrate that they have entered into contracts with the TSP at the time of the examination.

The Customer List must be a stand-alone document and must be in the following prescribed spreadsheet format.

Standardized Data for Customer Lists

The following data on client-regulated FIs are to be obtained from TSPs. The numbers listed correspond to the numbers included in the Sample Spreadsheet: Customer List shown in the next section:

1. The Agency Identifier for the **primary** federal regulatory agency of each FI.
 - a. FDIC = Certification Number
 - b. FRB = RSSD Number
 - c. OCC = Charter Number

¹⁰ Each of the Agencies is responsible for implementing its own distribution policy for reproducing the Open section of the ROE and distributing it to the institutions it regulates that are clients of the TSP.

d. NCUA = Charter Number

The information for FIs regulated by the FDIC, FRB, and OCC should be obtained from the FDIC's site at <http://www2.fdic.gov/idasp/index.asp>; the information for credit unions, from NCUA's site at <http://www.ncua.gov>.

2. The Classification Code for each FI's **primary** federal regulatory agency. This code is used to identify the type of financial institution being reported.

- a. CU = Credit Union
- b. N = National Bank
- c. NM = State Non-Member Bank
- d. SM = State Member Bank
- e. SB = Savings Bank
- f. SA = Savings & Loan Association
- g. OI= Insured U.S. branch of a foreign chartered institution

The information for the Classification Code should be obtained from the same sources provided earlier under #1.

3–7. Identification of the FI: (3) Complete legal name, (4) street address, (5) city, (6) state, and (7) zip code.

8. The TSP location (i.e., service center) where the client's contract services are provided and/or supported.

9. The services provided to the client FIs (e.g., core banking processing and mortgage processing), categorized into the following business lines, as defined in Appendix E:

- a. Aggregation services processing
- b. Asset management/trust (fiduciary) processing
- c. ACH processing
- d. Asset/liability management processing
- e. Business continuity/disaster recovery services
- f. Credit card merchant processing
- g. Core banking processing
- h. Corporate electronic banking/cash management processing
- i. Check processing
- j. Credit card processing and issuance
- k. EFT/POS processing
- l. Imaging and electronic safekeeping

- m. Informational Web site hosting
- n. Managed security services
- o. Mortgage processing
- p. Remote electronic banking
- q. Retail payment and settlement clearing
- r. Transactional Web site hosting
- s. Wholesale payment clearing and settlement

Standardized Data for Applications

A list of applications used to provide services to FIs, using the same business lines that are in the Customer List and their definitions, is obtained from TSPs in the format of the sample spreadsheet: Application List, as shown in the next section.

The Agencies expect TSPs to deliver the Customer List to examiners in a spreadsheet file format and to maintain the integrity of the data using reasonable update frequencies. This process should allow the Agencies to obtain accurate Customer Lists at routine intervals during the examination cycle or when events warrant securing such information.

Timing and Frequency of Collection

The timing and frequency of routine collection of a TSP's Customer List is decided by examiners responsible for the TSP's supervision. At a minimum, the Lead CPC is responsible for obtaining from the TSP a complete Customer List annually and for providing a copy to all other Agencies. A Customer List may be requested more frequently, as determined by the CPC team.

Normally, requests for a Customer List is made by the Lead CPC, who provides sufficient lead-time for the TSP to comply with the request; however, requests for a Customer List that are necessary because of specific incidents may warrant expedited responses from the TSP.

Appendix H: SASR Program

Template and Instructions

The purpose of the SASR is to provide a uniform report on widely used software applications. The intent of the report is to provide field examiners with useful information to assist them in examining institutions that use these software applications. The report focuses on the three major tenants of IT—confidentiality, integrity, and availability (CIA). In addition to addressing core applications, the report format is flexible and allows for an independent review of specialty applications, such as BSA/AML, asset management, and retail credit. The procedures under Objective 7 address the specialty examination areas.

A standard template directs examiners to address specific areas. The report is streamlined and focused to include only information useful to field examiners conducting examinations of FIs. Examiner follow-up boxes are used to identify areas where compensating controls are needed at the FI because of application deficiencies. If significant deficiencies are identified (e.g., inadequate logical access controls or logging capabilities), the examiner conducting the SASR should detail these findings in a **separate** memorandum.

Examiners should identify the name and purpose of key reports, including reports that may be of use to specialty examiners. The review should provide details on the security capabilities of the product. Screen shots of security settings may be included, but **only if** they benefit the end user. The SASR template consists of the following type of documents:

- **MS Word:** Open and Administrative sections.
- **MS Excel:** Customer List. **Note:** If the SASR is associated with an examined TSP, the Customer List is optional.

Guidelines for completing the SASR are incorporated into the template, and examiners should follow them very closely. The Agencies implemented a SASR Review Process to ensure the reports adhere to these guidelines and thereby are valuable to the users.

This is a graphic representation.

Federal Financial Institutions Examination Council



SHARED APPLICATION SOFTWARE REVIEW

SASR Template Version: April 20, 2012

This is a graphic representation.

SHARED APPLICATION SOFTWARE REVIEW

Software Product Reviewed

Vendor

Vendor Address

Date of Review

Lead Agency

Participating Agencies:

Federal Deposit Insurance Corporation

Federal Reserve Bank

Office of the Comptroller of the Currency

THIS REPORT IS STRICTLY CONFIDENTIAL

This SASR report is the property of the federal regulatory agencies, and it is not to be duplicated without permission. This report is confidential and only for internal use of the Agencies. Copies are **not** to be provided to the TSP, independent software vendor or client financial institutions.

This is a graphic representation.

Instructions

Instructions for Authors (examiners conducting the SASR)

- A SASR should be completed only by seasoned examiners with IT or other appropriate subject matter expertise. The author should be mindful the users of the report include non-specialists; therefore, all acronyms and abbreviations must be spelled out and technical terms defined in layman's terms.
- A SASR is product specific. For example, a core product review should not include ancillary products such as those for Internet banking. If examiners are reviewing an ancillary product, a separate, stand-alone SASR should be prepared. On the other hand, if a multifunctional product (e.g., an Internet banking product that includes cash management, bill pay, etc.) is reviewed, it should be discussed in one SASR.
- A scope document must be prepared and sent to the examiners participating on the review. If a SASR will be completed as part of supervising an MDPS firm, the SASR work should be referenced in the current, approved supervisory strategy.
- To streamline the SASR and enhance its usage, you are encouraged to use screen-prints. Click on the embedded document on the next page for instructions on how to use screen prints. The use of images should be limited to significant information needed by the users.
- Detailed instructions for completing work steps are contained within hidden text throughout this document. Prior to submitting the report, you should turn off all hidden text and remove all hidden data so that prior edits are not seen. To turn off hidden text, click on the Show/Hide button in the tool bar (¶).
- When selecting check box fields (Yes No), double-click on the box you want to check, and under the default value of the screen that will appear, select the checked default value to make the appropriate selection.
- Use of Examiner Follow-Up boxes should be limited to significant issues; primarily those related to Confidentiality, Integrity, and Availability (CIA) of data. Click on the embedded document on the next page for instructions on how to create a text box. Comments should focus on concerns relating to client user controls and implementation of mitigating controls the examiner should review.
- Objective 7 is optional; however, it should be completed only by a specialist if the product under review impacts a specialty area (e.g., BSA/AML, fiduciary, credit, etc.). The objective provides the ability to identify reports, capabilities, or compliance with regulatory guidelines that are unique to the product and that are not addressed elsewhere in the SASR report.

This is a graphic representation.

- When you have completed the report, highlight the Table of Contents (it will appear gray), right click and select Update Field; then select the Update Page Number Only choice. This will update the page numbers automatically.
- You should complete and forward the SASR report for approval to the CPC for the AIC of the TSP/ISV within 30 days from the completion of the on-site review.
- Customer list for independent software vendors (ISV): You should request from the vendor a list of FIs that purchased the software and hold a license. Preferably, the list would include the company name, address, and products purchased. The ISV is **not** obligated to provide this information. Therefore, you should accept the customer list in whatever form the vendor is willing to provide. Attach the list to the SASR. You do not have to reformat the list of customers or identify the type of financial institution.
- Customer List for TSPs: A current list of serviced FIs should already exist as part of the supervision of the TSP. Therefore, you should request from the TSP only a list of FIs that purchased the software and hold a license. The TSP may use the TSP customer list template and complete as many of the fields as possible; but, at a minimum, the list should include the name and address of each FI. You should attach the list to the SASR.
- We provided a standard software request list that can be submitted to the TSP/ISV to assist in completing the SASR. However, the request list might not cover all the questions for the specialty area, Objective 7. You may need to work with the specialist and add questions needed to fully answer that Objective.

Please be sure and delete these Instructions for SASR Authors prior to submitting the completed report.

– Instructions for inserting Screen Prints and Examiner Follow-Up Boxes into the SASR.



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Disclosure, Purpose, and Use of SASRS

SASRs are confidential and for the agencies' internal use only. Neither the content nor the completed report should be shared with the technology service provider (TSP), independent software vendor (ISV) or financial institution (FI) that uses the software product. SASRs are done as of a certain date. As such, findings cited in the review may change over time due to TSP/ISV modifications to the software product. Therefore, examiners should not base findings and exceptions solely on information obtained from a SASR. Examiners should verify all exception conditions through normal examination procedures of the user FI before citing any findings in the ROE of the FI.

The purpose of the SASR is to provide information to examiners performing examinations of FIs and data centers that use [enter product name here] software product. The information provided in this report is intended to augment and expedite the supervisory process by presenting information, suggestions, and instructions to aid in completing an examination of an FI using this product. While the primary intent of this product review is to address core processing, the program provides flexibility for use in reviewing non-core products such as BSA/AML, asset management, compliance, retail, etc.

Examiners should be able to reach conclusions regarding the product reviewed, identify where compensating controls may be needed, and evaluate any potential systemic or inherent risks that could negatively impact FIs that use this product. The SASR covers seven objectives -- primarily related to Confidentiality, Integrity, and Availability (CIA) of data -- across 38 work steps.

Instructions for SASR Users

- If you have questions about the information in this SASR report, **do not** contact the TSP/ISV. You should contact your agency's Central Point of Contact (CPC) for the TSP or ISV that offers this product. If you do not know the name of the CPC, start by contacting the examiner from your agency who participated in the SASR, as listed in the second page of this report.
- The purpose of this document is to augment, rather than replace, your agency's examination procedures.
- If the SASR is offered by a TSP that is subject to interagency supervision, you should review the ROE of the TSP to identify potential issues related to the operations of the TSP. Contact your agency's CPC to obtain a copy of the ROE.

This is a graphic representation.

SASR: **Insert Product Name**

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This is a graphic representation.

SASR: **Insert Product Name**

Objective 1: Develop an understanding of the software vendor.

1. Indicate date and location of software product review (the site of the TSP/ISV or FI).

2. Is this vendor examined on a regular basis by the Federal Regulatory Agencies?

Yes No

✓ If yes, insert the name and date of the most current TSP ROE or SASR.

✓ List current SASRs on other products provided by this vendor.

3. Software description:

✓ Package name

✓ In the table below, check all of the appropriate business lines or functions that are covered by this SASR.

<input type="checkbox"/> Aggregation services processing	<input type="checkbox"/> Credit scoring
<input type="checkbox"/> Asset/liability management processing	<input type="checkbox"/> Deposit processing
<input type="checkbox"/> Asset management (trust) processing	<input type="checkbox"/> Electronic banking (retail/corporate)
<input type="checkbox"/> Automated teller machine (ATM)/Electronic file transfer (EFT)/Point of sale (POS) processing	<input type="checkbox"/> General ledger
<input type="checkbox"/> Bill payment services	<input type="checkbox"/> Imaging & electronic safekeeping
<input type="checkbox"/> Bank Secrecy Act (BSA)/anti-money laundering (AML) processing	<input type="checkbox"/> Investment processing
<input type="checkbox"/> Business continuity/disaster recovery services	<input type="checkbox"/> Loan origination
<input type="checkbox"/> Check processing	<input type="checkbox"/> Loan processing
<input type="checkbox"/> Clearing and settlement (retail/wholesale)	<input type="checkbox"/> Remote deposit capture
<input type="checkbox"/> Core processing suite	<input type="checkbox"/> Teller platform
<input type="checkbox"/> Credit card processing (merchant/consumer)	<input type="checkbox"/> Other (describe here)

This is a graphic representation.

SASR: **Insert Product Name**

- ✓ List the current and supported version/release numbers.
 - ✓ Provide a **brief** description of the product's functionality.
 - ✓ List any relevant modules provided by the vendor that supplement this product.
 - ✓ Discuss future plans for significant software updates.
 - ✓ Describe **briefly** the significant changes, features, and capabilities that have occurred since the prior SASR.
4. Indicate the number of FIs using this product in a turnkey environment.

Complete steps 5 and 6 **only** if the vendor is an ISV. If the vendor is a TSP, **do not** answer these questions and refer the reader to the TSP's ROE. If you do not complete steps 5 and 6, **delete them** from the final report.

5. Describe **briefly** the corporate ownership and financial condition of the ISV.
6. Discuss the ISV's System Development Life Cycle (SDLC) process used to develop the product. (Complete the FFIEC Development and Acquisition work program and **briefly** summarize any issues here.)

This is a graphic representation.

SASR: **Insert Product Name**

Objective 2: Identify potential risks relating to vendor support.

1. Identify any problems with the ability or willingness of the TSP/ISV to continue to provide support for the software.
2. Describe **briefly** the TSP's/ISV's process and the adequacy of the process for providing software updates (unscheduled updates or emergency fixes) to the client financial institutions.
3. Describe **briefly** training made available by the TSP/ISV to its client financial institutions and the appropriateness of the training.
4. Describe **briefly** the TSP/ISV's User Group processes.

Complete steps 5, 6, and 7 **only** if the vendor is an ISV. If the vendor is a TSP, **do not** answer these questions and refer the reader to the ROE of the TSP. If you do not complete steps 5, 6, and 7, **delete them** from the final report.

5. Evaluate processes the ISV uses to respond to regulatory requirements, including complying with all laws and regulations.
6. Map the process the ISV uses to manage customer requests, changes, and complaints.
7. Verify the ISV has fidelity bond insurance that includes software development and maintenance problems, as well as, employees accessing systems of a financial institution.

This is a graphic representation.

SASR: **Insert Product Name**

Objective 3: Provide details regarding vendor management.

1. Detail **briefly** the information the TSP/ISV provides to its client financial institutions to assist them in performing their ongoing vendor due diligence and ongoing monitoring activities.

2. Does the TSP/ISV's standard Software License Agreement/contract adequately cover the following areas? If the response is no, please provide a brief explanation.
 - ✓ GLBA confidentiality?
 Yes No

 - ✓ Describe **briefly** the extent to which TSP/ISV staff can access client financial institutions' confidential customer information. If the TSP/ISV's staff can access client financial institution's confidential customer information, describe **briefly** the means in place for monitoring or restricting such access or any other mitigating controls available to the TSP/ISV's clients.

 - ✓ A source code escrow agreement?
 Yes No

 - ✓ Detail where source code is escrowed?
 Yes No

3. If the source code is not escrowed, is it provided to the financial institution, and does the TSP/ISV explain how to control access?

This is a graphic representation.

SASR: **Insert Product Name**

Objective 4: Provide details regarding the software product's report capabilities

1. List the names and purpose of key reports the financial institution should regularly review. Include the suggested frequency for reviewing the reports (e.g., daily, weekly, etc.).

- a. Unauthorized Access Reports (i.e., reports that identify internal/external access to the financial institution's systems and its non- public sensitive customer information).

Number	Title	Purpose	Frequency

- b. Security Reports (i.e., time of day restrictions, failed access attempts, user rights, security administrator activities, etc.).

Number	Title	Purpose	Frequency

- c. Fraud detection/prevention.

Number	Title	Purpose	Frequency

- d. Other Reports (e.g., privileged functions, utility usage, parameter changes, master file/CIF changes, exception reports, data altering utilities, etc.).

Number	Title	Purpose	Frequency

2. Describe **briefly** report generating capabilities. If there is a way to manipulate the reports to make them look like standard reports, describe how to identify the difference.

This is a graphic representation.

SASR: **Insert Product Name**

Objective 5: Provide details regarding the software product's logical access controls.

1. Detail **briefly** the software product's security settings available. List the default settings and the recommended settings.

Consider:

- a. Controls to prevent changes to settings.
- b. Time-of-day access.
- c. Automatic inactivity logoff/timeout.
- d. The following password controls:

Setting (identify the parameter)	Default Setting	Recommended ¹	Comment (detail TSP/ISV recommended setting if different from the default settings)
Minimum password length		6 ~ 8 characters	
Complexity (alphanumeric and special characters)		Should be enabled	
Failed logon attempts		3 ~ 5 attempts	
Password history		8 ~ 10 passwords	
Password change interval (days)		30 ~ 90 ² days	
Non-duplicate password period			

¹ These recommended values are generally accepted prudent practices and could vary depending on compensating controls.

² Passwords should expire, and Microsoft suggests a maximum age of 42 days. Users in the Administrator Group should change passwords more frequently than ordinary users. The built-in Administrator ID (which should be renamed) should not have automatic password expiration, but should be reset periodically and manually. It should change twice yearly, or whenever anyone who knows the password leaves the organization or moves to a different department and no longer needs access.

Randomly generated, sufficiently-long strong passwords can remain in place for as long as six months. If these passwords are known by more than one staff member, they should change if any of the staff members leaves or is assigned to a different area and no longer needs access.

Service accounts with long and random passwords can have permanent passwords: these accounts service Exchange, SQL, IIS, and other similar software.

This is a graphic representation.

SASR: **Insert Product Name**

2. Describe **briefly** the levels of user authorities the system allows and how they are managed. Provide screen shots of user authority levels.

3. If applicable, comment on the appropriateness of encryption used for storing and transmitting passwords.

4. Describe how users authenticate to the software product and determine its appropriateness.

5. Identify the software product's default user-IDs and passwords, along with their privileges.

User ID	Password	Privilege(s)

6. Do the client financial institutions have the ability to rename default user IDs/ passwords?
 Yes No

7. Does the software product provide for remote access? If so, how is it controlled?

This is a graphic representation.

SASR: **Insert Product Name**

Objective 6: Determine the confidentiality, availability, and integrity

1. Does the software product provide adequate controls and audit trails for data files, including master-file change requests (such as address changes, due dates, interest rates, service charges, etc.)? Consider:
 - a. Documentation/audit trail of authorized changes.
 - b. Authorized individuals and potential conflicting duties.
 - c. Manner in which the software product verifies master file changes (dual control). Provide report name and/or number.
 - d. What the software product provides for dual control in high risk areas such as automated clearinghouse (ACH).

2. List data altering utilities and their purpose or other mass change features. Identify utilities that represent significant risk to client FIs and describe briefly how they are controlled.

3. Assess the adequacy of controls over changes to systems and programs. If the FIs have access to source code, describe briefly what the TSP/ISV recommends for implementing source code changes.

4. Describe **briefly** the TSP/ISV's recommended backup procedures (off-site and onsite) for data files and programs (application and operating system), including imaged files. In addition, include the following:
 - a. Frequency of backups (are they automated?)
 - b. Processes/programs that may be available through the TSP/ISV to ensure proper backups are created. Provide an example of reports that are available to verify that backups were successful.
 - c. Any user security settings that may be included in the program backup or data file backup.
 - d. Any automatic encryption of backed up data.

This is a graphic representation.

SASR: **Insert Product Name**

5. Determine whether the system allows a means to download information to a PC or send via other electronic means (i.e., fax, e-mail, file transfer protocol (FTP), etc.). If so, briefly describe and identify any available software product controls that could be deployed by the client FIs.

6. Identify alternate data inputs. Briefly describe the controls over alternate data input mechanisms (e.g., ACH, ATM, remote deposit capture, etc.).

7. Evaluate the level of encryption provided by the software product.

8. Does the software product provide or support strong authentication for high risk transactions, as required by FFIEC Guidance on Authentication in an Internet Banking Environment? If so, describe briefly.
 Yes No N/A (explain)

This is a graphic representation.

SASR: **Insert Product Name**

Optional - This Objective should be completed **only** if a specialist (for example: compliance, BSA, or fiduciary/asset management examiner) is participating in the review.

Objective 7: Develop an understanding of the software product's functionality and features as they relate to the specialty area reviewed

1. Identify the specialty area being reviewed.
2. Identify the name and purpose of key reports that are beneficial to the specialty area.

Number	Title	Purpose	Frequency

3. Provide details on the key considerations and capabilities of the product for the specialty area.
4. Determine if the software product meets regulatory compliance guidelines. Provide brief details **only** if the system is non-compliant.
5. Describe **briefly** any significant limitations of the software which would require the client financial institutions to implement compensating controls.

This is a graphic representation.

Instructions for Inserting Screen Prints and Examiner Follow-Up Boxes into the SASR

(Note: This is the information contained in the embedded document that appears at the end of the SASR instructions)

1) Inserting Screen Prints

Most computer systems provide a means for copying a screen/monitor image. For example, Windows-based laptops and PCs typically have a key labeled Prnt Scrn or PrtSc. By pressing this key, the image is copied to a clipboard or buffer. The image can then be pasted into the Word document by placing the cursor at the desired place in the document, and selecting "Edit" -> Paste (or Paste Special).

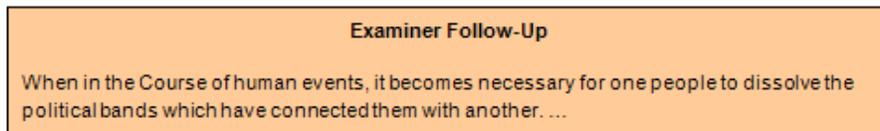
Once the image is pasted into the document, it can be cropped or resized to suit your needs. First make sure the Picture Toolbar is displayed by selecting View -> Toolbars -> Picture from the menu bar. To crop or resize the image, you will need to click on the image and work with one of the image "handles" (small squares appearing on the sides and corners of the image).

- a) **Cropping** permanently removes selected portions of the image. To do so, click on the image, then the  button on the picture toolbar. Next, place the cropping button () over one of the handles and drag in the desired direction. You can achieve finer control of how much is cropped by holding down the Alt key as you drag. If you make a mistake, select Edit -> Undo Crop Picture (or Ctl-Z).
- b) **Resizing** an image keeps the entire image content intact, but changes the overall size of the image on the page. This is accomplished by clicking on the image then on one of the 8 handles and dragging in the appropriate direction. To keep the same aspect ratio (length:width) of the original image, make sure you use on the corner handles and not the side handles.

Some useful suggestions:

- You can view (and therefore copy) more of the desired content of the screen by going to full screen mode before pressing the Print Screen key. In MS-Word, this can be accomplished by selecting View -> Full Screen in the menu bar. You can also use the zoom level in the toolbar to change it to a smaller value to display more content on the screen. However, be aware that smaller zoom levels may make the resultant inserted image more difficult to read.

2) Inserting Examiner Follow-Up Boxes



There are multiple methods for creating the Examiner Follow-Up boxes. The first instructions below will work for most users of Microsoft Office 2003. The second instructions were developed for users of Microsoft Office 2007. Another method would be to Copy (ctrl-c) and Paste (ctrl-v) the sample provided earlier into your SASR document.

This is a graphic representation.

Directions for Office 2003

- a) Enter the desired text for the Examiner Follow-up.
- b) Create a blank line before and after the text.
- c) Format the text with the correct font, and drag the left indent on the tab bar to the correct alignment.
- d) Select the text to be enclosed in the box, **not** including the blank lines before and after just created.
- e) On the Format menu item, click on Borders and Shading ... and
In the [Borders] tab:

Setting: Shadow Box
Style: (choose the solid line)
Width: 1 pt
Color: Automatic
Apply to: Paragraph

Click on the [Options] button, and set the Top, Bottom, Left, and Right indents to 6 pts.

In the [Shading] tab:
Fill: Tan
Patterns: Clear
Apply to: Paragraph

Directions for Office 2007

- a) Select the Insert tab at the top of the screen to see the portion of the ribbon containing the Text box (Home-Insert-Page-Layout-Mailings-Review-View-Acrobat).
- b) Select Text Box in the Text group of the Insert Ribbon.



- c) At the bottom of the pop up select Draw Text Box.

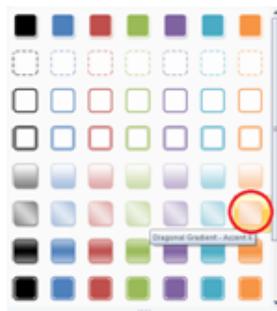


This is a graphic representation.

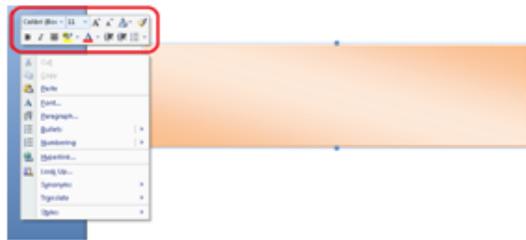
- d) Use the cross hairs to draw the box by dragging the cross hairs to the top corner of where you would like your text box to start. Hold down the left mouse button and drag the cross hairs to the bottom right corner of where you would like your text box to end and release the left mouse button.
- e) Additional Size adjustments can be made to the text box. Place the cursor on the symbols on the dotted line surrounding the box until the cursor changes to a two directional arrow ←→. When it appears, hold down the left mouse button and drag the box to the need size.
- f) For text box shading color, go to In the Text Box Styles group of the ribbon that contains the color squares. Select the bottom arrow to the right of the color squares to open a larger selection of color squares.



- g) For SASR consistency, please choose Diagonal Gradient – Accent 6. It is the last color square on the sixth row down from the top. The color should appear to be a tan or sand color depending on your screen settings. Make sure the text box shading color will allow the reader to see the text when the document is printed in black and white).



- h) Right click on the box to open the Font utilities to create the text font for the box to coincide with the font being used in the document.



Appendix I: Abbreviations

A

A/R	accounts receivable
ACH	automated clearing house
Agencies	The Board of Governors of the Federal Reserve System (FRS), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC), collectively “Agencies.”
AIC	Agency-In-Charge
ALM	asset/liability management
AML	anti-money laundering
App	application
ATM	automated teller machine

B

BCH rating	RFI/C (D) rating: risk management, financial condition, potential impact of the parent company and non-depository subsidiaries/composite (depository institution)
BSA	Bank Secrecy Act
BSA/AML	Bank Secrecy Act/anti-money laundering
BSCA	Bank Service Company Act

C

CAMELS	capital, asset quality, management, earnings, liquidity, and sensitivity—the commonly used reference for the Revised Uniform Financial Institutions Ratings System (UFIRS)
CAPEX	capital expenditures
CERT	certificate
CFPB	Consumer Financial Protection Bureau
CIA	confidentiality, integrity, and availability
CPC	Central Point of Contact
CPC team	Lead CPC and other CPCs, assigned by each Agency, who are responsible for the supervision of technology service providers (TSP), including those in the Multi-Regional Data Processing Servicers (MDPS) program

CPLTD current portion of long-term debt
CU credit union

D

D&A depreciation and amortization
DR Discovery Review

E

EBITDA earnings before interest, taxes, depreciation, and amortization
EFT electronic funds transfer
EIC Examiner-In-Charge
EOG Examination Oversight Group
EPR Examination Priority Ranking

F

FCF free cash flow
FDIC Federal Deposit Insurance Corporation
FDIC CERT FDIC certificate number, a unique, five-digit number assigned by the FDIC
FFIEC Federal Financial Institutions Examination Council
FI financial institution
FRB Federal Reserve Board
FRB RSSD Federal Reserve Research, Statistics, Supervision and Discounts, a unique identifier assigned by the Federal Reserve
FRS Federal Reserve System
FTP file transfer protocol
FY fiscal year
FYE fiscal year end

G

Guidelines “Federal Regulatory Agency’s Administrative Guidelines:
Implementation of Interagency Programs for the Supervision of
Technology Service Providers”

I

ID	identification
ISO	independent sales organizations
ISR	interim supervisory review
ISV	independent software vendor
IT	information technology
IT Handbook	<i>FFIEC Information Technology Examination Handbook</i>
ITS	Information Technology Subcommittee

L

Lead Agency	Agency-In-Charge of supervisory activities for a TSP
Lead CPC	Lead Central Point of Contact, the examiner responsible for leading the CPC team in the supervision of technology service providers
LTD	long-term debt

M

M&A	mergers and acquisitions
MDPS	multi-regional data processing servicers
MRA	Matters Requiring Attention
MS	Microsoft

N

N	national bank
NA	not applicable
NB	national bank
NACHA	National Automated Clearinghouse Association
NCUA	National Credit Union Administration
NM	state non-member bank
NW	net worth

O

OCC	Office of the Comptroller of the Currency
OCF	operating cash flow

P

P&I	principal and interest
PC	personal computer
PIN	personal identification number
POS	point of sale

R

R&D	research and development
RB-EPRP	Risk-Based-Examination Priority Ranking Program
RFI/C (D)	risk management, financial condition, potential impact of the parent company and non-depository subsidiaries/composite (depository institution)
ROE	Report of Examination
RSSD number	Federal Reserve Research, Statistics, Supervision and Discounts, a unique identifier assigned by the Federal Reserve

S

S&P	Standard and Poor's
S&D	Support and Delivery
SASR	Shared Application Software Review
SB	savings bank
SDLC	system development life cycle
SEC	Securities and Exchange Commission
SG&A	sales, general and administrative
SL	savings and loan association
SM	state member bank

T

TFOS	Task Force on Supervision
TSP	technology service provider
TSP booklet	“Supervision of Technology Service Providers” booklet of the <i>FFIEC Information Technology Examination Handbook</i>

U

UFIRS	Revised Uniform Financial Institutions Ratings System
URSIT	Uniform Rating System for Information Technology
USC	U.S. Code