Third-Party/Vendor Risk Management Policy Guidelines

Based on regulatory guidance

venminder

Table of Contents

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You've been tasked with creating or updating your organization's third-party or vendor risk management policy. It's not unusual to feel confused or overwhelmed by what seems like such a monumental task. It's no secret that successful third-party/vendor risk management relies on a solid policy, and that third-party/vendor risk management policies aren't only a best practice, they're also a regulatory requirement in many industries.

However, not everyone knows how to write a third-party/vendor risk management policy, or what type of content to include. If you're wondering how to start writing a third-party/vendor risk management policy, or need to update or review an existing policy, we're here to help.

Venminder has developed a comprehensive third-party/vendor risk management policy template that was provided with this guide. This companion guide includes policy writing guidelines that meet most industry standards and best practices. Just remember that there is not a single "one-size-fits-all" approach to third-party risk management. Your organization will need to add to or change policy content, descriptions, processes, and so on, to ensure alignment with your third-party risk management framework. Your organization is solely responsible for its third-party or vendor risk management policy's structure, content, and regulatory compliance, so take great care when creating the policy.

Effective third-party/vendor risk management policies are the foundation of any good third-party or vendor risk management program. Venminder is here to help you and your organization draft an excellent policy because we believe in making third-party/vendor risk management more accessible, less complex, and more effective for everyone.

Most organizations use policy documents to communicate **rules, requirements, and guidelines** to their employees.

In terms of third-party/vendor risk management, a well-written and effective policy should be the foundation for any organization's third-party/vendor risk management framework and program.

However, well-written third-party/vendor risk management policies don't just happen. An effective third-party/vendor risk management policy must take into account third-party/vendor risk management principles, regulatory expectations, requirements, accepted best practices, and organizational processes and culture.

Policy writing can be time-consuming and challenging. In the absence of guidance or support, many people lack the experience and knowledge necessary to develop a top-notch third-party/vendor risk management policy by themselves.

Feeling overwhelmed with the task of revising or creating your organization's third-party/vendor risk management policy?

Take a deep breath; you can do it! And we're here to help you.

Upfront Policy Considerations

It's important to understand your organization's internal expectations and policy requirements before writing your third-party/vendor risk management policy. Ask yourself these questions:

1. **Does your organization use a specific policy format or template?**
2. **Who will be the formal owner of the policy?**
3. **What is the process to get your policy reviewed and approved?**
4. **How are policies enforced?**

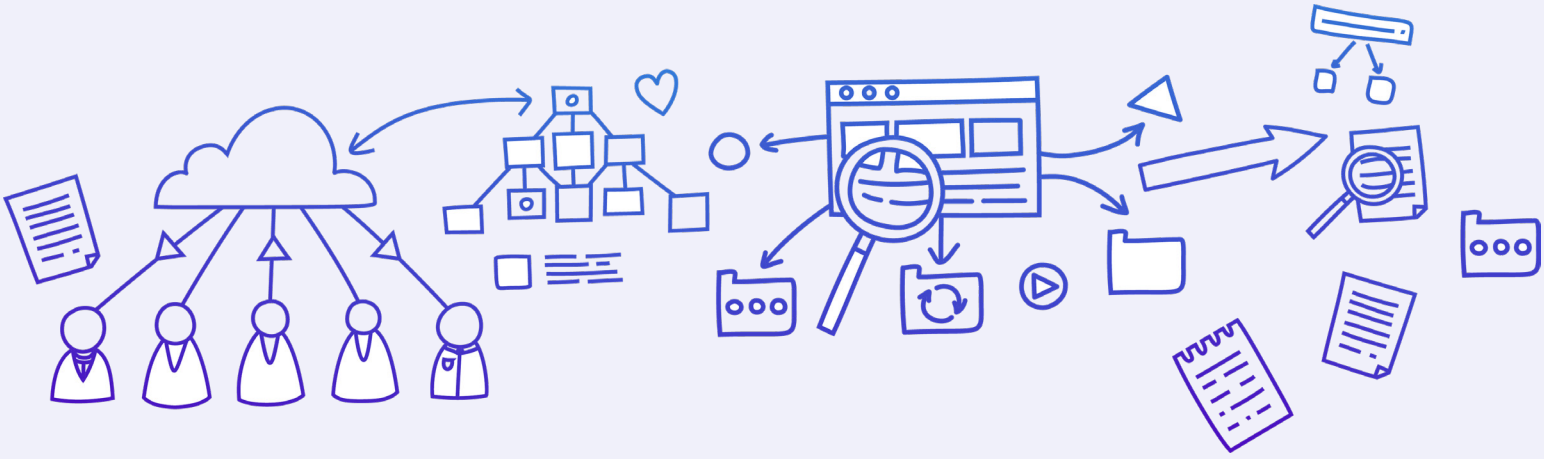
Understanding these basics will help you get your policy off to a good start. Ensure you have as much information as possible, including samples of other internal policies, before creating or revising your third-party/vendor risk management policy.

Getting Started

We recommend taking some time to review the information provided in this guide first. We have purposely designed this document to assist you and your organization with the following:

1. Articulating the purpose of the third-party/vendor risk management policy
2. Identifying the users of the policy as well as process stakeholders
3. Determining the best tone and language to create your policy
4. Learning about the recommended content and information flow of a third-party/vendor risk management policy
5. Deciding on the specific content you'll need to create an effective policy for your organization
6. Aligning your policy with regulatory expectations (if you're in a regulated industry)
7. Determining how you can leverage the third-party/vendor risk management policy template to get the best results

By reading this guide, you'll hopefully learn something new and get some answers to your most important questions. It will also enhance your confidence in the process and help you structure great policy content.



How to Use the Provided Third-Party/Vendor Risk Management Policy Template

We've provided you with a policy template that illustrates the content, structure, and flow of a well-written third-party/vendor risk management policy. Remember, a template is merely a pattern you can follow to achieve a similar result.

Although you can use the template exactly as is, we strongly recommend you customize it to align with your organization's governance structure, needs, terminology, processes, etc.

The third-party/vendor risk management policy template was designed to mirror some of the most prescriptive regulatory guidance – in the United States – for managing third-party or vendor relationships. In fact, some of the specific language included in the template was taken directly from or strongly influenced by regulatory guidance documents.

We took this approach to illustrate the specific subject areas that regulators expect to be addressed within a third-party/vendor risk management policy (and program) and to ensure that the policy template was comprehensive. After all, regulatory guidance is the most significant influence of many third-party/vendor risk management best practices, even for non-regulated industries. However, your organization's policy should be tailored to your organization's needs.

Using the template as a guide to help you organize your policy structure, content, and flow is best.

Yes, it's okay to copy the language in the template. How you decide to write the policy is up to you and your organization. But remember to ensure your organization's policy reflects what it's doing today, not what it should or plans to do in the future. Auditors and examiners will expect you to provide evidence that you follow the requirements and guidelines of your current policy. In most cases, it's better to leave a policy requirement out than to have one that isn't followed.

> **Note:** *The terms third-party risk management and vendor risk management are used throughout this document. Your organization may use one of those terms or something similar, which is perfectly fine. As this document will use the terms third-party or vendor risk, we'll also use the abbreviations of TRPM or VRM.*

Section 1:
Best Practices for Third-Party or Vendor Risk Management Policy Content and Structure

Know your regulatory requirements

If you're regulated, make sure to review the guidance provided by your respective regulator(s). Comprehensive guidance is available on regulator websites.

Read the guidance, any related information, and do the following:

1. Review the order of the information (how does it flow?)
2. Identify where your third-party/vendor risk management program or practices may have gaps compared to the regulatory guidance

Understand your organization's policy writing requirements, format, and style

If your organization has specific format requirements (e.g., font, layout, numbering conventions, etc.) for formal documents such as policies, be sure to follow them. Copy and paste the content into your organization's policy template rather than trying to reformat the template provided by Venminder. Take a look at some of your organization's existing policies to see how they are structured, written, and presented.

Understand how, or if, policies are enforced in your organization

Every organization has its own way of communicating and implementing its internal policies. Some organizations require their employees to read and sign a document stating that they understand and agree to follow the policy. Others simply create policies and store them somewhere, hoping that the employees will comply with them. However, it's crucial to communicate the policy effectively to all employees and ensure they're aware of it. If employees aren't aware of the policy, it's unfair to expect them to follow it and face consequences for noncompliance.

Auditors and regulators alike frown on policies that aren't enforceable or enforced. After all, what is the point of a policy other than to formally communicate a set of rules and requirements? If these rules and requirements aren't communicated, how or why should they be followed?

Talk to your management and Human Resources teams to discuss the following:

1. How are policies communicated, and to whom?
2. How are policies enforced?
3. What are the consequences of policy noncompliance?
4. How are policy exceptions typically handled and documented?

Keep it general

You can't anticipate every scenario in your policy. Writing policies that are broadly applicable while still being specific enough to apply to various situations is essential. Save your detailed instructions for your program documents and procedures.

Don't include processes or procedures

A policy is meant to convey rules and requirements. A policy isn't meant to instruct the reader on how to execute the specific requirements.

For example, suppose you have a requirement that a senior IT manager approves any vendor engagement providing technology products or services. You may have a specific form or routing process to make that happen. You want to include the requirement in the policy but omit the specific details regarding the process.

Here's a good example of how that requirement SHOULD be stated in the policy and how it SHOULD NOT be:

All vendor engagements providing technology products and services must be approved by the IT department manager (director or above) before the contract can be executed.

To get approval for vendor engagements for IT products and services, the vendor owner must get the approval of an IT manager (director or above).

1. Vendor managers complete form IT 1020 and submit it through the IT slack channel
2. Within 24 hours, the form is routed to the appropriate IT manager
3. The manager reviews the business case and validates budget availability
4. The manager accesses the vendor engagement record in the TPRM system and checks the approval box
5. Vendor owner and contract manager are notified of approval via email

It's not that process information isn't important. Yes, stakeholders need to know how to get approval for their engagements. **However, those specific details aren't appropriate for a policy for a few reasons:**

- → Policies only convey the rules and requirements necessary to meet best practices, regulatory requirements, and stakeholder expectations
- → Policies should be as brief as possible and practical
- → Policies should convey only the information that is relevant to all stakeholders
- → If your process changes (and they frequently do), you'll need to update your whole policy

Keep your process details but move them to a program or operating procedures document.

Less is often more

You don't always need a lengthy policy. In many instances, shorter is better. Still, you need to address all necessary elements and requirements. Don't get caught up on page count or document length. Focus on clearly communicating the requirements.

Watch your language

Be precise with your words, shorten your sentences, and use language that is easy to understand. Consistency is vital, so use the same terms throughout the document. For example, if you refer to your program as Vendor Risk Management, then refer to your policy as a Vendor Risk Management policy. And use the appropriate acronym, such as VRM. Ensure you don't refer to vendors in one part of the policy and as suppliers or third parties elsewhere.

Use a language structure consistent with your organization's culture

For example, a traditional organization like a bank may use more formal policy language. In contrast, a technology startup may use single sentences to describe policy requirements.

Here are some examples of formal vs more informal language:

1. **Formal language:**
   "These elements apply to all activities carried out by third parties. However, the extent and scope required of each third party depend on a variety of factors."
2. **Less formal language:**
   "The extent and scope of any third-party risk management activity depends on various factors."
3. **Least formal language:**
   "Requirements for third-party/vendor risk management activities vary."

The meaning of each of the statements above communicates the same concept. Still, when customizing content to reflect your organization's culture and policy style, be mindful of preserving the originally intended meanings and context.

Use active and direct words

Rather than “shall” when expressing requirements, use “must.” Use the following instead of “shall”:

- “Must” – if it’s a requirement
- “Must not” – if it’s prohibited
- “May” – for discretionary actions
- “Should” – as a recommendation

Define terms

Defining terminology and words with specialized meanings can make the policy more user-friendly. As a best practice, it’s recommended that you, at a minimum, define what the following terms mean for your organization:

- Vendor or Third Party
- Vendor Risk Management or Third-Party Risk Management
- Critical
- High, Moderate, and Low Risk
- Contract

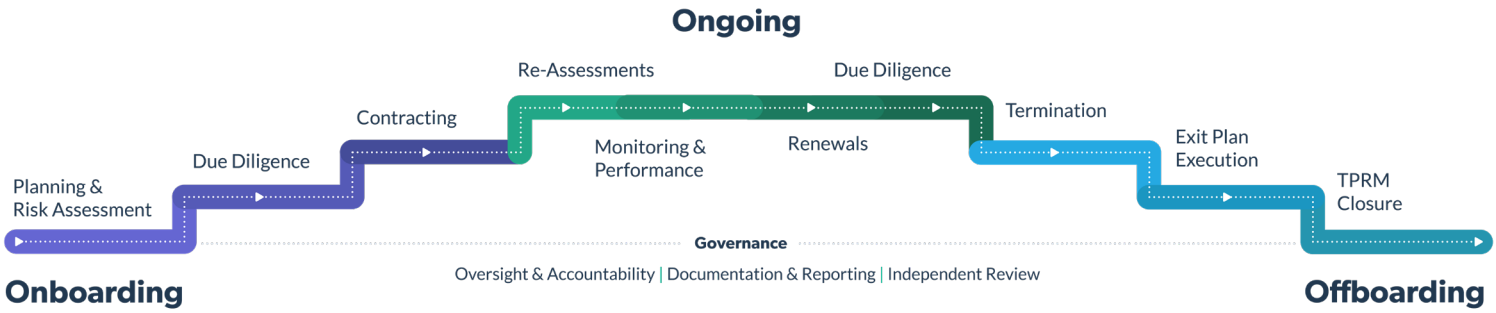
> **Note:** *Defining key terms is not the same as adding a glossary, where all terms are defined. Including a full glossary can make the policy longer. Prioritize essential terms relevant to the policy’s scope. If you feel like a glossary would be valuable, consider adding it as part of a program document or operating standards guide.*

Make it clear who does what

Identify and document stakeholder roles and responsibilities. When you think about third-party or vendor risk management at your organization, many different stakeholders likely contribute to that process. Those roles and responsibilities must be clearly identified in your policy. Why? Establishing who is accountable for ensuring specific requirements are met is a key objective of any policy. This document’s “Understanding Policy Content” section, which starts on page 17, will share some example roles and responsibilities.

Follow the third-party/vendor risk management lifecycle

In most cases, the regulator's content will align with the third-party/vendor risk management lifecycle. The third-party risk management lifecycle was designed by regulators and has been the primary influencer of accepted best practices for third-party/vendor risk management.



Looking at the lifecycle, you'll see that oversight & accountability, documentation & reporting, and independent review create its foundation. Likewise, your policy should include those elements as core components of your program.

The third-party/vendor risk management lifecycle also identifies the specific risk identification, management practices, and activities necessary throughout the third-party relationship. The risk considerations and activities change slightly as the process progresses from Onboarding to Ongoing and Offboarding. Following the structure and flow of the lifecycle is a great way to organize your policy content and address each risk activity during each lifecycle stage.

> **Pro Tip:**
> Before writing your policy, review your existing third-party risk management practices, activities, and requirements against the third-party/vendor risk management lifecycle. Does your organization currently have auditable processes that align with each stage of the lifecycle (Onboarding, Ongoing, and Offboarding)? If not, it's good to record any current gaps and begin creating and documenting plans to develop and implement those requirements and practices as soon as possible and practical.

Refer to other policies

It's not unusual for a TPRM/VRM policy to reference other internal policies. As a best practice, you shouldn't quote or include specific language from another policy. Instead, reference the policy, create a hyperlink to its internal location, and include it in the related policies section. By using this approach, you can maintain complete control over the content of your policy without having to modify it when other policies are updated.

For example, you can state: "Additional contractual requirements can be found in the Company Contract Policy," as opposed to including specific language or requirements taken from the policy.

When in doubt, leave it out

The policy template reflects regulatory expectations and best practices, but that doesn't mean your organization follows these practices. Suppose, for example, you don't have an internal requirement to complete due diligence before the contract is signed or your senior management and board don't approve the policy. In that case, it's best to omit the content saying you do.

Your policy should only represent your current state and practices.

There is an expectation that your policy contains your actual practices and requirements. Having an auditor or examiner find gaps in your program is better than receiving an audit finding for noncompliance with an aspirational or unenforceable policy.

Ask for stakeholder review and feedback

Developing a policy is a process that should be done with transparency and collaboration. You should be comfortable allowing key stakeholders to weigh in, provide suggestions, and identify any inaccuracies. Taking these steps upfront ultimately creates a better and more effective policy. Having written your policy and prepared it for approval by senior management and the board, you wouldn't want that process derailed by a stakeholder claiming they didn't have the time or opportunity to provide input.

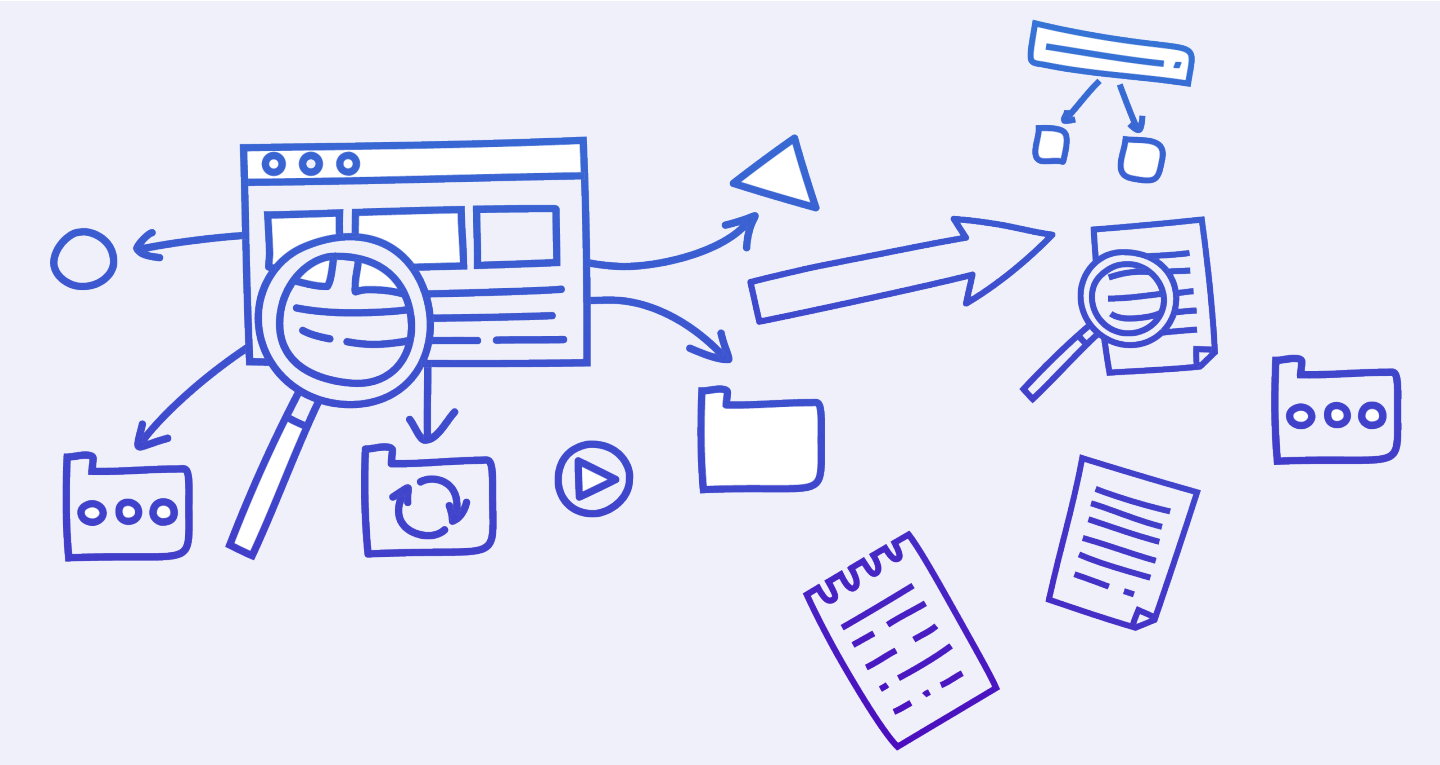
Gathering feedback is essential, but don't be surprised if not every stakeholder knows how to review the policy or provide that feedback.

Asking these questions can help tease out important information:

1. Does it make sense to you?
2. Is anything missing?
3. Should anything be removed?
4. What questions does it bring up for you?
5. Do you have any concerns?
6. What suggestions for improvement do you have?
7. Is there anyone else you think should review the policy?

Looks count and so do spelling and grammar

Make sure to review the document thoroughly. Check spelling and grammar, and then recheck it. Ask someone else to read it to look for any errors. When your document is as good as possible, check the formatting to ensure it looks polished and reads properly. Check font types and sizes, headers, footers, table of contents, page numbers, and pagination. You want to ensure those reading the policy can focus on the content without being distracted by avoidable mistakes or formatting issues.



Section 2:
Understanding Policy Content

This section will walk you through the content of the policy included in the template to help you understand the purpose of each policy section and its objectives. We'll use the same section numbers as the template to make it easy to follow.

Taking time to understand the purpose of each section and the content provided in the policy template can assist you in determining the right content for your policy.

Policy Content and Flow

The general flow of the policy template is designed to convey the following information in a specific order:

- Why We Have TPRM/VRM
- What Is TPRM/VRM
- TPRM/VRM Scope
- Program Oversight
- Oversight Roles and Responsibilities
- TPRM/VRM Roles and Responsibilities
- Components of TPRM/VRM
- Program Requirements by Lifecycle Stage and Activity
- Noncompliance/Escalation
- Systems of Record
- Associated Policies
- Policy Revisions History

The content included in the policy template has been designed to reflect regulatory guidance and best practices. Your policy may need more or less information or a different content flow, which is fine. Most importantly, your policy reflects your organization's requirements and current practices.

1 | Overview and Background

This section provides the reader with enough information to understand the background of the policy, why you need it, and the risks of not having it. Most formal policies should have this section; however, you may leave it out if your organization doesn't usually include this information.

2 | Statement of Purpose

This section details the policy's purpose, which usually boils down to managing the risks associated with third-party/vendor relationships and meeting regulatory expectations and best practices.

3 | Policy Statement

When people use the term "elevator speech," they typically refer to a short description of an idea, product, or company that explains the concept so that any listener can understand. Your Policy Statement is essentially your elevator speech for your organization's TPRM/VRM policy and practice. Short, specific, and to the point. Suppose you feel pressure to shorten or condense your policy. In that case, you can usually eliminate the Overview, Background, and Statement of Purpose sections and use the Policy Statement instead.

4 | Terms

The purpose of this section is to provide the reader with specific definitions of key terms used within your policy. This section shouldn't be confused with a glossary. Use this section to define the most important terms in the policy.

4.1 | Third Party/Vendor

Defines what a third party or vendor is to your organization.

> **Note:** *If your organization is subject to regulatory supervision of the OCC, FDIC, or the Fed, your definition of third party should align with the Interagency Guidance on Third-Party Relationships published in June 2023. Per the guidance, a third party is: "Any business arrangement between a banking organization and another entity, by contract or otherwise. A third-party relationship may exist despite a lack of a contract or remuneration. Third-party relationships can include but are not limited to, outsourced services, use of independent consultants, referral arrangements, merchant payment processing services, services provided by affiliates and subsidiaries, and joint ventures.*

4.2 | Third-Party Risk Management and Oversight

Defines both the purpose and the practice of third-party risk management or vendor risk management at your organization.

5 | Scope

Details which types of third-party or vendor relationships are in scope for the policy, program, and practice.

5.1 | Not in Scope

Specifically, it details which types of third-party/vendor relationships are NOT in scope for your program. Common examples are:

- Customers
- Employees
- Investors
- Government entities
- Public utilities
- Sponsorships or donations
- Vendors covered under travel and expense policies (hotels, airlines, shuttle bus, etc.)
- Media subscriptions
- Professional membership dues and conference fees
- Payees (Board members, legal settlements, etc.)

Note: *If your organization determines that specific relationships are out of scope, you must be prepared to articulate and defend that decision. For example, relationships with employees, investors, and customers are out of scope for most organizations. Why? Because even though those relationships would technically qualify as third-party relationships, they don't meet the criteria of providing goods or services to support the operation and its customers. Those relationships would be governed by other policies, requirements, and practices. Likewise, advertising in the spring musical program of a local high school would probably qualify as sponsorship rather than advertising. It wouldn't meet the criteria of providing goods and services.*

If you are subject to the Interagency Guidance on Third-Party Relationships: Risk Management, it is important to clearly define which types of third-party relationships are specifically governed by other policies. As a couple of examples, contractors would generally be governed by your organization's HR policy, and sponsorships and donations are another category of third-party relationships that are likely governed by a separate policy.

5.2 | Pre-Existing Third-Party Relationships

This statement acknowledges that there may be engagements, contracts, or relationships that aren't totally compliant with the policy. And that when those gaps are identified, they're remediated at the first reasonable opportunity. Suppose you have inherited an old program or can't confirm that all your third-party or vendor relationships comply with the policy. In that case, a statement such as this is recommended. Be aware that when including a statement like this in your policy, your auditors or examiners will expect evidence that you're actively bringing your vendor relationships and contracts into compliance with the policy.

6 | Third-Party Risk Management Oversight

This section details third-party/vendor risk oversight accountability and briefly describes how that oversight is executed within the organization. Remember to structure this content to reflect how your organization assigns and executes these responsibilities.

6.1 | Policy Management and Approval

Who is responsible and accountable for approving the policy? This section should detail how often the policy is reviewed (best practices and regulatory requirements expect the board to approve the policy; if there is no board, that responsibility falls to senior management).

6.2 | Approval of Critical Third Parties

Who is responsible for approving critical third parties? Best practices dictate this would be senior management or an approved committee. Considering the critical nature of these relationships, they should be considered and approved at the highest levels of the organization.

6.3 | Periodic Review of Critical Third Parties

Specifically, who is responsible for reviewing critical third-party status, risks, and performance to ensure that everything is in good standing and that risks are within the organization's risk tolerance? And who is accountable for ensuring there are no unaddressed issues or new or emerging risks?

6.4 | Staffing and Resources

Who ensures sufficient and qualified resources to manage third-party risk across the organization? For example, if an auditor finds that a lack of resources prevents effective vendor risk management, who is responsible and accountable for correcting the issue?

7 | Organizational Structure and Responsibilities

This section goes into more detail about specific vendor risk management roles and responsibilities. Having a lot of narrative detail is unnecessary. Short, bulleted lists can work well. Again, align roles, responsibilities, and titles to match your organization. We've included general roles and responsibility descriptions for each of the roles listed in the template. Remember that you can have more, fewer, or different roles represented in your policy.

7.1 | The Board of Directors

They're responsible and accountable for ensuring that TPRM/VRM is executed effectively at the organization and that TRPM/VRM is incorporated into business strategy and decisions. They approve the policy and hold senior management accountable for its implementation and execution.

7.2 | Senior Management

They're responsible for integrating TPRM/VRM into core business strategies and decisions. They're accountable for the design and effective execution of TPRM/VRM across the organization, including the structure and implementation of the TPRM/VRM program, establishing the TPRM/VRM risk appetite, and holding all stakeholders accountable for the proper and timely execution of their roles and responsibilities. They must ensure enough skilled resources to manage and execute the processes necessary for a safe and sound TPRM/VRM program. Another critical responsibility of Senior or Executive Management is setting the "tone-from-the-top" regarding the significance of TPRM/VRM in the organization.

> **Note:** *Some organizations elect to refer to this as "Management," indicating a broader distribution of these responsibilities.*

While not included in the template, you may wish to include Business Unit Management to further refine the expectations for management at different levels of the organization.

Business Unit Management

Managers of departments, business units, and divisions ensure that TPRM/VRM practices are followed and implemented within their departments. And that appropriate planning for third-party/vendor relationships occurs before entering into business relationships. Additionally, they hold Third-Party Vendor Owners responsible for the performance of their third parties/vendors and identifying and managing risks associated with these relationships.

7.3 | Third-Party/Vendor Risk Management

This individual or team is responsible for creating the framework, requirements, rules, tools, and processes that enable effective third-party or vendor risk management at the organization. They oversee the processes across the third-party/vendor risk management lifecycle and review vendor owner deliverables to ensure quality and completeness.

7.4 | Third-Party/Vendor Owners

These individuals own the relationship with the third party/vendor. They are responsible for the effective and timely execution of all required TPRM/VRM lifecycle activities, including planning for the relationship, identifying appropriate third-party/vendor exit strategies, identifying the risks inherent to the product/service, ensuring the third party/vendor is responsive to all TPRM/VRM requests, managing the risk and performance of their third-party/vendor relationships, and the management and remediation of any third-party/vendor issues.

7.5 | Independent Reviewers

They're responsible for the objective review and assessment of the TPRM/VRM practices across the organization. They seek to confirm that the organization complies with all laws and regulations. Independent reviewers include internal and external auditors and regulatory examiners. When they identify gaps, material weaknesses, or other issues, they're responsible for reporting them to senior management and the board and tracking them until remediated.

7.6 | Legal Team or Counsel

Legal counsel or the legal team may be internal or external and is responsible for ensuring the legal validity and appropriateness of agreements between the organization and its third parties. They are also responsible for advising the organization on legal matters concerning third parties.

8 | Documentation and Reporting

Documentation and reporting are essential for your TPRM/VRM program. In addition to committing to adequately documenting required processes and maintaining necessary records, you should briefly describe how often the program will be reported to the board and senior leadership. You don't need to include an inventory of every report generated or offered by TPRM/VRM. However, you should provide general information about reporting to the board, senior management, and other stakeholders with oversight responsibilities, such as risk committees.

> **Note:** *Reports provided to your senior leadership and the board can serve as valuable evidence of oversight in an audit or exam.*

9 | Risk Management Overview

This section provides a high-level overview of how your organization approaches TPRM/VRM. This section shouldn't be overly detailed as the following sections should provide more information on specific requirements.

10 | Planning

This section should describe the consideration and planning for vendor relationships. Regulators, in particular, like to know that your organization is approaching each engagement carefully and with enough consideration of its risks. In addition, the organization should be clear about what it expects to gain from the engagement, how it will be managed, and what it will do if it needs to terminate the vendor.

IMPORTANT SECTION

11 | Risk Assessment

This section is perhaps one of the most important in any policy. Considering the whole point of the TPRM/VRM function and practices is to manage risk, identifying and assessing that risk is paramount. Spend extra time with this section to ensure that all definitions and requirements related to criticality, risk levels, and rating methodologies are reviewed, approved, and endorsed by the necessary stakeholders. Once you include these definitions in your policy, they become the standard by which your auditors and examiners will test you. So, ensure you're not defining critical or detailing risk levels in the policy that only apply to specific departments or haven't been approved. Your systems of record, tools, and processes should share a standard definition of criteria for critical vendors and have standardized risk-level definitions that match the policy.

11.1 | Criticality

This section documents how your organization identifies critical vendors. Critical is not a risk rating but a specific category representing a subset of your vendor inventory. Critical vendors are those that, should they fail or suffer a prolonged outage, there would be a material adverse impact on your operations or on your customers.

Every engagement should have a risk rating and be classified as critical or non-critical.

Note: *It's a standard regulatory requirement for organizations to identify critical vendors and manage them appropriately.*

11.1.1 | Critical

Document the specific criteria used to determine criticality here. To emphasize that this doesn't apply to engagements that might be critical for only a particular department but not the entire organization, you might add terms such as "across the organization" or "enterprise-wide".

While the three rules in the template are the most telling, some organizations might also want to consider some additional factors, such as:

- If replacing the vendor, or bringing the activity in-house, would require significant time, money, or other resources
- If the vendor failed to provide its products or services and your organization would be subject to regulatory scrutiny, fines, or enforcement actions
- If the vendor's failure would cause significant harm to the organization's brand or reputation
- If the vendor interacts directly with your customers

11.1.2 | Non-Critical

Likewise, it's recommended that you add content describing non-critical vendors. All engagements should be classified as either critical or non-critical.

11.2 | Risk Ratings

Use this section to detail the criteria for each risk level or rating. The criteria and ratings should be consistent throughout your TPRM/VRM framework, systems, etc. As a best practice, here are the risk level ratings we often see:

11.2.1 | Low

11.2.2 | Moderate

11.2.3 | High

11.3 | Residual Risk

This section isn't mandatory, but should be included in the policy if your organization calculates and considers residual risk. A brief description of residual risk and its application in your organization is sufficient. You don't need to include your methodology (i.e., criteria, formulas, or calculations) for determining residual risk within your policy. However, you must document that methodology and retain it elsewhere (as part of your program or procedures) as evidence for any audit or regulatory exam.

11.4 | Tools for Risk Assessment

This policy section should state that you have specific risk assessment criteria and tools (such as an inherent risk assessment). Like residual risk, you don't need to include the specific methodology (i.e., criteria, formulas, or calculations) used to assess risk within the policy document. However, ensure you have that information documented and retained elsewhere.

Note: *Your methods and tools for risk assessment should be standardized, objective, and easy to understand.*

12 | Due Diligence

12.1 | Overview

Due diligence is an essential element of TPRM/ VRM practices and processes. Your policy should affirm your organization's commitment to this practice. And your policy should state that the due diligence required is in proportion to the risk of the engagement.

12.2 | Completion of Due Diligence Before Contract Execution

Every organization should make completion of due diligence before contract execution a firm requirement. Executing a contract before due diligence is completed is risky because your organization loses valuable leverage to negotiate and legally obligate the vendor to remediate issues identified during due diligence. Worse still is discovering a "dealbreaker" after you've entered into the business relationship.

Here's an example of a worst-case scenario:
Suppose you rush to sign a contract so you don't lose a time-sensitive discount. However, due diligence wraps up, and you discover that your new vendor has many customer complaints and lawsuits. Or, even worse, is on a sanctions list!

Due to its importance, you may emphasize this requirement within your policy by adding expanded language stating the requirements and prohibitions related to due diligence.

For example, you might say: "All vendor engagements require formal due diligence as determined by TPRM/VRM. An organization's employees or agents must not execute any contract or begin any work with a third party or vendor until due diligence has been completed. This requirement cannot be waived unless approved by TPRM and the Vendor Risk Management Committee."

IMPORTANT SECTION

12.3 | Scope

Please pay attention to this policy section as it defines when you will or won't conduct due diligence. At a minimum, this section should restate that due diligence activities are proportionate to the risk in the engagement.

Whatever you state here will be a review point in audits or exams. Listing your requirements here is recommended for all vendors identified as critical or rated as high risk. It may also be a good idea to add language stating the TPRM/VRM team has the discretion to request due diligence for any engagement, regardless of risk level, if a compelling reason exists.

Even though it may seem obvious that vendors must provide documentation and information to perform due diligence, it's also important to acknowledge that those external factors are essential to the process.

12.4 | Outsourced Due Diligence Collection and SME Review

Adding this section isn't absolutely necessary, but it may be helpful if you're currently using external subject matter experts or hiring a firm to collect vendor documentation (or may need to in the future). The point you're making is that you do/will engage external resources to perform these processes when there is a compelling reason to do so. This disclosure statement provides transparency to your stakeholders, auditors, and examiners.

13 | Periodic Risk Assessments and Ongoing Monitoring

13.1 | Overview

This section addresses the requirements for monitoring the risk of your vendor throughout the relationship.

13.2 | Periodic Risk Assessments

List your requirements for formal periodic risk assessments that include a review of inherent risk and the validation of necessary controls through due diligence. This is a formal process and should be on an established schedule. Make sure to include the required intervals, by risk rating, for those reviews.

13.3 | Additional Risk Assessment as Necessary

You may need to enact risk reviews or due diligence more frequently than your schedule dictates if there are specific triggers such as a change in ownership, data breach, etc. List the specific circumstances or provide a generic statement giving TPRM/VRM the discretion to require periodic risk reviews when necessary.

14 | Contractual Standards

14.1 | Overview

This section is often overlooked in TPRM/VRM policies as many organizations have a company contract policy addressing contract review, signing authority, etc. However, those internal policies don't usually explicitly address regulatory requirements and best practices for third-party/vendor contracts. TPRM/VRM policies should include contractual standards so stakeholders can understand contract requirements within the TPRM/VRM context.

14.2 | Contract Terms and Provisions

This section addresses specific contract terms and provisions reflecting regulatory requirements and best practices. Before developing this policy section, work with your legal team to review your organization's contract templates to avoid conflicts or contradictory requirements.

14.3 | Analysis of Contract

The contract terms listed below represent regulatory requirements for TPRM/VRM contracts. Your contracts, at minimum, should address the items listed in this Contractual Standards section. Don't forget to include Audit or Right to Audit, as that single provision can legally obligate your vendor to provide data or information to you as you request. This contractual provision can be beneficial when working with vendors resistant to sharing due diligence information as requested.

Note: *As an essential consideration, you'll want to think about who is responsible for the analysis of the contract within your organization. While you don't have to specify precisely who in the policy, you should be able to identify who is responsible and what controls you have in place to ensure that contract analysis is occurring.*

14.4 | Contract Execution

You'll want to restate the requirement for complete due diligence before contract execution and provide instructions to add contractual requirements to non-compliant contracts during the contract renegotiation and renewal.

14.5 | Contract Management

Contract management consists of managing the vendor to meet the terms of the contract and managing the contract from an administrative perspective to ensure that appropriate renegotiation, renewal times, or termination dates are managed to preserve your organization's advantage. You may provide a summary statement here and capture detailed requirements elsewhere.

14.6 | Contract Termination

This section summarizes the primary considerations for terminating a contract. Pay attention to the statement: "Action plans must be developed to address other operational events related to termination." This requirement, also called an "Exit Plan," is strongly recommended.

14.7 | Contract Noncompliance

This statement summarizes contract management as a whole and emphasizes the organization's stance on contract termination when necessary.

15 | Ongoing Monitoring

This section refers to vendor monitoring as a whole and includes several elements or considerations for monitoring. While the existing template doesn't overly emphasize performance management, it's essential to recognize that performance monitoring is vital to effective monitoring practices. However, many organizations are just now beginning to implement this practice.

> **Note:** *If your organization does have defined performance monitoring requirements and practices, include them in a separate and specific performance monitoring sub-section. Include the required performance monitoring intervals (based on risk rating), activities (performance review meeting), and evidence (vendor scorecard).*

15.1 | Monitoring Activities

Not all of these activities will apply to every organization. List only the monitoring activities and practices currently performed at your organization.

15.2 | Enhanced Oversight

This statement reiterates the additional monitoring activities and rigor required for third parties/vendors deemed critical or rated as high risk.

15.3 | Escalation and Corrective Action

This section describes the considerations and conditions that would require escalation to ensure visibility at the senior levels of the organization.

15.4 | Corrective Action Documentation

This section is essential as it states the requirement to document and track third-party/vendor risk issues. Documented issue management and tracking are often tested during audits and exams.

> **Note:** *A corrective documentation statement should accompany a transparent, repeatable, and reportable issues management process. Data collected as part of the process should also be escalated when necessary.*

15.5 | Third-Party Noncompliance

This statement is optional but recommended. This statement reinforces the organization's commitment to ensuring that third parties/vendors remain in compliance and that, when necessary, senior management is engaged to make decisions related to mitigation or termination.

16 | Termination

In this section, describe the requirements your organization has for formally terminating a third-party engagement. Keep in mind that the activities listed here are best practices, but if they aren't reflective of your actual best practices, don't include them.

16.1 | Pre-Termination Contract Review

This section details the requirement to review contracts and agreements with legal counsel to ensure a legally compliant termination process.

16.2 | Exit Plan Execution

This section details a requirement for a documented exit plan for third parties that are high risk or critical. It lists the mandatory elements of such a plan. These plans help ensure all necessary risk mitigation controls are present and effective during the termination and it occurs safely and soundly and within the expected time frame.

16.3 | TPRM Closure

This section describes the requirements for managing administrative details related to the third-party termination and relationship. This should emphasize proper record keeping and organization.

17 | Systems of Record

This section informs the organization of the requirement to perform TPRM/VRM activities and retain documentation within specific systems of record. You may choose to list those systems or not.

> **Note:** *If your organization mainly relies on manual TPRM/VRM processes, such as spreadsheets, it's best to leave this section out.*

18 | Related Policies

Many policies will refer to or are bound by other internal policies. Create an inventory with the official policy name, a brief description of the policy, and a hyperlink or other location information.

19 | Revision History

Your policy is a living document; you must practice version approval and control. Your revision history should document information regarding the versions, active dates, and approvals of your policies.

> **Note:** *Your organization may have a specific format or location for this information as part of an internal document standard. You may include this section where required for your organization.*

Other Information

Your policy will probably include more, less, or different content than suggested in the template. Whatever content you include, ensure you have a policy that reflects your organization's practices and processes.

Developing or updating your third-party/vendor risk management policy represents a huge step forward in the development or maturation of your program.

Stay focused and be confident. You can do it!

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About Venminder

Venminder is an industry recognized leader of third-party risk management solutions. Dedicated to third-party risk, the company is the go-to partner for software, high-quality assessments on vendor controls, certified subject-matter expertise, and education.

Venminder's platform provides a centralized location to execute a third-party risk management program. It enables users to store documentation, onboard a vendor, track contracts, manage SLAs, send and manage questionnaires, manage due diligence and oversight, complete risk assessments, create workflows, run reporting, and more.

Assessments performed by Venminder's qualified experts, including CISSPs, CPAs, financial risk analysts, paralegals, and more, are readily available in an online exchange library. The assessments enable customers to identify possible risks and understand areas of strength on their vendors' information security and privacy standards, SOC reports, financial viability, business continuity/disaster recovery preparedness, contractual standards, regulatory compliance, and more.