



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
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THIRD-PARTY RISK

Guidance for Managing Third-Party Risk

Summary: The attached FDIC guidance describes potential risks arising from third-party relationships and outlines risk management principles that may be tailored to suit the complexity and risk potential of a financial institution's significant third-party relationships.

Distribution:

FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:

Chief Executive Officer
Chief Financial Officer
Chief Compliance Officer
Chief Risk Officer

Related Topics:

Risk Management
Third-Party Contracts
Outsourcing Arrangements
FFIEC IT Handbook on Outsourcing Technology Services (June 2004)
Required Notification for Compliance with the Bank Service Company Act

Attachment:

Guidance for Managing Third-Party Risk

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Note:

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Highlights:

Financial institutions often rely upon third parties to perform a wide variety of services and other activities. An institution's board of directors and senior management are ultimately responsible for managing activities conducted through third-party relationships, and identifying and controlling the risks arising from such relationships, to the same extent as if the activity were handled within the institution.

Management should tailor the principles contained in this guidance to each significant third-party arrangement, taking into consideration such factors as the complexity, magnitude, and nature of the arrangement and associated risks. This guidance outlines the potential risks that may arise from the use of third parties and addresses the following four basic elements of an effective third-party risk management program:

- Risk assessment
- Due diligence in selecting a third party
- Contract structuring and review
- Oversight

This guidance is based on and supplements the principles contained in policy guidance that has previously addressed third-party risk in the context of specific functions, such as information technology. This guidance is intended to assist in the effective management of third-party relationships, and should not be considered as a set of required procedures.