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## Press Release



*Release Date: December 5, 2013*

### For immediate release

The Federal Reserve Board on Thursday 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.

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

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