

Federal Reserve Bank of San Francisco  
101 Market Street, San Francisco, California 94105

December 10, 2013

To State Member Banks, Bank  
Holding Companies, Financial Holding  
Companies, Savings and Loan Holding Companies,  
and Foreign Banking Offices  
in the Twelfth Federal Reserve District

**Federal Reserve Board Releases Guidance Reminding Financial Institutions to Exercise  
Appropriate Risk Management and Oversight when Using Service Providers**

On Thursday, December 5, 2013, the Federal Reserve Board released guidance reminding financial institutions it supervises to exercise appropriate risk management and oversight when using service providers.

The guidance describes factors financial institutions should consider when choosing a service provider and how service providers should be overseen. A service provider is defined as any organization or entity--such as a consultant--that enters into a contractual relationship with a financial institution to provide business functions or activities, such as accounting, auditing, loan review, compliance, and risk management.

The guidance does not discourage financial institutions from outsourcing activities to service providers, but says firms should be aware of the potential risks. If service provider relationships are not managed effectively, they may expose financial institutions to risks that can result in reputational problems, financial loss, or regulatory actions, according to the guidance.

Furthermore, the guidance states that the use of service providers does not relieve a financial institution's board of directors or senior managers of responsibility for the activities performed by service providers. Financial institutions are responsible for ensuring that all activities conducted by service providers comply with applicable laws and regulations and are consistent with safe and sound banking practices.

The guidance is applicable to state-chartered banks that are members of the Federal Reserve System, bank and savings and loan holding companies and their nonbank subsidiaries, and U.S. operations of foreign banking organizations.

**Additional Information**

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking-supervision/publications/district-circular-letters/>.

For additional information, please contact:

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**Attachment:** [SR letter 13-19/CA letter 13-21, "Guidance on Managing Outsourcing Risk"](#)