

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 78-81
June 15, 1978

JOINT POLICY FOR THE EXAMINATION
OF DATA PROCESSING CENTERS

TO THE STATE MEMBER BANK ADDRESSED:

Printed on the following pages is a policy statement which was adopted by the Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, Federal Reserve Board, and the Comptroller of the Currency in an effort to make EDP examination procedures more efficient.

The statement provides for joint or rotated examinations of data centers which provide services to financial institutions. Data centers operated by State member banks will continue to be the responsibility of the Federal Reserve System.

The statement specifies that examination reports will be distributed to the appropriate data center and its serviced institutions. Federal Reserve Banks will be responsible for distributing reports to serviced State member banks. Correspondence from the data center about the examination will be directed to the examining agencies; your correspondence about an examination should be sent to the Federal Reserve Bank of Dallas.

If your bank is serviced by an organization other than a financial institution, please provide your servicer with a copy of this letter and the policy statement. If you have any questions regarding this matter, please contact our Bank Supervision and Regulations Department, at Ext. 6274.

Sincerely yours,

Robert H. Boykin

First Vice President

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-492-4403 (intrastate) and 1-800-527-4970 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

Interagency EDP Examination, Scheduling and Report Distribution Policy Statement

Definitions

1. Insured Institution - any bank, savings and loan association or other financial institution whose deposits or shares are insured by a federal agency.
2. Serviced Institution - any insured institution which receives data processing services.
3. Independent Data Center - any data center that provides data processing services to an insured institution, but is not owned by or affiliated with an insured institution.
4. Holding Company - any organization which has control over one or more insured institutions.
5. Bank Service Corporation - a servicing corporation as defined in the Bank Service Corporation Act, 12 U.S.C. 1861-1865.

I. Examination Responsibility

A. Insured Institutions

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

B. Holding Companies

1. Data centers operated by a holding company, or its affiliate, which services only one class of insured institution will be examined by the federal regulatory agency responsible for that class of insured institution.
2. Data centers operated by a holding company, or its affiliate, which services more than one class of insured institution will be examined jointly, or on a rotated basis, as agreed to by the federal regulatory agencies responsible for those classes of insured institutions.
3. Data centers operated by holding companies which control only one insured institution, or its affiliate, will be examined by the federal regulatory agency responsible for the insured institution.

C. Independent Data Centers

Responsibility for the examination of independent data centers will be based on the class of insured institution being serviced. The guidelines for holding companies (Item B) will apply.

D. Bank Service Corporations

Responsibility for the examination of bank service corporations will be based on the class of insured institution being serviced. The guidelines for holding companies (Item B) will apply.

E. Independent Examinations

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

II. Scheduling and Report Preparation

A. Joint Examinations

1. Joint examinations will be scheduled at the regional level. Examination duties will be divided and rotated among the EDP examiners assigned.
2. One report will be prepared and signed by the examiner-in-charge from each agency. The participating examiners will reach an agreement on the report comments and the responsibility for authoring the finished product.
3. Interested state agencies will be invited to participate when institutions operating under their charter are being serviced.

B. Rotated Examinations

1. When joint examinations are not scheduled for servicers of various classes of insured institutions, the examination responsibilities will be rotated among the respective agencies for two-year periods. However, when the data center's overall condition is determined to be less than satisfactory, joint examinations must be scheduled for the subsequent examination.
2. The examining agency will complete its standard report of examination when conducting rotated examinations.

III. Report Distribution Policies and Procedures

- A. At the conclusion of the examination the examiner will discuss the report comments with the senior management. Management will be informed that, as a matter of policy, these or similar report comments will be distributed to all insured serviced institutions. The distribution policy will be repeated in the cover letter transmitting the completed report to the data center.
- B. The examining agency will furnish all other affected agencies (at the district or regional level) a copy of the completed report, a complete list of serviced institutions, and an outline of any request for corrective action. If the receiving agency feels additional follow-up is warranted, it will immediately request the initiating agency to do so.

- C. Each agency will be responsible for reproducing and distributing the report comments to its serviced institutions. 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 sending agency. A written receipt will be obtained from each recipient. Report comments resulting from joint examinations will be distributed by the participating agencies to their respective serviced institutions.

These procedures do not affect existing distribution agreements with state agencies. The agency conducting the examination will be the only one permitted to 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 or regional level) by the participating federal agencies.

- D. Regardless of the distributing agency, report comments transmitted to serviced institutions will be limited to the examiner's conclusions, recommendations and comments. Matters of a proprietary or competitive nature relating to the servicer will be excluded from report comments prepared for distribution to serviced institutions, but will be contained in the report provided to the servicer and other federal agencies. Requests for additional information will be considered on an individual basis. Each agency with serviced institutions will have access to examiner work papers in addition to the complete report (including confidential sections).
- E. In cases where the servicer is examined by a single agency and does not respond to corrective action requests, it may be necessary to report the uncorrected deficiencies to the serviced institutions. However, the regulatory agencies of all serviced institutions will first agree on the need and jointly meet with the servicer.