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# CONSULTATION ON PROPOSED GUIDELINES ON THIRD-PARTY RISK MANAGEMENT

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## INTRODUCTION

The Monetary Authority of Singapore (“**MAS**”) has proposed new Guidelines on Third-Party Risk Management that would supersede the existing Guidelines on Outsourcing for banks and other financial institutions. These Guidelines would extend the expectations that currently apply only to outsourced services to all third-party services used by financial institutions (“**FIs**”). The proposals incorporate key elements from international standard-setting bodies, including the Financial Stability Board (“**FSB**”) and the Basel Committee on Banking Supervision (“**BCBS**”).

It is important to emphasise that the consultation papers are proposals open for industry feedback, not final regulations. With that in mind, this regulatory update examines the proposed enhancements, contextualizes them, and outlines issues for financial institutions to contemplate as they prepare consultation feedback and evaluate potential impacts should the proposals be adopted in their current or an amended form.

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## EXPANDED SCOPE

The proposed Guidelines expand the regulatory perimeter from outsourcing-only to all third-party arrangements, defined as any formal arrangement between an FI and a service provider (including intragroup entities) for the provision of one or more services.

Previously, the regulatory focus primarily centered on services that FI could potentially perform internally. This approach often excluded certain external dependencies from the core outsourcing framework.

The current proposed shift to a “third-party arrangement” concept represents a significant broadening as FIs will now need to consider how they manage technology vendors, data providers, consultants, and other service relationships that may not have been classified as “outsourcing” under the previous regime.

## REGISTER OF THIRD-PARTY ARRANGEMENTS

Under the proposal, FIs would be required to submit a register of third-party arrangements to MAS on a semi-annual basis and upon request, using a prescribed template. The register must, at a minimum, include all material third-party arrangements, and where possible, also capture material sub-contractors. For banks and merchant banks, the existing MAS Notices 658 and 1121 will remain in effect alongside the new Guidelines, and they will only need to submit one register of third-party arrangements covering (i) all ongoing outsourced relevant services obtained or received from a service provider and (ii) all outsourced relevant services obtained or received from a service provider which involve the disclosure of customer information.

From an operational perspective, this requirement may necessitate a significant uplift in data management practices for FIs that do not already maintain a centralized inventory of their vendor relationships.

## GOVERNANCE AND ACCOUNTABILITY

The proposal seeks to elevate third-party risk oversight more explicitly to the responsibility of the board and senior management. If adopted, this would formalise expectations around governance structures, reporting, risk appetite, and accountability for material third-party arrangements. From an operational perspective, this would mean FIs would be expected to ensure that the third-party risk management strategy is consistent with other relevant strategies (e.g. operational risk management strategy, technology risk management strategy) and its overall risk appetite.

## LIFE CYCLE MANAGEMENT

Another key aspect of the proposal is the shift toward a more structured lifecycle approach, encompassing risk assessment, due diligence, contracting, onboarding, ongoing monitoring, and exit planning. While many firms may already have elements of this in place, the consultation paper and the proposed Guidelines encourage adopting a consistent and fully documented end-to-end process.

- **Risk Assessment** - FIs should identify and assess the types and levels of risks, and the materiality of potential services, considering both financial and non-financial risks. Assessments should be performed when entering new arrangements, when major changes occur, and periodically as part of internal reviews.

- **Due Diligence** - Due diligence should cover the service provider's financial viability, ability to deliver services, governance and risk management capabilities, security and internal controls, disaster recovery arrangements, and ability to manage supply chain risks. Onsite reviews, market feedback, etc. could be considered for material arrangements.
- **Contracting** - Service provider agreements should address risks identified at the risk assessment and due diligence stages. For material arrangements, agreements should include provisions for MAS and FI audit rights, adverse development reporting obligations, termination rights, business continuity obligations, data location requirements, and sub-contractor conditions.
- **Onboarding and Ongoing Monitoring** - FIs should establish multi-disciplinary management control groups, performance metrics, reporting structures, and periodic reviews. Due diligence frequency for material arrangements should be board-approved and commensurate with risk.
- **Termination** - FIs should maintain exit plans for different plausible termination scenarios, covering transition periods, budget, roles, data destruction, and asset transfer. MAS reserves the right to direct an FI to terminate a service provider agreement in certain circumstances.

## SUB-CONTRACTING

FIs would be expected to manage risks arising from material subcontractors in a manner similar to those posed by direct service providers, where possible. Key expectations include requiring service providers to notify the FI in writing prior to engaging a material subcontractor and taking reasonable steps to ensure material sub-contractors are held to similar standards as primary service providers. MAS does not prohibit "pass through subcontracting" (where a provider sub-contracts all or the bulk of a service) but expects FIs to assess the risks involved and ensure effective oversight.

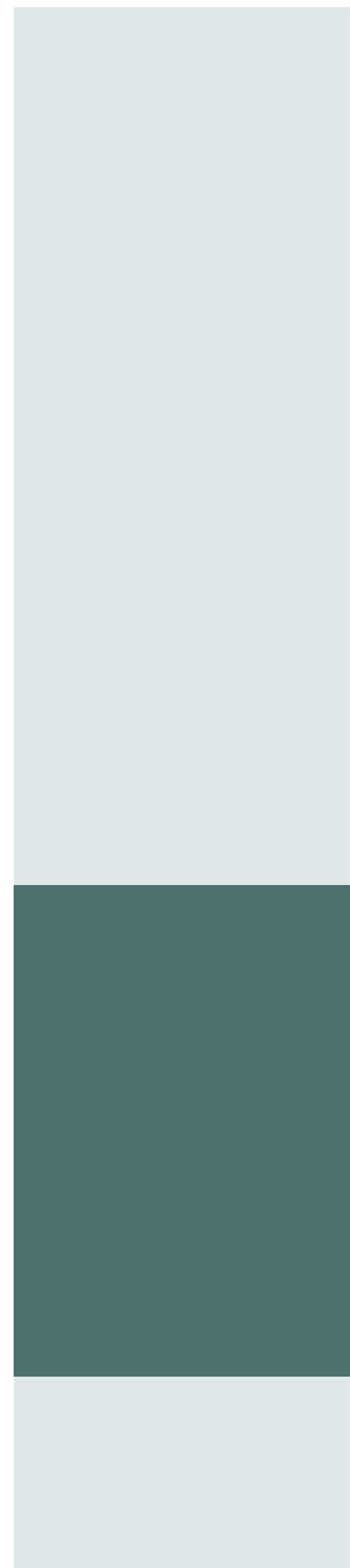
In practice, this could mean negotiating strong contractual rights with primary service providers, including advance notification of material subcontractors, clear liability of the primary vendor for subcontractor performance, and "flow-down" clauses requiring subcontractors to meet standards on confidentiality, security, and audit access. This may also involve compiling the new semi-annual register in a manner that helps identify potential hidden concentration risks. For instance, it may reveal situations where several otherwise unrelated material service providers are all critically dependent on the same niche fourth-party cybersecurity or data processing provider.

## ADVERSE DEVELOPMENTS

FIs would also be expected to ensure, through contractual provisions, that their service providers cooperate with MAS during adverse developments by providing timely information. The proposed Guidelines also indicate that where such cooperation is lacking, or where risks are not adequately mitigated, MAS may direct the FI to terminate or not renew the relevant third-party arrangement.

## PROPORTIONALITY PRINCIPLE

MAS has stated the proportional implementation of the Guidelines (i.e., the extent and degree to which an FI implements the expectations should be commensurate with the size and complexity of the FI and the nature, risks, and materiality of the third-party services it uses).



## EXEMPT SERVICES

MAS proposes that FI's use of Financial Market Infrastructures (FMIs) (e.g. clearing houses, trade repositories, central securities depositories, systemically important payment systems and the Society for Worldwide Interbank Financial Telecommunication (SWIFT) messaging network) and utilities (e.g. telecommunications and electricity service providers), be treated as exempted services, meaning the Guidelines' expectations (e.g., due diligence and audits) would not strictly apply, acknowledging the practical challenges involved. However, FIs would still be expected to manage risks associated with these services by implementing appropriate business continuity measures and incident response plans, particularly to address potential disruptions or compromises of confidential information.

## OTHER CONSIDERATIONS

In addition to the areas highlighted above, MAS has also proposed further enhancements to the Guidelines. Set below is the area that financial institutions may wish to consider during the consultation period.

### Business Continuity

The proposed Guidelines explicitly include Disaster Recovery along with Business Continuity Management ("**BCM**") (previously focused mainly on BCM) reflecting stronger operational resilience expectations.

Under the proposal, financial institutions would be required to formally develop, maintain, and periodically review both BCPs & DRPs specifically in relation to third-party dependencies, with recovery strategies aligned to the institution's risk appetite, including options such as switching providers or in-sourcing.

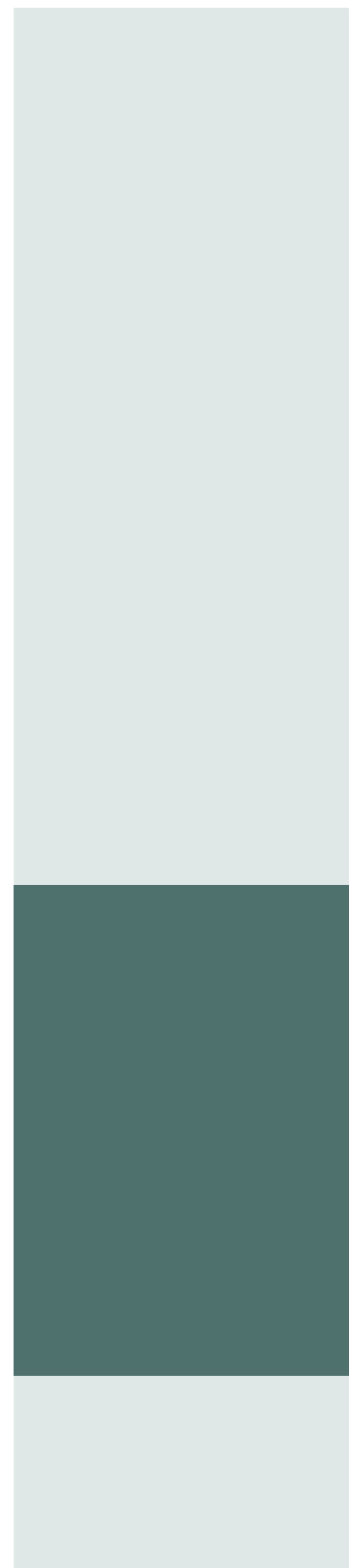
The proposal also introduces more explicit expectations around scenario planning, requiring institutions to consider "severe but plausible" scenarios and to identify viable alternative arrangements, or otherwise implement mitigating measures where alternatives are not available.

## CONCLUDING OBSERVATIONS

The proposal signals MAS' intent to significantly raise the bar for how FIs manage third-party risk across the entire vendor ecosystem, not just traditional outsourcing. For FIs, the practical implication is that third-party risk management can no longer be treated as a procurement or IT function alone, it must be elevated to a strategic, enterprise-wide discipline with clear governance structures, documented processes, and regular reporting to both the board and MAS.

Again, MAS has pointed to its proportionality principle. In practical terms, however, financial institutions should also consider how auditors may assess and report on such risks. For example, for an institution with few customers, a cloud-based CRM tool may not seem to be the same level of risk as a 'material outsourcing' of its entire core customer platform. However, in practice, an auditor may require that both be similarly documented based on the entity's risk review, thus turning implementation into a documentation-driven exercise.

For certain FIs, the proposal may result in notable operational impacts (such as increased workload and updates to processes), financial implications (including implementation costs, professional services, and staff training), and time and resource considerations (for example, extended contracting and onboarding timelines), which FIs should anticipate and



carefully assess during the consultation phase.

FIs are encouraged to follow developments in this industry dialogue, as it will offer additional context on the Authority's eventual position.

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