

Date: [Date]

To: Chief Executive Officers and Boards of Directors of All Supervised Financial Institutions

Subject: Interagency Guidance on Third-Party Relationships: Risk Management

1. Purpose

This letter provides guidance on managing risks associated with third-party relationships. It emphasizes that the use of third parties does not diminish a financial institution's responsibility to perform activities in a safe and sound manner and in compliance with applicable laws and regulations.

2. Background

Financial institutions increasingly rely on third parties for a variety of activities, including core banking functions, information technology services, and specialized operations. While these relationships offer benefits, they also introduce operational, compliance, strategic, and credit risks.

3. Risk Management Life Cycle

An effective risk management process should follow the life cycle of the third-party relationship:

- **Planning:** Evaluating the strategic purpose and inherent risks of the activity.
- **Due Diligence and Selection:** Assessing the qualifications, financial condition, and controls of potential providers.
- **Contract Negotiation:** Establishing clear expectations, responsibilities, and enforceable rights.
- **Ongoing Monitoring:** Reviewing performance and control environments throughout the duration of the relationship.
- **Termination:** Managing the transition or exit strategy effectively.

4. Governance and Oversight

The Board of Directors and senior management are responsible for:

- Approving risk management policies.
- Ensuring adequate resources are allocated to oversight.
- Reviewing reports on the status and performance of critical third-party relationships.
- Maintaining independent reviews or audits of the risk management process.

5. Supervisory Reviews

Regulatory examiners will evaluate an institution's third-party risk management as part of standard examinations. Failure to manage these risks effectively may result in supervisory actions.

6. Conclusion

Institutions are encouraged to review their current practices against this guidance to ensure robust oversight of third-party networks.

Sincerely,

[Authorized Signature]

[Name of Regulatory Agency]