

KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

January 30, 2025

Dear Senate Majority Leader/President Pro Tempore Stewart-Cousins and Speaker Heastie:

Pursuant to the requirements of Chapter 18-A, Article 2, §205-b of the Financial Services Law, I hereby submit a report of the State Charter Advisory Board meetings held during the calendar year 2024.

Respectfully submitted,

Adrienne A. Harris

Superintendent of Financial Services

State Charter Advisory Board

Meetings Report

FOR THE CALENDAR YEAR 2024

JANUARY 2025



Background

The State Charter Advisory Board (“Board”) was created pursuant to Section 205-b of the Financial Services Law, with its term extended to October 3, 2026. The Board is charged with working with the Superintendent of the New York State Department of Financial Services (the “Department” or “DFS”) to retain state-chartered banking institutions, encourage federally chartered institutions to convert to a state charter, and promote the state banking system. The members of the Board, who are appointed by the Superintendent, consist of representatives from credit unions, consumers, foreign banks, and banks which, to the extent practicable, reflect a range of sizes and geographical locations provided that at least one member shall represent institutions of more than \$3 billion in assets, and at least two members shall represent institutions of less than \$500 million in assets.

The Board meets at least three times annually. Board discussions typically focus on promoting the state banking system and provide a forum for exchanging views and discussing supervisory and regulatory developments. Board meetings also foster regular discussions with the industry and consumers concerning trends and other issues of concern, such as financial inclusion, commercial real estate, updates to state guidances and regulations, and consumer protection issues.

The Superintendent is required to make an annual report no later than thirty days after the end of each year to the temporary president of the Senate and the speaker of the Assembly, which shall include a summary of topics discussed at the Board meetings and any legislative recommendations related to topics at the Board meetings.

DFS thanks all Board members for their time, commitment, and valuable contributions throughout 2024.

SUMMARY OF THE STATE CHARTER ADVISORY BOARD MEETINGS:

2024 Meetings Held

- April 24, 2024
- July 23, 2024
- November 19, 2024

State Charter Advisory Board Meeting:

April 24, 2024: 3:00 – 4:00 p.m.

The first meeting of the Board in 2024 was called to order, and after the Board members present announced themselves, the meeting commenced for presentations and discussions relating to the following agenda:

1. Introductory Remarks by Superintendent Harris
2. Cybersecurity
3. VC Guidance for Banks, Fintech & Third-Party Providers
4. Operational Stress Testing and Liquidity Contingency Planning
5. Open Forum for Discussions and Feedback from members

Summary of Discussions

1. Introductory Remarks by Superintendent Harris

Superintendent Adrienne A. Harris commenced the meeting by providing updates on ongoing DFS initiatives. In her remarks, she highlighted last year's elevation of DFS operations functions to an executive-level division, the ongoing implementation of new data governance practices, including the designation of data stewards, and changes to the organizational structure of the Banking Division. Superintendent Harris also reiterated DFS's commitment to making the state banking charter competitive with federal charters through its support of proposed legislation that would amend and expand the wildcard authority in Section 12-a of the New York Banking Law. Superintendent Harris also highlighted Department discussions held with the Legislature about policy decisions related to affordable housing.

Next, Superintendent Harris noted the one-year anniversary of the publication of the Department's public report reviewing the collapse of Signature Bank. The purpose of the report was to document the events that led to the bank's failure and identify opportunities to improve the Department's supervisory process. The Superintendent provided a progress update on the supervisory initiatives that the Department undertook to implement the recommendations from the report, including the development of updated escalation protocols, closing the timing gaps between the end of examinations and the issuance of reports of examinations and supervisory letters, a pilot project for operational stress testing to assess readiness to execute contingency plans, continued collaboration with federal counterparts, and improvements to examiner training.

2. Cybersecurity

Executive Deputy Superintendent of the Cybersecurity Division, Harriet Pearson, presented an update on the Department's Cybersecurity Part 500 Amendments, published on November 1, 2023. Executive Deputy Superintendent Pearson provided an overview of the Department's work to support implementation, including rolling out major updates to the Cybersecurity Resource Center on the DFS website, holding over 14 training webinars attended by over 4,500 individuals, and initiating a bi-monthly series of emails sent to all regulated entities that subscribe to the Department's Cybersecurity Updates.

Next, Executive Deputy Superintendent Pearson highlighted emerging critical issues in cybersecurity and noted that the Department has begun focusing on Artificial Intelligence ("AI") risks. She outlined some examples of such risk, including the use of AI to optimize and scale "traditional" technology-based cyber attacks, data manipulation or poisoning that compromises data integrity, and the use of "deepfakes" to trick even well-trained staff into wiring funds or taking

other inappropriate actions. Executive Deputy Superintendent Pearson welcomed comments as well as ongoing stakeholder input on this set of issues.

Discussion then followed on these topics. One Board member thanked the Department for the nuanced approach it took with regard to the recent Part 500 Amendments—accounting for the burdens of such regulations on smaller institutions. Another Board member expressed the benefits of having on-site examinations, rather than remote or hybrid exams. Executive Deputy Superintendent Pearson thanked the member for the feedback and expressed a commitment to have Cyber examiners return to doing on-site exams as much as possible.

3. VC Guidance for Banks, Fintech and Third-Party Providers

Executive Deputy Superintendent of the Research and Innovation Division, Kaitlin Asrow, delivered a presentation on state-chartered banks’ engagement with virtual currency and/or “fintech” entities.

As background, Executive Deputy Superintendent Asrow noted that in 2022, DFS released guidance that DFS-regulated banks, credit unions, trust companies, and branches and agencies of foreign banking organizations that wish to engage in “virtual currency-related activity” are required to obtain the Department’s prior approval before commencing the activity. Executive Deputy Superintendent Asrow emphasized the importance of engaging early and often with the Department to allow sufficient time for the consideration of any proposed virtual currency-related activity.

Next, Executive Deputy Superintendent Asrow highlighted the significant regulatory attention regarding bank partnerships with fintech companies. Executive Deputy Superintendent Asrow noted that of particular import are partnerships where the fintech either (1) interacts directly

with the customer in providing banking products and services, (2) creates a new product for a bank to offer to its customers, or (3) creates a new customer facing tool for using a bank's existing product.

In response to the presentation, Board members raised two questions. First, a Board member asked what the Department considers the biggest challenges or concerns with regard to fintech partnerships, noting that banks are stepping back from engaging in these partnerships because of backlash at the federal level. Executive Deputy Superintendent Asrow noted the importance of sufficient oversight, third-party risk management and governance. Second, a Board member inquired about the possibility of having a list of fintech partners vetted by the Department. Executive Deputy Superintendent Asrow noted it would be difficult for the Department to have a vetting program for entities over which the Department does not have jurisdiction. Rather, she emphasized that the Department's focus would be on the regulated institution's own due diligence review, including its procedural checklist when considering potential fintech partnerships.

4. Operational Stress Testing and Liquidity Contingency Planning

Senior Deputy Superintendent of Banking, Polly Klyce Pennoyer, presented on Operational Stress Testing and Liquidity Contingency Planning. Senior Deputy Klyce Pennoyer discussed the Department's work on the Operational Stress Testing Pilot, and the mechanics of accessing contingent liquidity sources. Senior Deputy Klyce Pennoyer emphasized the need for all DFS-regulated institutions to have the proper framework in place to access contingent liquidity if necessary.

5. Open Forum for Discussions and Feedback from Members

During the open forum section of the meeting, a Board member asked the Department about the issue of commercial real estate (“CRE”), and considerations related to balance sheet capacity constraining banks’ ability to provide affordable housing.

Finally, a Board member shared feedback on their experience with recent DFS exams. One Board member complimented the Department on the speed with which results were returned. Another Board member concurred, noting they never felt that the turnaround time for examination results was a problem. A third Board member expressed that during their institution’s last exam, there was good communication throughout the process. The Superintendent noted that the Department will always look for ways to improve communication.

There being no further items on the agenda, Superintendent Harris adjourned the meeting at 4:00 p.m.

State Charter Advisory Board Meeting:

July 23, 2024: 2:00 – 3:00 p.m.

The second meeting of the Board in 2024 was called to order, and after the Board members present announced themselves, the meeting commenced for presentations and discussions relating to the following topics:

1. Introductory Remarks by Superintendent Harris
2. DFS Focus on Artificial Intelligence
3. Open Forum for Discussion and Feedback from Members

Summary of Discussions

1. Introductory Remarks by Superintendent Harris

Superintendent Adrienne A. Harris started the meeting by providing Departmental updates, including operational and staffing updates. Superintendent Harris noted the ongoing development of a single portal to manage relationships and communications with DFS-regulated banks and other financial institutions to create a centralized and streamlined information system for teams throughout DFS. She also spoke on the integration of a number of AI projects into DFS operations, including an internal AI Steering Committee, as well as continued progress of the Department's progressive supervisory response to the collapse of Signature Bank.

2. DFS Focus on Artificial Intelligence

Executive Deputy Superintendent Asrow presented on the Department's focus on AI. She noted the Department's focus on where guidance and clarification on using AI technology could be

broadly applicable, and where considerations need to be tailored for specific sectors, such as for our state-chartered institutions.

Executive Deputy Superintendent Asrow posed a set of questions to initiate an open-ended discussion, including what AI systems Board members' institutions are currently exploring or have already deployed, risks and benefits thereof, and what additional guidance from DFS would be helpful.

In response to Executive Deputy Superintendent Asrow's questions, Board members shared their experiences using AI within their organization. One Board member said that as a small institution, they have not adopted any AI technology. Another Board member reported that they had used AI in recruiting for some upper-level positions but have not used it for any bank retail functions. Another board member confirmed the use of AI in drafting job descriptions. One Board member shared that their institution has implemented an AI-based tool for fraud detection.

Regarding the question on risks, one Board member brought up the mounting evidence of inherent biases that get built into machine learning. Another Board member raised a concern that individuals with limited English proficiency tend to experience more trouble achieving resolution or assistance through AI chatbots.

Finally, regarding future guidance from the Department, Board members encouraged the Department to consider what minimum screening or "lack of bias" criteria should be used when AI tools are deployed by banks and other financial service providers.

3. Open Forum for Discussion and Feedback from Members

During the open forum section of the meeting, one Board member raised the FedNow® service, now offered by the Federal Reserve Banks and providing near-instant payments. Given the benefits of this new service, the Board member inquired whether the Department would encourage continued adoption among New York State chartered banking institutions. Superintendent Harris discussed that the Department agrees that real-time payments have significant utility for consumers and institutions and remain an ongoing policy focus. Superintendent Harris offered that the Department would invite Federal Reserve colleagues to the next Board meeting to discuss the topic further.

The Department then asked for any feedback from Board members on whether or not their institutions have observed any changes in the Federal Home Loan Bank System's ("FHLB") processes or decision-making for funding members. A Board member stated that the FHLB has been helpful to their institution. Another Board member from a smaller institution echoed the sentiment, stating that the FHLB has always been helpful. One Board member provided a more critical view, and questioned the need for the FHLB, and whether it is an institution that ought to provide ordinary course business liquidity.

There being no further items on the agenda, Superintendent Harris adjourned the meeting at 3:00 p.m.

State Charter Advisory Board Meeting:

November 19, 2024: 2:00 - 3:00 p.m.

The third and last meeting of the Board in 2024 was called to order, and after the Board members present announced themselves, the meeting commenced for presentations and discussions relating to the following topics:

1. Introductory Remarks by Superintendent Harris
2. FedNow® Presentation by Federal Reserve Vice President and Deputy Head of Product Management
3. Artificial Intelligence Cybersecurity Guidance
4. Open Forum for Discussion and Feedback from Members

Summary of Discussions

1. Introductory Remarks

The meeting began with opening remarks from Superintendent Harris regarding ongoing DFS initiatives, including a progress update on the Department's supervisory initiatives undertaken to implement the recommendations from the Department's Signature Bank report. Superintendent Harris noted that the Department has been working to update its internal policies to establish clear procedures for examiners regarding timely escalation of repeat regulatory findings or supervisory recommendations, as well as clearly defined workflows to ensure examination findings and supervisory recommendations are communicated in a timely fashion to the regulated institutions.

2. FedNow® Presentation by Vice President and Deputy Head of Product Management

Bernadette Ksepka

During the open forum of the July 2024 Board Meeting, a Board member inquired about the FedNow® Service and its adoption among New York State-chartered banks. Vice President and Deputy Head of Product Management for the Federal Reserve System, Bernadette Ksepka, presented an overview of the FedNow® Service, including varied uses cases across different types of banking institutions and a progress update on the ongoing rollout of the service.

Vice President Ksepka then opened the floor for questions from Board members. Superintendent Harris asked for more details regarding how a bank would initiate the process of getting on FedNow®. Vice President Ksepka explained that every institution seeking to initiate is assigned a relationship manager and a dedicated FedNow® onboarding specialist; it is a curated process for each institution. A Board member asked how many institutions are currently enrolled with the service. Vice President Ksepka confirmed that nearly 1,200 banks are currently enrolled.

3. Artificial Intelligence Cyber Security Guidance

Executive Deputy Superintendent of the Cybersecurity Division, Sarah Rugnetta, presented on guidance to executives and security personnel at all DFS-regulated entities relating to cybersecurity risks arising from AI and strategies to combat related risks. Executive Deputy Superintendent Rugnetta highlighted the risks caused by threat actors' use of AI and the risks caused by an entity's own use of AI. Executive Deputy Superintendent Rugnetta emphasized that the AI guidance does not impose requirements beyond what is required in Part 500. She noted the importance of DFS-regulated entities regularly reviewing and re-evaluating their programs and controls to manage and combat AI-related risks.

Discussions followed, with one Board member asking about training in regard to the AI guidance, specifically whether that is something DFS will be providing. Executive Deputy Superintendent Rugnetta clarified that each institution needs to assess its own and/or create new training programs to comply with Part 500 and the guidance, but noted the Department has also put together resources housed in the Cybersecurity Resource Center on the Department's website.

4. Open Forum for Feedback and Discussion from Members

Discussions followed during the open forum portion of the meeting. One Board member mentioned the time it takes to get exam reports from the Department. The Superintendent noted that this was an example of why the Department has focused on modernizing operations. DFS has previously mapped out the process for how long it takes to finish a report of examination and implementing a new process to streamline the exam report timeline in 2024.

The Superintendent also requested feedback on institutions' preferences for virtual or in-person exams. Board members generally expressed preferences for the efficiency of remote or hybrid exams.

One Board member thanked the Superintendent for the Department's openness to meet with his team recently for informal dialogue around fintech and AI, noting that it was a productive discussion. The Superintendent affirmed that she has worked to embed a culture of more informal interactions outside of the exam process and other official matters between regulator and regulated entity.

There being no further items on the agenda, Superintendent Harris adjourned the meeting at 3:00 p.m.