Wisconsin Bankers
ASSOCIATION

October 18, 2021

Submitted Electronically

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

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

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

Re: Proposed Interagency Guidance on Third-Party Relationships: Risk Management; RIN 3064–ZA26

Dear Ladies and Gentlemen,

The Wisconsin Bankers Association (WBA) is the largest financial trade association in Wisconsin, representing over 200 state and nationally chartered banks, savings and loan associations, and savings banks. WBA appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency's (agencies) proposed guidance on managing risks associated with third-party relationships (proposal).

Introduction

Banks routinely rely on third parties for a range of products, services, and activities, and access to those that might not otherwise be available, including new technologies and markets. This is often critical for small and rural Wisconsin banks, which may need to rely heavily upon third-party relationships to remain competitive and facilitate banking relationships. In managing their third-party relationships, banks have adopted risk management practices appropriate to the types of vendors they associate with, the services they provide, and overall complexity of the relationship. Wisconsin banks conduct such activities in a safe and sound manner and consistent with applicable laws and regulations.

Over the years, the agencies have issued guidance on third-party management for their respective supervised institutions. The agencies have issued the proposal in an effort to promote consistency in their third-party risk management guidance and to clearly articulate risk-based principles on third-party risk management. The proposal is based on the OCC's existing third-party risk management guidance from 2013.

The proposal presents a welcome opportunity to consolidate and update each agency's individual existing guidance. WBA generally supports this interagency effort and offers the following comments in contemplation of any future final rulemaking on the topic.

Discussion

General Comments

Through the proposal, the agencies seek to promote consistent third-party risk management guidance, better address use of services provided by third parties, and more clearly articulate risk-based principles on third-party relationship risk management. WBA agrees with a risk-based approach, commensurate with a banks size, complexity, and overall risk profile. Additionally, WBA appreciates the agencies' consideration of the wide variety of third-party relationships utilized by banks. As mentioned above, Wisconsin banks engage with many different types of relationships with third parties, which also serve a wide range of purposes.

These relationships include technology companies, consultants, networking arrangements, payment processing services, and others, and are frequently pursued to better offer competitive and innovative financial products and services that otherwise would be difficult, cost-prohibitive, or time consuming to develop in-house. Banks also utilize third-parties to enhance their operational and compliance infrastructure, in areas such as fraud detection, anti-money laundering, and customer service. WBA appreciates the agencies' consideration of this fact in drafting the proposed guidance, which offers a framework based on sound risk management principles. This approach is ideal, as it facilitates banks to better develop practices which suit all stages in the risk life-cycle and can be appropriately tailored based on the level of risk, complexity, and size of the banking organization and the nature of the third-party relationship.

Furthermore, this approach will prove useful for a banking organization of any size or complexity and uses the concept of critical activities to help banking organizations scale the nature of their risk management activities. Similarly, it is appropriate that the agencies have considered the importance of an approach which considers how wide the variety of possible services and relationships is. Wisconsin banks understand and appreciate the need for sound risk management and recognize that the use of third parties may present elevated risks to banking organizations and their customers. Especially for those with new or innovative technologies, Wisconsin banks understand the added complexities, including in managing consumer compliance risks, and otherwise heightened risk management considerations.

As reflected in bank examinations across the region, Wisconsin banks are managing this risk well, by ensuring consumer protection, information security, and addressing other operational risks. As such, WBA appreciates the agencies' approach of creating guidelines which are designed to assist banking organizations continue to supervise their third-party risk, while still remaining innovative and continue to utilize third-party relationships in a safe and sound manner.

Incorporation of OCC's 2020 FAQs

Within the proposal, the agencies have requested comment on the extent to which the concepts discussed in the OCC's 2020 FAQs should be incorporated into the final version of the guidance. WBA supports incorporation of the OCC's 202 FAQs (FAQ) into the final version of the proposed guidance. Generally, the FAQs have served as a valuable supplement to OCC's 2013 guidance, and WBA believes that their incorporation into any finalized guidance to capture their clarifications and updates to reflect continually evolving industry trends.

Examination Considerations

While the agencies do not specifically request comment on the examination process, and while such matters are outside the scope of the guidance, WBA believes it is worth discussing as it will play a critical role in how banks approach their third-party risk management. The guidance does include a section on supervisory reviews of third-party relationships, including a typical supervisory approach. WBA recommends that the agencies adopt specific examination procedures in accordance with the approach outlined in the guidelines, for banks to maintain clear expectations of the examination process.

WBA expects that Wisconsin banks will be largely receptive to the guidance if finalized as proposed. Banks will refer to the guidance to review the safety and soundness of their third-party risk management, to ensure compliance with applicable laws and regulations, and to meet examiner expectations. As a result, it is critical that banks can expect examiners to take an approach reasonably tailored to the overall function and perspective of the guidance. That is, an expectation that an exam approach to third-party risk management will be focused on considering whether bank's oversight of third-party relationships is commensurate with its size, complexity, and risk profile. With such assurances, banks can confidently develop an appropriate approach and utilize the proposed guidance to its fullest extent.

Implementation Timeline

Lastly, WBA requests that the agencies provide banks with sufficient time to adapt to any final guidance. As currently proposed, the guidance is significantly more granular than the third-party risk management guidance that exists today for banks regulated by the FDIC and the Federal Reserve. The agencies should be mindful that such will require time to identify any gaps between their current practices and the new guidance and align their programs accordingly.

Conclusion

WBA appreciates the opportunity to comment on the agencies proposed third-party risk management guidance and supports the efforts to align their existing guidance. Wisconsin banks will benefit from updated guidance, and it is important, particularly for small and rural institutions, that such guidance remain risk-based and provide the ability to be suited to each institution's needs.

We appreciate your consideration of these comments.

Rose Oswald Poels

Rose Oswald Poels
President/CEO