

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:

Federal Reserve Bank of San Francisco
Banking Supervision and Regulation
(801) 322-7853 Consumer Compliance
(415) 974-2923 Safety and Soundness

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