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Central Bank of Ireland

Eurosystem

Consultation Paper CP173

Guidance on Good Practices for
the Sound Management of Third-
Party Risks

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1. Introduction

1.1 Purpose of this Consultation

The Central Bank of Ireland (the "Central Bank") is publishing this Consultation Paper to seek stakeholders' views on proposed new Guidance on Good Practices for the Sound Management of Third-Party Risks (the "Guidance").

This consultation forms part of the Central Bank's commitment to being open and engaged with stakeholders, and to continuously enhancing the effectiveness, clarity and transparency of the regulatory framework. It supports the delivery of the Central Bank's mission to serve the public interest by maintaining monetary and financial stability while ensuring that the financial system operates in the best interests of consumers and the wider economy.

We have also approached this work under the lens of regulatory simplification¹. The Central Bank is looking for opportunities for consolidation, to ensure consistency between EU and domestic guidance, to reduce administrative load while maintaining clarity of responsibility, and to embed proportionality and clarity.

The proposed Guidance will, upon finalisation, replace the existing Cross-Industry Guidance on Outsourcing published in December 2021.

1.2 The Importance of Managing Third-Party Risk

1.2.1 The Evolution of Third-Party Dependencies

The financial services sector continues to evolve rapidly, driven by technological innovation, changing business models, cost pressures, and the need for increased operational flexibility. Outsourcing and the use of third-party service providers has become a key strategic tool enabling regulated firms to:

- Access specialised expertise and advanced technologies
- Reduce costs and improve operational efficiency
- Enhance scalability and flexibility
- Focus resources on core business activities

¹ [Regulating and Supervising Well - a more effective and efficient framework](#)

- Respond to competitive pressures and market changes

This trend has accelerated in recent years, with firms increasingly relying on third parties for a wide range of services including Artificial Intelligence (AI), cloud computing, data processing, customer service, technology infrastructure, and even core business functions.

1.2.2 The Risks of Third-Party Dependencies

While third-party arrangements can offer significant benefits, they also create risks that, if not effectively managed, can pose serious threats to:

Financial Stability: Sound management of third-party risks contributes directly to the safety and soundness of regulated financial service providers and the services they provide to the wider economy. From a systemic perspective, risks can be amplified through dependencies on a small number of third-party service providers, or dependence on suppliers with common vulnerabilities, with the potential for rapid contagion when incidents occur. The increasing concentration of critical services with a limited number of providers—particularly in areas such as cloud computing and AI—creates systemic dependencies that extend beyond individual firm resilience.

Consumer Protection: Consumers rely on the continuous availability of financial services and the security of their personal and financial data. Service disruptions, data breaches, or poor service quality arising from third-party failures can directly harm consumers. Firms' reliance on third parties does not diminish their responsibility to protect consumer interests and ensure service continuity.

Operational Resilience: The Central Bank's Regulatory & Supervisory Outlook Report 2026 identifies operational resilience as a critical priority, with third-party risk management at its core. The deterioration, disruption or failure of critical services or the service providers that provide them may pose risks to financial institutions and, in some instances, to financial stability. Where firms have robust operational resilience capabilities, this protects consumers and investors, preserves safety and soundness, and limits systemic risk arising from third-party disruption.

Firm Safety and Soundness: Inadequate oversight and control of third-party arrangements can expose firms to financial, operational, reputational, legal, compliance, and strategic risks. Firms must maintain appropriate visibility and control over outsourced functions, with robust

contractual arrangements, performance monitoring, contingency plans and termination arrangements in respect of all material third-party arrangements.

1.2.3 Regulatory Obligations

Regulated firms have legal obligations with respect to the management of their risks, including risks presented through reliance on third parties.

This is important for:

- The stability and viability of regulated firms
- The continued proper provision of services to consumers
- The efficient operation of the financial system more broadly

The responsibility of a firm's management body for all its activities can never be delegated to third-party service providers. Firms retain full accountability for their operations and must ensure they have appropriate governance, risk management, and business continuity processes in place in relation to the selection and safe use of third-party arrangements.

1.2.4 Concentration Risk

The increasing use of outsourcing and reliance on third parties gives rise to growing concentration risk concerns, both at individual firm level and at sectoral or system-wide level. Concentration risk is of particular concern where there are a limited number of providers of certain services whether directly engaged or indirectly within their third party supply chain—for example, cloud or AI service providers or other specialist service providers—that may be difficult to substitute. Concentration risk is also of concern where a firm has evolved over time to have an over-dependence on single providers.

1.3 Context and Background

1.3.1 Central Bank Engagement on Third-Party Risk

The Central Bank has been actively engaged with the topic of outsourcing and third-party risk management for several years. This engagement has included:

- A "Cross Sector Survey of Regulated Firms' Outsourcing Activity", which issued to 185 regulated firms in 2017

- The publication of the discussion paper 'Outsourcing – Findings and Issues for Discussion' in November 2018
- The hosting of an industry Outsourcing Conference in April 2019
- The publication of Cross-Industry Guidance on Outsourcing in December 2021
- The collection of Outsourcing Registers
- Ongoing outsourcing-related supervisory engagements, including risk assessments, inspections, thematic reviews, and reviews of material change notifications, and reported incidents

This extensive engagement has informed the Central Bank's understanding of the challenges faced by firms and the evolving nature of third-party dependencies in the financial sector.

1.3.2 Supervisory Findings

The Central Bank's supervisory activities have identified several recurring themes and areas of concern:

- Underdeveloped oversight arrangements – Inadequate governance and risk management frameworks for third-party arrangements
- Concentration risks – Over-dependence on a single or small number of service providers who cannot easily be substituted
- Intra-group dependencies – Insufficient consideration of risks arising from reliance on group entities, with some firms lacking full visibility on the resilience of the services being provided as well as the capability to operate effectively if group support becomes unavailable
- Offshoring challenges – Visibility and supervisibility concerns arising from the character of the jurisdiction (political, legal, physical distance) where activities or services are being performed
- Inadequate exit planning – Insufficient contingency and exit planning for critical or important outsourcing arrangements
- Sub-outsourcing risks – Limited oversight of sub-outsourcing arrangements by key service providers

Outsourcing remains a key sector risk due to some firms' underdeveloped outsourcing oversight and risk management arrangements.

1.3.3 International Regulatory Developments

Since the publication of the 2021 Guidance, there have been significant developments in international regulatory frameworks addressing third-party risk:

- Basel Committee on Banking Supervision (BCBS) – Principles for the Sound Management of Third-Party Risk (2024)
- Financial Stability Board (FSB) – Enhancing Third-Party Risk Management and Oversight: A Toolkit for Financial Institutions and Financial Authorities (2023)
- European Banking Authority (EBA) – Guidelines on Sound Management of Third-Party Non-ICT Risk (2026)
- European Securities and Markets Authority (ESMA) – Principles on Third-Party Risks Supervision (2025)
- Digital Operational Resilience Act (DORA) – Regulation (EU) 2022/2554

These frameworks reflect a global shift towards a more holistic, risk-based approach to third-party risk management, which continues to include but is not limited to traditional outsourcing arrangements. Financial regulation has traditionally focused on financial institutions' outsourcing relationships. However, financial authorities' increasing focus on operational resilience has led to requirements and expectations on financial institutions to effectively manage the risks in all their third-party service relationships, not just outsourcing, given the criticality of some non-outsourcing third-party services to the continued operations of financial institutions.

1.4 The Need for Updated Guidance

The Central Bank has determined that updated Guidance is necessary for the following reasons:

1. Broader Scope

To address material third-party arrangements that create a reliance or dependency capable of giving rise to relevant risks, including arrangements that may not fall within traditional definitions of outsourcing. This includes partnerships, joint ventures, cloud services,

fintech collaborations, shared services and other arrangements where firms depend on third parties for services, processes, or functions.

2. Alignment with International Standards

To ensure consistency with evolving international regulatory frameworks and promote a level playing field for firms operating across jurisdictions.

3. Enhanced Clarity

To provide clear guidance on key risk areas identified through supervisory engagement, including governance, risk assessment, concentration risk, and operational resilience.

4. Operational Resilience Focus

To integrate third-party risk management more explicitly within firms' operational resilience frameworks, reflecting the critical importance of third-party dependencies to service continuity.

5. Proportionality

To provide a more flexible, outcomes-based approach that can be applied proportionately by firms of all sizes and complexities, reducing regulatory burden while maintaining high standards.

6. Simplification

To further our commitment to ensuring that regulation is both effective and efficient, and to regulate and supervise financial services firms in line with our principles – which have proportionality, predictability and a rigorous focus on outcomes at their core.

1.5 Scope of this Consultation

This Consultation Paper seeks views on:

1. The proposed Guidance on Good Practices for the Sound Management of Third-Party Risks
2. The regulatory impact assessment of introducing this Guidance
3. The Central Bank's response to specific concerns raised by industry in relation to the existing Cross-Industry Guidance on Outsourcing (2021)

The Central Bank invites stakeholders to consider the proposals set out in this paper and to provide feedback on the consultation questions in Chapter 5.

1.6 Structure of this Paper

The remainder of this Consultation Paper is structured as follows:

- Chapter 2 presents the regulatory impact assessment
- Chapter 3 outlines the key features of the proposed Guidance
- Chapter 4 addresses specific concerns raised by industry
- Chapter 5 sets out the consultation questions
- Chapter 6 explains how to respond to this consultation

2. Regulatory Impact Assessment

2.1 Purpose and Approach

The Central Bank has decided to undertake a Regulatory Impact Assessment (RIA) on this reframing of the cross-industry guidance on the sound management of third-party risks given the significance of this topic.

Third-party risk management remains a key concern for the Central Bank, not least as operational risks and resilience are identified as a persistent, red-rated risk in the Regulatory and Supervisory Outlook Report 2026. This is particularly pertinent in an environment of ongoing operational model changes, with firms' increasing reliance on third-party service providers and complex supply chains, including growing concentration risks in an environment of elevated risk. The Central Bank's supervisory activities have also identified that outsourcing remains a key risk due to some firms' underdeveloped outsourcing oversight and risk management arrangements, with weaknesses observed in areas such as due diligence, contractual controls, monitoring, concentration risk assessment and exit planning.

Notwithstanding that the Guidance is non-mandatory advice and accordingly would not normally require an RIA (following the Central Bank's draft Statement of Approach²), the preparation of an RIA in this instance reflects the particular system-wide significance of third-party risk management, and demonstrated interest from industry stakeholders.

This (RIA) provides a structured and proportionate analysis of the proposed Guidance on Good Practices for the Sound Management of Third-Party Risks. It supports evidence-based decision-making and provides transparency on the problems the proposed Guidance seeks to address, the options considered and the expected impacts of the proposed approach.

The RIA follows the Central Bank's Statement of Approach to Regulatory Impact Assessment and considers:

- Problem identification
- Policy objectives

² <https://www.centralbank.ie/publication/consultation-papers/cp170-consultation-on-regulatory-impact-assessments-and-the-central-banks-approach-to-consultation>

- Options considered
- Assessment of impacts
- Implementation considerations

The depth of the assessment reflects the non-binding nature of the proposed Guidance, while also taking account of its broader scope and the potential practical implications for firms whose existing frameworks focus principally on outsourcing arrangements.

2.2 Problem Identification

The Central Bank has identified the following problems that the proposed Guidance seeks to address:

Problem 1: Evolving Nature of Third-Party Dependencies

The existing Cross-Industry Guidance on Outsourcing (2021) primarily focuses on traditional outsourcing arrangements. However, firms' reliance on third parties has evolved significantly, encompassing a broader range of arrangements including cloud service providers, fintech partnerships, joint ventures, intra-group service providers, technology vendors, and data processors. These arrangements may not fit neatly within traditional outsourcing definitions, but where they support important services, processes or capabilities, they may create material dependencies and risks that require appropriate management.

Problem 2: Regulatory Fragmentation

Since 2021, a number of international and European frameworks addressing outsourcing have been introduced or developed. While these frameworks strengthen the regulatory landscape, differences in their scope, terminology and application may, create uncertainty or duplication for firms, particularly where more than one framework applies or where a third-party arrangement falls outside a sector-specific framework.

The proposed Guidance therefore seeks to provide a coherent cross-sectoral reference point, while avoiding duplication of requirements that are comprehensively addressed under directly applicable European law or relevant European Supervisory Authority Guidelines.

Problem 3: Identified Supervisory Concerns

The Central Bank's supervisory activities have identified recurring weaknesses in aspects of third-party risk management practices and

observed incidents. Key supervisory concerns include weaknesses in governance and oversight, risk assessment and due diligence, contractual protections, monitoring and assurance activities, contingency and exit planning, and the assessment of concentration risks within their third-party ecosystem.

The nature and significance of these weaknesses vary across firms and sectors, reflecting differences in business models, regulatory obligations, third-party dependencies and the maturity of existing risk-management frameworks.

Problem 4: Systemic Risk Considerations

The concentration of certain critical services among a limited number of third-party providers may create vulnerabilities extending beyond individual firms. While individual firms are responsible for identifying and managing their own exposures, substitutability risks and resilience arrangements, system-wide concentration risks also require monitoring and consideration by relevant authorities. The existing Guidance could provide greater clarity on the actions firms can reasonably take to understand and manage their own exposure to such concentrations.

2.3 Policy Objectives

The proposed Guidance seeks to achieve the following objectives:

1. Support financial stability – By promoting sound management of firms' third-party dependencies and by doing so assist in reducing systemic vulnerabilities
2. Support the protection of consumers and investors – By promoting continuity of important services and appropriate management of risks to customer data arising from third-party arrangements
3. Promote operational resilience – By supporting the integration of third-party risk management within firms' broader operational resilience frameworks
4. Provide regulatory clarity – By setting out good practices and explaining how the Guidance interacts with relevant European and international frameworks
5. Support proportionate and risk-based application – By providing flexible, outcomes-based guidance that firms can consider having

regard to their nature, scale and complexity, their business model and the risks arising from their third-party dependencies

2.4 Options Considered

Option 1: Maintain Status Quo (Baseline)

Under this option, firms would continue to be subject to applicable legislation, DORA, relevant sectoral requirements and European Supervisory Authority Guidelines, together with the existing Cross-Industry Guidance on Outsourcing. This would avoid incremental implementation costs arising from revised Central Bank Guidance. However, the 2021 Guidance would continue to focus principally on outsourcing and would not provide a cross-sectoral reference point for other material third-party dependencies. It would also provide limited assistance in clarifying the interaction between the Central Bank's Guidance and more recent European and international frameworks.

Option 2: Introduce Binding Regulatory Requirements

Introduce detailed, prescriptive regulatory requirements for third-party risk management through statutory instruments or binding regulations.

Assessment: While this would provide maximum clarity and enforceability, it would reduce flexibility and could impose disproportionate burdens on smaller, less complex firms. It would also reduce firms' ability to tailor approaches to their specific risk profiles and business models. Depending on their scope and level of prescription, binding requirements could also create greater implementation costs and duplication with existing European and sectoral requirements.

Option 3: Issue Updated Non-Binding Guidance (Proposed Option)

Replace the existing Guidance with updated, comprehensive, non-binding Guidance on Good Practices for the Sound Management of Third-Party Risks.

Assessment: This option provides the optimal balance between clarity and flexibility.

It addresses identified problems while allowing firms to learn from the Guidance and to take responsibility for applying it proportionately based on their nature, scale and complexity. It aligns with international best practices while respecting the principle of proportionality.

Option 4: Rely Solely on European Guidance

Withdraw Central Bank guidance and rely exclusively on DORA and European Supervisory Authorities' Guidelines.

Assessment: This option would not provide sufficient clarity on Central Bank expectations for sectors and services not covered by DORA (for ICT risks only) or ESA Guidelines. The European frameworks are sufficient where they apply. Those frameworks do not apply to many sectors (e.g. insurance, domestic investment business firms, retail credit etc.).

2.5 Assessment of Impacts

2.5.1 Impact on Firms

Benefits:

- Enhanced clarity on Central Bank expectations regarding third-party risk management
- Reduced regulatory uncertainty and alignment with international standards
- Improved risk management capabilities, enhancing firms' ability to identify, assess and manage third-party risks
- Strengthened operational resilience contributing to business continuity

Costs:

- Non-binding nature of the Guidance will not introduce implementation costs for enhancing governance structures, policies, procedures and systems
- The Guidance does not impose new or more stringent standards or practices
- Resource requirements for risk assessments, due diligence, monitoring and reporting will remain as before
- Potential increases in costs charged by service providers for enhanced contractual requirements
- Opportunity costs of resources devoted to third-party risk management should not increase

Firms already subject to DORA, relevant European Supervisory Authority Guidelines or that have mature third-party risk frameworks will experience limited incremental impact. Firms whose existing arrangements focus primarily on traditional outsourcing may face greater one-off costs in identifying, classifying and assessing a broader range of third-party dependencies.

The publication of the Guidance will prompt firms to review the soundness of their existing third-party risk management arrangements. Given the current risk environment, third-party risk management should be a priority element of firms' governance and risk management frameworks. Where firms undertake such reviews as part of normal governance processes, the associated costs should be low and proportionate.

Following this review, firms may identify the need to introduce or enhance risk management measures to ensure sound management of third-party risks in line with their regulatory obligations and operations. While such enhancements may involve significant costs, these should be commensurate with the underlying risks and applied proportionately. The Guidance will assist firms in identifying and assessing appropriate measures.

Effective management of third-party risks, as required by legislation and good practice, reduces potential harms including disruption to critical services and operations, compliance, reputational and legal risk and hence reduces costs for firms overall.

Proportionality Considerations:

The non-binding nature of the Guidance is intended to support proportionate application. The extent of the governance, assessment, oversight and documentation appropriate for a particular firm should reflect its nature, scale and complexity, its business model, the nature and materiality of its third-party dependencies and the potential impact of disruption or failure.

Proportionality does not mean that third-party risks may be disregarded. Rather, it allows firms to adopt simpler or less resource-intensive arrangements where the nature and level of risk justify that approach.

2.5.2 Impact on Consumers

Benefits:

- Enhanced service continuity through better third-party risk management
- Improved data security and protection through enhanced oversight of third parties handling customer data
- Reduced risk of consumer harm, increased consumer confidence in the financial system

Costs:

- No expected cost pass-through to consumers

2.5.3 Impact on Financial Stability

Benefits:

- Improved identification and management of firm-level concentration and dependency risks
- Reduced systemic risk through better response to concentration risks and improved industry practices in the management by firms of third-party risk exposure
- Enhanced overall financial system resilience by reducing the likelihood that a disruption at a third-party provider results in material interruption to financial services
- Improved information and supervisory understanding of common dependencies across the financial system
- Improved regulatory alignment facilitating cross-border supervision and cooperation

The Guidance alone cannot eliminate system-wide concentration risk, particularly where a small number of dominant providers supply critical services. Its contribution is to promote better management of firms' individual exposures and support supervisory understanding of wider dependencies.

2.5.4 Impact on the Central Bank

Benefits:

- Enhanced supervisory effectiveness through clear guidance

- Improved regulatory alignment supporting cooperation with other authorities
- Greater consistency in the assessment of third-party risk management
- Improved identification of emerging dependencies and concentration risks

Costs:

- There is already an existing ongoing supervisory cost. The simplified Guidance will bring about better, more proportional outcomes, simplified reviews/inspections and consequently less or less significant RMPs and their follow up

2.6 The Significance of Non-Binding Status

A critical feature of the proposed approach is that the Guidance is non-binding allowing for greater proportionality and flexibility in implementation. This has important implications for the regulatory impact assessment:

2.6.1 Legal Status and Flexibility

The Guidance does not create new legal obligations or amend existing statutory requirements or replace firms' obligations under applicable European or sectoral frameworks. It represents the Central Bank's opinion and advice on good practices that firms may consider when managing risks arising from third-party arrangements. The Guidance uses the word "should" throughout to indicate opinion and advice, not legal obligation (unless firms are already required to comply with specific practices under their sectoral rules).

This non-binding nature enhances flexibility:

- Firms are best placed to identify the risks to which they are exposed
- Firms can assess the importance of those risks and how best to manage them
- Firms can determine whether risks fall within their risk appetite

- Firms may adopt approaches that differ from the good practices where those approaches appropriately address the relevant risks and comply with applicable legal and regulatory requirements

2.6.2 Relationship with Existing Obligations

Firms remain subject to their existing legal and regulatory obligations regarding risk management, governance, and operational resilience. The Guidance assists firms in understanding how they might meet these obligations in the context of third-party arrangements, but does not impose additional legal requirements.

2.6.3 Central Bank's Supervisory Approach

The Guidance will inform Central Bank supervisory activities. In the course of supervision, the Central Bank may discuss with firms how they identify and manage risks arising from third-party arrangements, having regard to the firm's applicable legal obligations, business model and risk profile. The Central Bank may refer to the Guidance as one relevant source of good practice. Where a firm has adopted a different approach, the Central Bank will consider whether that approach appropriately manages the relevant risks.

2.6.4 Impact on Regulatory Burden

The non-binding nature creates less of a regulatory burden compared to prescriptive requirements:

- No "one-size-fits-all" approach – Firms can tailor their approaches to their specific circumstances
- Reduced compliance costs – Firms have flexibility in how they achieve good outcomes
- Innovation-friendly – Firms can adopt innovative approaches that achieve the desired outcomes
- Proportionate for smaller firms – Smaller firms can adopt simpler, less resource-intensive approaches where the nature and level of risk justify that approach

2.6.5 Transition from Existing Guidance

The replacement of the existing Cross-Industry Guidance on Outsourcing (2021) with the new Guidance will have limited incremental impact because:

- Both are non-binding

- Many firms have already implemented practices aligned with the 2021 Guidance
- The new Guidance builds on and clarifies, rather than fundamentally changes, existing guidance
- Firms already subject to European Supervisory Authority Guidelines will find significant alignment

2.7 Implementation and Transition

The Central Bank proposes the following approach:

Implementation Timeline:

- Consultation period: 8 weeks from publication
- Analysis of responses following consultation close
- Publication of final Guidance: Q1, 2027
- Effective date: date of final publication – the impact assessment identifies the continuation from existing frameworks i.e. the good practices remain good practices

Upon the effective date of the new Guidance, the Cross-Industry Guidance on Outsourcing (2021) will be withdrawn.

Monitoring and Review:

The Central Bank will monitor the effectiveness and proportionality of the Guidance through supervisory experience and stakeholder feedback, and will review the Guidance periodically to ensure it remains necessary, relevant and effective.

2.8 Conclusion of Regulatory Impact Assessment

On the basis of the information currently available, the Central Bank's assessment concludes that Option 3 – Issue Updated Non-Binding Guidance represents the most appropriate approach.

The Guidance is expected to provide greater clarity on the sound management of material third-party dependencies while preserving flexibility for firms to apply the good practices in a proportionate and risk-based manner.

The proposed approach avoids the greater rigidity and potential burden associated with detailed binding requirements. However, the Central

Bank recognises that the broader scope of the Guidance may have practical implementation implications for some firms, particularly where existing frameworks focus primarily on outsourcing.

The consultation therefore seeks evidence on:

- the scale and nature of any incremental costs;
- the clarity and boundaries of the proposed scope;
- the effectiveness of the proportionality provisions;
- the interaction with DORA, European Supervisory Authority Guidelines and sectoral requirements;
- the appropriate implementation and transition arrangements.

The Central Bank will consider this evidence before finalising the Guidance and the accompanying regulatory impact assessment.

3. The Proposed Guidance

3.1 Key Features

The proposed Guidance on Good Practices for the Sound Management of Third-Party Risks incorporates the following key features:

3.1.1 Holistic Scope

The Guidance addresses material third-party arrangements that create a reliance or dependency capable of giving rise to relevant risks, including arrangements that may not fall within traditional definitions of outsourcing. This includes:

- Outsourcing arrangements (including intra-group)
- Cloud service providers
- Partnerships and joint ventures
- Technology vendors and software providers
- Data processors
- Other dependencies that create reliance on third parties

This Guidance makes references interchangeably to 'outsourcing' and other third-party arrangements. While a significant proportion of exposure to third-party risk arises in the form of what is traditionally regarded as outsourcing, there are other arrangements that firms can enter with third parties that create a reliance by a firm on that third party.

3.1.2 Outcomes-Based Approach

The Guidance is structured around desired outcomes rather than prescriptive requirements. This allows firms to determine how best to achieve good outcomes based on their specific circumstances, business models, and risk profiles.

The Guidance is presented in discrete blocks of outcomes to be achieved, and practices that allow firms to benchmark the maturity of their own risk management practices.

3.1.3 Lifecycle Perspective

The Guidance has been sequenced to appropriately reflect the identification of, and engagement by, firms with third parties and the

subsequent management of those relationships. It follows the lifecycle of third-party arrangements:

- Governance and Organisational Context – Establishing accountability, strategy and policy frameworks
- Pre-Engagement – Risk assessment and criticality/importance assessment
- Engagement – Due diligence, contracting and onboarding
- Ongoing Management – Oversight, performance and continuity management, risk management, monitoring and assurance
- Termination – Exit planning and execution

3.1.4 Tiered Good Practices

The Guidance presents good practices in two tiers:

- Foundational good practices – Core practices that form the foundation of sound third-party risk management
- Supporting good practices – Additional practices that enhance and support the foundational practices

This tiered approach supports proportionate application, allowing firms to prioritise foundational practices while implementing supporting practices as appropriate to their circumstances.

3.1.5 Alignment with International Standards

The Guidance aligns with and draws upon:

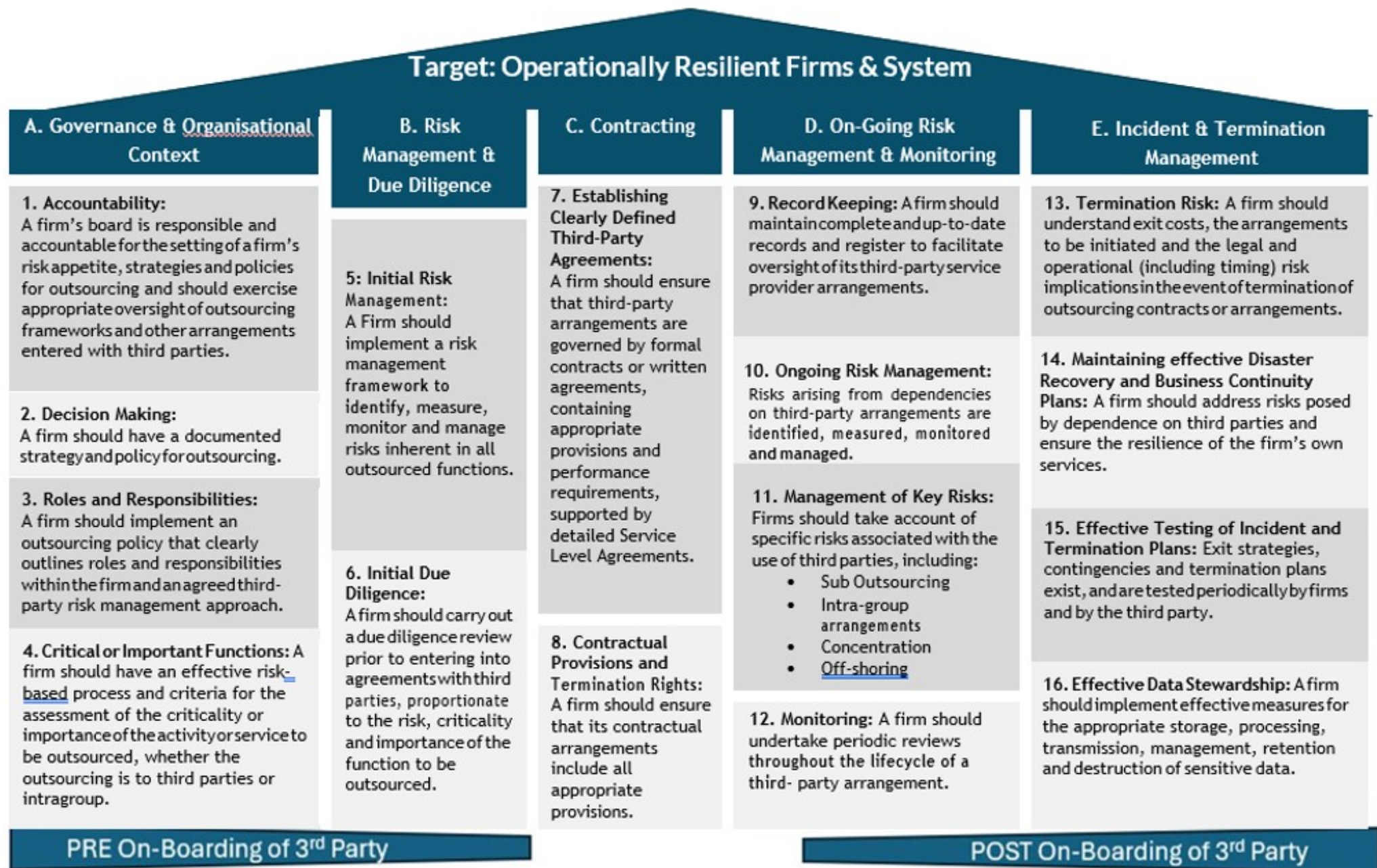
- BCBS Principles for the Sound Management of Third-Party Risk
- FSB Toolkit on Enhancing Third-Party Risk Management and Oversight
- EBA Guidelines on Sound Management of Third-Party Non-ICT Risk
- ESMA Principles on Third-Party Risks Supervision
- DORA requirements (where applicable)

This alignment ensures consistency for firms operating across jurisdictions and promotes regulatory coherence.

3.2 Structure of the Guidance

The Guidance is structured as follows:

Figure 2 – Sequencing of the Guidance



3.3 Key Enhancements from Existing Guidance

The proposed Guidance enhances the existing Cross-Industry Guidance on Outsourcing (2021) in the following ways:

1. Broader scope – Covers all third-party arrangements, not just outsourcing
2. Outcomes-based structure – Focuses on desired outcomes rather than prescriptive processes
3. Operational resilience integration – Explicit linkages to operational resilience frameworks
4. Proportionality – Clearer articulation of how firms can apply the Guidance proportionately
5. International alignment – Consistency with evolving international standards

3.4 Application and Proportionality

The Guidance is designed to be applied proportionately. Firms should consider the good practices in a manner proportionate to their nature, scale and complexity, business model, risk profile and the nature and materiality of their third-party dependencies. The proportionality principle aims to ensure that governance arrangements, including those related to third-party risk management, are consistent with the individual risk profile, the nature and business model of the financial entity, and the scale and complexity of their activities.

The Guidance is intentionally not prescriptive or at a granular level of detail to allow for a pragmatic application. As such, it is designed to be flexible and can be applied by all firms in a proportionate manner based on the nature, scale and complexity of their business.

4. Addressing Industry Concerns

4.1 Overview

Through extensive engagement with industry since the publication of the Cross-Industry Guidance on Outsourcing in 2021, the Central Bank has identified several recurring concerns and questions from regulated firms. This chapter addresses these concerns and explains how the proposed Guidance responds to them.

4.2 Scope and Applicability

Industry Concern:

Firms have expressed uncertainty about which arrangements fall within the scope of outsourcing guidance. The distinction between outsourcing, other third-party arrangements, and simple vendor relationships has been unclear, leading to uncertainty about which arrangements require enhanced governance and oversight.

Central Bank Response:

The proposed Guidance explicitly addresses this concern by:

- Broadening the scope to encompass all third-party arrangements that create reliance or dependency, not just traditional outsourcing
- Providing clear definitions of key terms including "third-party arrangement", "outsourcing", and "third-party service provider"
- Emphasising risk-based application – firms should focus their efforts on arrangements that present material risks, using the criticality and importance assessment framework

This approach provides clarity while maintaining flexibility for firms to apply the Guidance proportionately based on the actual risks presented by different arrangements.

4.3 Proportionality and Regulatory Burden

Industry Concern:

Smaller firms and firms with limited third-party dependencies have expressed concern that outsourcing guidance is designed for large, complex firms and imposes disproportionate burdens on smaller entities.

Firms have requested clearer guidance on how to manage third-party risks proportionately.

Central Bank Response:

The proposed Guidance addresses proportionality in several ways:

- Non-binding status – The Guidance represents good practices, not mandatory requirements, allowing firms flexibility in application
- Outcomes-based approach – Firms can determine how best to achieve desired outcomes based on their circumstances
- Tiered good practices – The distinction between foundational and supporting good practices helps firms prioritise
- Explicit proportionality principle – The Guidance states that firms should apply it in a manner appropriate to their size, internal organisation, and the nature, scope and complexity of their dependencies
- Risk-based focus – Firms should focus resources on arrangements that present material risks based on criticality and importance assessments

The Central Bank recognises that a small firm with one or two outsourcing arrangements will have a much simpler framework than a large, complex firm with extensive third-party dependencies. Both can achieve sound third-party risk management through approaches tailored to their circumstances.

4.4 Intra-Group Arrangements

Industry Concern:

Firms, particularly those that are part of international groups, have raised concerns about the application of outsourcing requirements to intra-group arrangements. Firms have argued that intra-group arrangements present different risks than arrangements with external third parties and should be treated differently.

Central Bank Response:

The proposed Guidance acknowledges that intra-group arrangements have some distinct characteristics while maintaining that they still present risks that require management:

- Recognition of group context – The Guidance acknowledges that firms may rely on group entities for support and that group oversight mechanisms may provide some assurance
- Risk-based approach – Firms should assess the risks presented by intra-group arrangements, which may differ from external arrangements
- Specific considerations – The Guidance includes a section on specific considerations for intra-group arrangements, including:
 - Potential conflicts of interest between group and local entity priorities
 - Concentration risk from over-reliance on group entities
 - Need for appropriate service level agreements and governance
 - Contingency planning for scenarios where group support may not be available
 - Regulatory differences between group and local entities e.g. GDPR
- Proportionate application – Firms may apply certain aspects of the Guidance differently to intra-group arrangements where appropriate, but must still ensure adequate oversight and control

The Central Bank's position is that while intra-group arrangements may present different risks, firms must maintain sufficient substance and cannot become "empty shells" relying entirely on group support without adequate local oversight and capability. Firms must maintain clear visibility and control over outsourced functions, with robust contractual arrangements, performance monitoring and contingency plans. When firms depend heavily on group support, they may lack the capability to operate effectively if conflicts of interest arise between group and local entity priorities.

4.5 Contractual Negotiations with Large Service Providers

Industry Concern:

Firms have expressed frustration about the challenge of negotiating contractual terms with large, dominant service providers (particularly

global or European technology providers) who offer standard terms on a "take it or leave it" basis. Firms have indicated that guidance requiring specific contractual provisions is unrealistic in these circumstances. Concerns about losing control and sharing proprietary data are significant barriers, and some organisations remain cautious about functions they consider core to their business.

Central Bank Response:

The Central Bank of Ireland recognises this challenge while maintaining that firms must secure adequate protections:

- Acknowledgement of market dynamics – The Guidance recognises that firms may face challenges negotiating with dominant providers
- Focus on outcomes – Rather than mandating specific contractual clauses, the Guidance focuses on the outcomes that contracts should achieve (e.g. audit rights, data access, termination provisions)
- Documentation of efforts – Firms should document their efforts to secure appropriate terms and any alternative measures implemented
- Risk assessment – Where firms cannot secure ideal terms, they should assess the residual risks and implement compensating controls

There can be valid reasons for using dominant providers, and many of these providers have demonstrated that they can be responsive to the changing needs of customer groups and sectors. Regulatory developments such as DORA look to directly influence areas which have introduced risks in recent years such as lack of transparency and assurance in the provision of technology services.

The Central Bank expects firms to take reasonable steps to secure contractual protections appropriate to the nature and risks of the arrangement. Where a firm cannot obtain particular protections, it should assess the resulting residual risk, consider available alternatives and implement proportionate mitigating measures where appropriate. The adequacy of the firm's approach will depend on factors including the criticality or importance of the service, the availability of alternative providers and the effectiveness of other controls.

4.6 Concentration Risk

Industry Concern:

Firms have questioned their responsibilities regarding concentration risk, particularly how to assess concentration risk at a systemic level, what firms can realistically do when there are limited alternative providers, and whether firms are expected to avoid using dominant providers.

Central Bank Response:

The proposed Guidance addresses concentration risk at both firm and systemic levels:

- Firm-level concentration risk – Firms should assess and manage their own concentration risks, including:
 - o The suitability of dependencies on third-party services in respect of the risk appetite of the firm
 - o Over-dependence on single providers, including potential disruption and lock-in risks
 - o Real world substitutability of services
 - o Contingency and exit planning
 - o Diversification where feasible and appropriate
 - o Potential harm to the firm, its customers and the wider financial system where these can be identified
- Systemic concentration risk – The Guidance acknowledges that some concentration risks extend beyond individual firms and require regulatory attention. The increasing concentration of critical services with a limited number of providers creates systemic dependencies that can amplify risks through the potential for rapid contagion when incidents occur
- Realistic expectations – The Central Bank does not expect firms to avoid using dominant providers where they offer the best solution, but firms should:
 - o Understand the concentration risks they are accepting
 - o Implement appropriate risk mitigation measures
 - o Maintain exit planning and alternatives where feasible

- o Seek to include conditions in outsourcing contracts that require prior notification of material changes

4.7 Offshoring

Industry Concern:

Firms have raised concerns about expectations regarding offshoring, particularly whether the Central Bank discourages offshoring, and specific risk management requirements for offshore arrangements.

Central Bank Response:

The proposed Guidance clarifies the Central Bank's position on offshoring:

- Risk-based approach – The Central Bank does not prohibit or discourage offshoring, but recognises that offshore arrangements may present specific risks that require management. The Central Bank recognises that offshoring is a significant feature of outsourcing by some regulated firms in Ireland.
- Specific risks – The Guidance identifies specific risks associated with offshoring, including:
 - o Visibility and supervisibility challenges arising from physical distance
 - o Legal and regulatory differences across jurisdictions
 - o Data protection and privacy considerations
 - o Geopolitical and Environmental risks
 - o Time zone and cultural differences
 - o Potential complications for both firms' and the Central Bank's ability to ensure effective oversight and supervision
- Risk mitigation – Firms should implement appropriate risk mitigation measures for offshore arrangements, which may include:
 - o Enhanced due diligence on the offshore jurisdiction and provider
 - o Stronger contractual protections
 - o More frequent monitoring and reporting

- o Robust contingency planning
- o Ensuring adequate local substance and capability
- Notification – Firms should inform the Central Bank of circumstances where supervisibility issues may arise before committing to any offshoring arrangements in respect of the outsourcing of critical or important functions or services
- Early assessment – Firms should assess the criticality or importance of proposed outsourcing arrangements at an early stage such that firms can inform the Central Bank and engage in advance

Decisions with regard to offshoring and the risk appetite for same should be taken at the appropriate level within the firm, with full consideration of the risks involved.

4.8 Sub-Outsourcing

Industry Concern:

Firms have sought clarity on their responsibilities regarding sub-outsourcing by their service providers, including the extent of oversight required, contractual provisions regarding sub-outsourcing, and notification requirements.

Central Bank Response:

The proposed Guidance provides clear guidance regarding sub-outsourcing:

- Contractual rights – Firms should include provisions in contracts that:
 - o Require notification of material sub-outsourcing arrangements
 - o Require prior consent for sub-outsourcing of critical or important functions
 - o Ensure firms retain audit and access rights over sub-outsourcers
 - o Establish that the primary service provider remains responsible for sub-outsourced activities, and effectively manages the associated risks

- o Ensure the same standards apply to sub-outsourcers as to the primary provider
- Risk assessment – Firms should assess the risks presented by sub-outsourcing arrangements, including:
 - o The criticality of the sub-outsourced services
 - o The capabilities and financial stability of sub-outsourcers
 - o Geographic and jurisdictional considerations
 - o Chain length and complexity
- Oversight – The level of oversight should be proportionate to the risks presented by the sub-outsourcing. Firms must also ensure they have appropriate oversight of the sub-outsourcing arrangements of their key service providers, as risks may be transmitted via this channel.
- Concentration risk – Firms should consider concentration risks that may arise through sub-outsourcing (e.g. multiple service providers using the same sub-outsourcer for critical services)

4.9 Alignment with other frameworks

Industry Concern:

Firms subject to European legislation (DORA, Solvency II), or European Supervisory Authority Guidelines (EBA, EIOPA, ESMA) have sought clarity on the relationship between Central Bank guidance and other frameworks, including whether firms must comply with both, how to resolve any conflicts or inconsistencies, and whether Central Bank guidance adds requirements beyond other frameworks.

Central Bank Response:

Many financial services firms are subject to legal obligations with respect to the management of their risks, including risks presented through reliance on third parties. This is important to the stability and viability of regulated firms, the continued proper provision of services to consumers, and the efficient operation of the financial system more broadly.

Those firms subject to legal obligations to soundly and effectively manage third-party risks are not always provided with sufficient detail in the laws, regulations and guidelines to understand precisely what good management of these risks looks like. For those cases, the Central Bank is

therefore providing guidance on good practices that should be considered by firms when reliant on third parties for the provision of services, especially those services that are critical or important to the proper functioning of the firm.

Where comprehensive frameworks exist to guide firms on the proper management of third-party risks (e.g. DORA, EBA Guidelines), then the Central Bank's Guidance will provide limited additional insight. The Central Bank's Guidance is for situations where firms do not have a regulatory framework to sufficiently describe how third-party risks ought to be soundly and effectively managed.

5. Consultation Questions

The Central Bank invites stakeholders to provide feedback on the following questions. Respondents are welcome to answer all or some of the questions and to provide additional comments beyond the specific questions posed. Feedback when accompanied by quantitative or qualitative evidence and examples is particularly useful to the assessment process.

General Questions

Question 1: Do you agree with the proposed approach of issuing non-binding Guidance rather than binding regulatory requirements? Please explain your answer.

Question 2: Do you agree with the proposed scope of the Guidance, covering all third-party arrangements that create reliance or dependency? Please explain your answer.

Regulatory Impact Assessment

Question 3: Do you agree with the Central Bank's assessment of the problems identified in the Regulatory Impact Assessment? Are there additional problems that should be considered?

Question 4: Do you agree with the Central Bank's assessment of the costs and benefits of the proposed Guidance? Please provide any quantitative or qualitative information on potential costs or benefits.

Question 5: Are there alternative approaches that the Central Bank should consider? If so, please describe these alternatives and explain why they would be preferable.

Structure and Content of the Guidance

Question 6: Do you find the outcomes-based structure of the Guidance clear and helpful? Please explain your answer.

Question 7: Do you find the distinction between foundational and supporting good practices helpful for proportionate application? Please explain your answer.

Question 8: Are there specific areas where the Guidance should provide more detail or clarity? Please specify which areas and what additional detail would be helpful.

Proportionality and Application

Question 9: Does the Guidance provide sufficient clarity on how firms of different sizes and complexities can benefit from the good practices? If not, what additional clarity would be helpful?

Question 10: Are there specific challenges that smaller firms may face in implementing the Guidance? If so, please describe these challenges and suggest how they might be addressed.

Alignment and Interaction

Question 11: Do you agree that the Guidance is appropriately aligned with international standards and European Supervisory Authority Guidelines? Are there any areas of misalignment or conflict?

Question 12: Is the relationship between this Guidance, DORA and EBA Guidelines sufficiently clear? Please explain your answer.

Other

Question 13: Are there any other comments or suggestions you would like to make regarding the proposed Guidance?

6. How To Respond

6.1 Consultation Period

This consultation will remain open for 8 weeks, closing on 3 December 2026.

6.2 Submitting Responses

Responses should be submitted by email to:

TPRMConsultation@centralbank.ie

Please use the subject line: "Response to Consultation Paper 173 – Guidance on Good Practices for the Sound Management of Third-Party Risks"

6.3 Format of Responses

To facilitate analysis of responses, the Central Bank requests that respondents:

- Clearly indicate which consultation question(s) they are addressing
- Provide clear reasoning and evidence to support their views
- Where possible, provide specific examples or data to illustrate points
- Indicate whether they are responding as an individual firm, on behalf of an industry association, or in another capacity
- Indicate whether they consent to their response being published (see section 6.5 below)

6.4 Confidentiality

The Central Bank will treat responses as confidential if requested. However, the Central Bank may be required to disclose responses pursuant to statutory or legal obligations, including under the Freedom of Information Act 2014.

6.5 Publication of Responses

The Central Bank intends to publish responses received to this consultation on its website following the close of the consultation period, unless respondents request confidentiality.

If you do not wish your response to be published, please clearly indicate this in your submission.

Even where publication is requested, the Central Bank may redact certain information (e.g. personal data, commercially sensitive information) before publication.

6.6 Data Protection

The Central Bank will process personal data contained in consultation responses in accordance with the General Data Protection Regulation (GDPR) and the Data Protection Acts 1988-2018.

Personal data will be processed for the purposes of:

- Analysing consultation responses
- Developing the final Guidance
- Publishing responses (where consent is provided)
- Maintaining records of the consultation process

Further information on how the Central Bank processes personal data is available in the Central Bank's Privacy Statement at <https://www.centralbank.ie/fns/privacy-statement>

6.7 Stakeholder Engagement

In addition to written responses, the Central Bank welcomes engagement with stakeholders during the consultation period.

The Central Bank plans to host an industry workshop to discuss issues related to third-party risk management and this Consultation Paper. Details of any scheduled events will be published on the Central Bank's website.

Stakeholders wishing to request a bilateral meeting should contact TPRMConsultation@centralbank.ie.

6.8 Next Steps

Following the close of the consultation period, the Central Bank will:

1. Analyse responses – Review and analyse all responses received
2. Consider feedback – Give careful consideration to all feedback and suggestions

3. Publish feedback statement – Publish a feedback statement summarising the responses received and explaining how the Central Bank has addressed the feedback
4. Finalise Guidance – Publish the final Guidance, incorporating appropriate amendments based on consultation feedback
5. Implement – The final Guidance will come into effect on the date specified, with the existing Cross-Industry Guidance on Outsourcing (2021) being withdrawn

The Central Bank anticipates publishing the final Guidance in Q1, 2027.

6.9 Further Information

For further information about this consultation, please contact:

Email: TPRMConsultation@centralbank.ie

Information about the Central Bank's approach to consultation and regulatory impact assessment is available at

<https://www.centralbank.ie/publication/consultation-papers/cp170-consultation-on-regulatory-impact-assessments-and-the-central-banks-approach-to-consultation>

Annexes

Annex 1 – Guidance on Good Practices for the Sound Management of Third-Party Risks

Annex 2: References

The following documents have informed the development of this Guidance:

International Standards:

- Basel Committee on Banking Supervision, Principles for the Sound Management of Third-Party Risk (2024)
- Financial Stability Board, Enhancing Third-Party Risk Management and Oversight: A Toolkit for Financial Institutions and Financial Authorities (2023)

European Frameworks:

- European Banking Authority, Guidelines on Sound Management of Third-Party Non-ICT Risk (2026)
- European Securities and Markets Authority, Principles on Third-Party Risks Supervision (2025)
- Regulation (EU) 2022/2554 on digital operational resilience for the financial sector (DORA)

Central Bank Publications:

- Central Bank of Ireland, Cross-Industry Guidance on Outsourcing (December 2021)
- Central Bank of Ireland, Cross-Industry Guidance on Operational Resilience (2025)
- Central Bank of Ireland, Regulatory & Supervisory Outlook Report (2026)
- Central Bank of Ireland, Statement of Approach to Regulatory Impact Assessment (2026)



T: +353 (0)1 224 5800
E: publications@centralbank.ie
www.centralbank.ie



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