



Federal Financial Institutions Examination Council

SP-1
September 1991 Revised

Subject: Interagency EDP Examination, Scheduling And Distribution Policy

Purpose

This policy provides for joint examinations of data centers providing services to insured institutions supervised by more than one federal regulatory agency. It is expected to eliminate the need for separate examinations of data processors by more than one federal financial institution regulator and to result in more efficient use of examiner resources. This policy supersedes the previously issued interagency EDP examination policy, including the Multiregional Data Processing Servicers policy.

I. Examination Responsibility

Examination responsibility is determined based on the class/type of servicer as well as the class/type of insured financial institution(s) being serviced.

A. Insured Institutions

Data centers operated by an insured financial institution or its subsidiary will be examined by the federal regulatory agency responsible for the institution.

B. Financial Institution Holding Companies

Data centers operated by a holding company or its affiliate which service only one class of insured financial institution will be examined by the federal regulatory agency responsible for that class of institution.

Data centers operated by a holding company or its affiliate which service more than one class of insured financial institution will be examined jointly, or on a rotated basis, as agreed to by the federal regulatory agencies responsible for that class of institution.

Data centers operated by a holding company which controls only one insured financial institution, or its affiliate, will be examined by the federal regulatory agency responsible for the institution.

C. Independent Data Centers

Responsibility for the examination of independent data centers will be based on the class of insured financial institution being serviced. If more than one class of insured institution is serviced, the examination will be conducted jointly, or on a rotated basis, as

agreed to by the federal regulatory agencies responsible for that class of institution.

D. *Financial Institution Service Corporation*

Responsibility for the examination of service corporations will be based on the class of insured financial institution being serviced.

E. *Multiregional Data Processing Servicers (MDPS)*

MDPS examinations are to be conducted on a joint basis by the federal agencies having responsibility for the class of institution serviced. MDPS examinations will be administered by the FFIEC EDP Subcommittee of the Task Force on Supervision in Washington, D.C. The EDP subcommittee will determine the data centers subject to examination under the MDPS program. Generally, an organization will be considered for examination under the MDPS program provided: the organization processes major applications for a large number of insured financial institutions, thereby posing a high degree of systemic risk; or the organization processes work from a number of data centers located in diverse geographic regions.

No federal regulatory agency is precluded from conducting an independent examination of any data center that is providing data processing services to an insured financial institution for which the agency is responsible or where an agency has regulatory responsibility for holding company data centers.

II. Scheduling

Scheduling of joint/rotated EDP examinations and issuance of the EDP Report of Examination will be handled at the regional/district level. However, the examination of data centers under the MDPS program will be administered at the national level. A list of regions and contact personnel will be forwarded under separate cover and will be revised as appropriate.

A. *Joint and Rotated Examinations*

Regional/district representatives should meet annually (as early in the scheduling cycle as possible, but not later than December 1) to arrange for upcoming examinations and ensure that all data centers are examined in accordance with existing agency guidelines. As regional/district boundaries vary, it may be necessary for an agency to send representatives from more than one regional/district office to attend the scheduling meeting. Conversely, a representative may be required to attend more than one meeting. State agencies interested in participating in joint examinations may be invited to these meetings as deemed appropriate.

The meeting should identify all data centers, except for MDPS. Examinations of these data centers are to be conducted jointly and examination schedules agreed upon by participating agencies. If an agency cannot complete its schedule as agreed, it shall promptly notify the appropriate agencies so that alternative arrangements can be made.

When joint examinations cannot be scheduled, one agency will be designated to perform the examination on behalf of all concerned agencies. In these situations, examination responsibilities will be rotated for two-year periods. However, when the data center's overall condition is determined to be less than satisfactory, subsequent examinations should be conducted on a joint basis until the data center's overall condition is satisfactory as defined in the EDP Examination Handbook policy statement SP-2:

Uniform Interagency Rating System For Data Processing Operations.

The regional examination schedule should establish: the data centers to be examined; the date, time and agency responsible for any rotated or joint examinations; and the agency responsible for authoring and processing the examination report.

B. *Multiregional Data Processing Services*

Scheduling of MDPS examinations will be the responsibility of the FFIEC EDP Subcommittee of the Task Force on Supervision. By September 30 of each year, the EDP Subcommittee will prepare and publish an annual schedule for MDPS examinations designating the data center, the date of examination and the lead agency. This schedule will be distributed by the EDP Subcommittee agency representatives to their regional/district offices as soon as practical. An agency will be in charge of no more than two consecutive MDPS examinations.

Institutions with a composite rating of 1 or 2 will be subject to a full examination on a 24 month examination cycle, 3 rated institutions should be examined at an 18 month cycle and those institutions rated 4 or 5 at a 12 month cycle. The ongoing condition of MDPS should be monitored between examinations through periodic visitations and progress reports, as appropriate.

The lead agency is responsible for conducting a pre-examination review to determine: the scope of the examination, resource requirements, schedule of events and procedures to be followed during the course of the examination. At minimum this pre-examination report should provide details on the organization's: corporate history, corporate and organizational structure, scope of the upcoming examination, data centers included in the examination and examiner requirements. The pre-examination report should be forwarded to the Washington, D.C. office of the lead agency at least 60 days prior to the commencement of the MDPS examination.

Examinations of individual data centers or processing sites may commence prior to the start of the headquarters examination if more than one facility is involved. However, these time frames must be approved by the lead agency.

III. Report Preparation

A. *Joint Examinations*

Responsibilities will be divided among the EDP examiners assigned to the examination. When preparing joint examination reports, the participating agencies are required to reach agreement on the report comments. In rare instances when agreement cannot be reached at the regional level, the differences should be appealed to the Washington office of the participating agencies for final resolution.

The processing of the final Report of Examination (FFIEC 007) is the responsibility of the authoring agency. All changes made to the joint report in the course of its processing should be approved by the regional staffs of the agencies participating in the examination.

B. *MDPS Examinations*

Only one consolidated Report of Examination will be prepared by the lead agency. The

objective is to give the overall view of the organization, not each individual data center comprising the Multiregional Data Processing Servicer. However, the relative strength of each facility should be evaluated. In some instances it may be necessary to issue a specific data center report, although such action would be taken at the discretion of the EIC and the lead agency's Washington office.

IV. Report Distribution Policies and Procedures

A. *Joint Examinations*

The lead agency is responsible for providing each affected federal and state banking agency with a copy of the completed report, including the Administrative Section. (A complete list of all serviced financial institutions, by charter, should be included in this section as well.) Each agency is responsible for reproducing the report

comments and distributing them to serviced institutions in accordance with the provisions below. A transmittal letter will be used to advise each recipient that the comments are for their internal use only, are not to be construed to satisfy audit requirements and remain the confidential property of the lead agency. A written receipt will be obtained from each recipient.

In all instances, examination reports should be distributed to the board of directors of the examined data center. Where the data center is a subsidiary of a holding company, the report should be forwarded to the board of directors of the data center, where applicable, or otherwise senior management of the data center and to the board of directors of the holding company. In the case of a service corporation, a copy should be forwarded to the corporation's board of directors as well as to the board of directors of each financial institution owning stock in the corporation.

Independent Service Bureau reports should be directed to the board of directors or senior management of the servicer. If the independent service bureau is a branch of a multi-branch servicing organization, an additional copy should be forwarded to the board of directors at the corporate headquarters.

Distribution of examination reports to serviced institutions for joint examinations will be at the discretion of the federal regulatory agency responsible for regulating the institution serviced, except for data centers rated composite 4 or 5, which must be distributed to all insured serviced institutions. Where an examination report is to be distributed by a participating agency, the lead agency must be so notified prior to transmitting the examination report. When an examination report is requested by a serviced financial institution, only the examiner's conclusions, recommendations and comments are to be transmitted to the serviced institutions. Matters of a proprietary or competitive nature relating to the servicer will be excluded from the report comments prepared for distribution to serviced institutions, but will be contained in the report provided to the servicer and the other federal agencies. In cases where the servicer fails to respond to corrective action requests, it may be necessary to report the uncorrected deficiencies to the serviced institutions. In these situations, the regulatory agencies of all serviced institutions must be in agreement regarding the need for this course of action and must meet with the servicer to convey this intent.

The FFIEC interagency procedures do not affect existing distribution agreements with state agencies. However, no state agency shall distribute examination reports to any serviced institution without the express consent of the lead agency. Only the agency

conducting the examination will provide nonparticipating state authorities copies of the report. In the case of joint examinations, participation by state agencies and report distribution to those state agencies will be decided on an individual basis at the district/regional level by the participating federal agencies.

B. *MDPS Examinations*

The consolidated report of examination should be sent to the Washington office of the lead agency and to the board of directors of the data servicer. The lead agency's Washington office is to provide a copy of the report to the other FFIEC EDP Subcommittee members for distribution to the respective agency regional/district offices. The agency in charge is responsible for sending a copy of the report to the appropriate state supervisory agencies. Excluding the provisions noted above, distribution of MDPS reports should otherwise be in accordance with the provisions governing the distribution of joint interagency examinations.