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September 15, 2021

Ann E. Misback
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Ave, NW
Washington, DC 20551

James P. Sheesley
Assistant Executive Secretary
Attention: Comments-RIN 3064-ZA26, Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Chief Counsel's Office
Attention: Comment Processing, Docket ID OCC-2021-0011
Office of the Comptroller of the Currency
400 7th Street, SW., Suite 3E-218
Washington, DC 20219

Re: Proposed Interagency Guidance on Third-Party Relationships: Risk Management

Dear Ms. Misback/Mr. Sheesley and the Chief Counsel's Office:

On behalf of the Iowa Bankers Association (IBA), I am writing to comment and express concerns regarding the Proposed Interagency Guidance ("Guidance") on Third Party Relationships: Risk Management. This proposed Guidance would replace each agency's existing guidance on this topic and would be directed to all banking organizations supervised by the respective agencies listed above. The IBA is an Iowa trade association with members comprising 98% of the state and national banks and federal savings banks located across the state.

Specific Issues and Concerns

As stated in the introduction to the proposed Guidance, competition, advances in technology and industry innovation have made reliance on third party service providers essential to serve customers in today's marketplace. These facts are very evident in the state of Iowa, where small to mid-sized community banks are the dominant financial institution charter across the state, as Iowa is home to roughly 270 state chartered and state-domiciled national bank charters. These

community banks rely heavily on third party relationships as for access to new and expanding technologies for product and service delivery are demanded or required by Iowa bank customers in every corner of the state. In addition, it is often more cost effective and efficient for Iowa banks to employ a third party service provider than try to develop solutions in house.

The IBA supports the interagency approach to this Guidance, as this is an issue that should not be subject to differing rules or interpretations among the three bank supervisory agencies at the federal level. Furthermore, several Iowa banks are part of multi-bank holding companies with differing federal prudential regulation through each organization. This consolidated Guidance will make cooperation and collaboration between these banks in the same holding company much easier to obtain when reviewing new or continuing third party relationships. See, question #12 and #13 of the “OCC’s 2020 Frequently Asked Questions (FAQs) on Third Party Relationships,” which are attached to this Guidance.

It is also very important to the IBA that the agencies take a tailored approach to third party risk management, as set out in item III(C) in the proposed Guidance. Many smaller Iowa banks require their employees to wear many hats in their job duties, so some element of scale as to the complexity of expectations for these smaller institutions would be appropriate. Many of these smaller community institutions also lack the negotiating power of larger community or regional banks to customize third party agreements. Although these smaller institutions are subject to the same amount of risk with third party relationships as any size bank, flexibility in this Guidance is needed during the due-diligence and monitoring stages of these relationships for such banks. For example, allowing these smaller institutions more flexibility to rely on outside professional opinions of a third party’s internal controls, like that which is provided in a Service Organization Control (“SOC 1, Type 2”) report. The IBA and its two primary for-profit subsidiaries commission an annual SOC audit for the express purpose of giving IBA bank members a thorough outside review of its operations for the life, health, property/casualty and mortgage products it offers members across the state and regionally in the Midwest.

The IBA also requests the forthcoming final Guidance adequately clarify through incorporation of question #11 and #24 of the FAQ’s bank management responsibilities of a third party’s subcontractors. Additionally, the IBA requests clarification of the meaning of “subcontractor” and whether it includes a company whose service is utilized as part of the third party’s service solution for a bank, i.e., a shared service solution, commonly known as a “Type II” service. This is a common area of confusion for Iowa banks today, particularly when considering what evidence is required for third parties to demonstrate adequate oversight of its subcontractors, as many third party/subcontractor agreements have confidentiality terms which can impede disclosure of these relationships to the financial institution. As stated in the paragraph above, a SOC 1 report often is used to provide a detailed independent audit on the effectiveness of the third party’s internal controls, which include how subcontracting services are monitored. These reports are relied upon by banks for the purpose of evaluation of whether a third party has effective oversight of its subcontractors, and should also constitute adequate evidence to regulators of proper use of subcontractors by these third parties.

Another issue in this Guidance continually challenging Iowa banks is how much the bank’s board of directors should be involved with the risk management, due diligence, contract selection and monitoring of various third party relationships. The IBA does not dispute that managing third party relationships or any other part of bank operations, is ultimately the responsibility of

the bank's board of directors and a vital component of the overall risk management of the financial institution. There has been some concern however from several IBA members as to the extent of board involvement over the bank's third party relationships, which is noted throughout the Guidance and in question #26 of the FAQ's. Several sections of the Guidance dealing with contract negotiation along with oversight and accountability mention the bank's board of directors, *or a designated committee reporting to the board*, be responsible for approval and oversight of third party contacts involving critical activities (emphasis added).

The IBA has heard from several members who report under their current procedures, their respective boards will annually approve third party risk policies and receive initial and annual reports on critical vendors. Many of these banks perform enhanced due diligence prior to engaging with critical vendors, and this information is often conveyed to the board after these vendors are on-boarded. These banks state that under the current regulatory requirements their respective federal regulatory agencies find this practice acceptable, without the need for the board to "read or be involved with the negotiation of these contacts." See, question #26 of the FAQs attached to the end of this Guidance. It is the IBA's request the final Guidance include flexibility from the board having to approve every third party contract, perform due diligence or monitor these relationships, as this Q&A also states "the board may use executive summaries of contracts in their review and may delegate actual approval of contracts with third parties that involve critical activities to a board committee *or senior management* (emphasis added). It would be helpful to have clarification as to the extent senior management may direct third party due diligence and monitoring, in lieu of full board involvement.

Finally, in regards to the scope of this Guidance, the IBA suggests it may be appropriate to consider a slightly narrower definition of "third party relationship" than the proposed "any business arrangement between a banking organization and another entity, contract or otherwise." For professional relationships such outside auditors or legal representation that encompass fiduciary duties on behalf of these third parties, some of the parameters of the guidance may not be needed in the same detail as third party entities engaged with banks in ordinary commercial transactional relationships. The majority of those providing services in professional relationships are governed by other ethical codes and regulations which direct a fair portion of the nature and scope of the professional's and financial institution's relationship.

Third party relationships are a reality for any size financial institution in today's marketplace, as bank customers demand specialized products and services that these entities can deliver more efficiently and effectively than any efforts to bring these services "in house."

The IBA is supportive of the effort by the federal bank agencies to issue this consolidated Guidance, and request the issues outlined above are given thoughtful consideration prior to issuing final Guidance. Thank you for consideration of these observations and recommendations on this critically important issue for Iowa banks.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Hartwig". The signature is fluid and cursive, with the first name "Robert" being the most prominent part.

Robert L. Hartwig

Legal Counsel