**Farm Credit Administration**

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INFORMATIONAL MEMORANDUM

January 16, 2001

To: The Chief Executive Officer
All Farm Credit System Institutions

From: Roland E. Smith, Director
Office of Examination

Subject: Outsourcing of Technology-Related Products and Services

Financial institutions, including many Farm Credit System (FCS) institutions, are relying on outside firms for technology-related products and services to support an assortment of banking functions. Outsourcing has increased as technology has grown more complex and dynamic. Coupled with the growth of technology-related products and services, many new startup service companies are emerging that offer unique products or services. These companies may have limited experience, staff, financial resources, and knowledge of the financial industry. Also, new companies, regardless of the industry they are in, are more susceptible to failure. This heightens the importance that FCS institutions have an appropriate risk-management process in place to identify, measure, monitor and control the risks associated with technology-related outsourcing arrangements.

For a potential service provider, especially those that may have existed for only a short period, the depth of due diligence that can be performed may be very limited. Nevertheless, our examiners will determine whether an institution has taken the appropriate actions to evaluate a service provider's ability to provide the specific products and services contracted. We will also determine whether the institution has documented its need for the service provider, as well as the degree of dependence upon those services.

Even though an institution may rely on outsourcing to acquire expertise, the board of directors and management are responsible for ensuring adequate management practices are in place for effective oversight and management of outsourcing relationships. Attached is a Federal Financial Institutions Examination Council release, "Risk Management of Outsourced Technology Services," that contains guidance on processes that should be considered in managing risks associated with outsourcing technology services. This document will assist the board and management of institutions in ensuring risk mitigation practices are in place for effective oversight and management to mitigate risk in outsourcing relationships.

If you have any questions about this Informational Memorandum, please call Tom Glenn, Special Examination and Supervision Division, Office of Examination, at (703) 883-4412, or correspond with him on the Internet at e-mail address *glennt@fca.gov*.

Attachment