FSB FINANCIAL STABILITY BOARD

Sound Practices for Responsible Adoption of Artificial Intelligence (AI): Consultation report

Response to Consultation

Independent Community Bankers of America

1. Do you agree with the benefits and risks of AI adoption by financial institutions described in this report? Are there any substantive benefits or risks not covered?

ICBA generally agrees with the Report's description of the benefits and risks associated with AI adoption. The Report appropriately recognizes opportunities to improve operational efficiency, fraud detection, cybersecurity, regulatory compliance, customer service, and risk management, as well as risks involving governance, data quality, model performance, cybersecurity, third-party concentration, and emerging agentic capabilities.

ICBA agrees that AI may, where appropriate and properly governed, provide important benefits for financial institutions, including in fraud detection, cybersecurity, compliance, operational efficiency, and customer service. However, the final Report should avoid suggesting that AI adoption is necessary or expected for all financial institutions or all use cases. For community banks, decisions to adopt AI should remain risk-based business decisions guided by the institution's size, complexity, business model, customer needs, risk appetite, and available resources.

The final Report should recognize that responsible AI adoption includes the ability to adopt AI incrementally, limit AI use to lower-risk or vendor-provided applications, or decline to adopt AI where the risks, costs, or governance expectations outweigh the benefits.

Second, the Report should more clearly address AI embedded within existing third-party products. For many community banks, AI adoption will not occur through the deliberate procurement of a standalone "AI system." A core provider, cybersecurity vendor, fraud platform, or other technology provider may introduce AI functionality into an existing service. Institutions may therefore inherit AI-related risks without independently selecting the underlying model or having meaningful access to its architecture or training data.

Third, ICBA encourages the Board to carefully assess the potential for regulatory fragmentation and inconsistent supervisory expectations that could arise from differing regulatory and oversight frameworks. Financial institutions operate within established frameworks governing cybersecurity, model risk, consumer protection, privacy, third-party risk management, and operational resilience. Overlaying separate AI-specific requirements could create duplicative obligations without corresponding risk-management benefits.

2. **Are the sound practices sufficiently comprehensive and clear to enable financial institutions' responsible AI adoption?**

The sound practices are generally comprehensive, but additional clarity is needed regarding how they should apply proportionately across financial institutions and AI use cases.

The final Report should make clear that responsible AI governance does not require institutions to create entirely new governance structures, committees, inventories, testing programs, or control functions. Existing enterprise risk management, third-party risk management, cybersecurity, model risk management, compliance, and operational resilience frameworks can often be adapted to address material AI-related risks.

This distinction is particularly important for community banks. A community bank using an AI-enabled cybersecurity product should not be expected to implement the same governance and validation infrastructure as a globally systemic institution developing proprietary AI models for credit decisions or autonomous trading.

ICBA also recommends that the FSB distinguish more consistently among model risk, system risk, and use-case risk. Not every AI-enabled tool or use case should be treated as a "model" requiring the same level of validation under existing financial-sector model risk management frameworks. Treating all AI applications as models could unnecessarily expand model inventories and validation requirements and discourage beneficial, low-risk adoption.

3. **Do the sound practices strike an appropriate balance between managing risks relating to all forms of AI, and addressing some of the risks relating to emerging and new complex forms of AI, such as GenAI and agentic AI?**

The Report generally strikes an appropriate balance between technology-neutral principles and risks associated with GenAI and agentic AI. ICBA supports a risk-based approach that focuses primarily on the use, capabilities, autonomy, access, and potential impact of an AI system rather than applying regulatory classifications solely based on the underlying technology.

However, some of the Report's agentic AI practices could benefit from greater differentiation based on actual autonomy and system permissions. An AI agent that summarizes documents or performs administrative tasks presents fundamentally different risks from an agent authorized to initiate transactions, modify production systems, access sensitive customer information, or interact autonomously with other systems.

The FSB should therefore emphasize capability- and permission-based controls. Factors such as system access, transaction authority, ability to execute external actions, persistence, ability to delegate tasks, and interaction with other agents may provide more durable measures of risk than technology labels alone.

ICBA particularly supports the Report's discussion of identity and access management for AI agents. As agentic systems become more capable, institutions will need mechanisms to establish and manage machine identities, enforce least privilege, authenticate agents, control delegated authority, and maintain auditable records of agent activity. These considerations should be further developed in the final Report.

4. Are the sound practices sufficiently flexible to accommodate and address newer types of AI and responsible adoption over time?

The principles-based structure provides a useful foundation for adapting to technological change. ICBA strongly encourages the FSB to retain technology-neutral terminology and avoid requirements tied too closely to specific architectures or current generations of AI.

The final Report should also recognize that responsible AI practices will mature over time. Institutions should be able to adopt AI incrementally through controlled experimentation, pilots, and lower risk use cases without first developing governance capabilities designed for the most sophisticated AI deployments.

The FSB should further consider establishing a mechanism for periodically updating illustrative examples and technical resources without reopening or substantially expanding the underlying sound practices. This would allow the framework to remain durable while technical guidance evolves.

5. Do the case studies in this report sufficiently highlight how different types of financial institutions can benefit from responsible AI adoption? Are there additional case studies for inclusion in the report? If so, please provide such case studies, particularly for nonbanks.

The case studies provide useful illustrations but disproportionately reflect the capabilities and resources of large, internationally active financial institutions. Examples involving Global Systemically Important Banks (‘G-SIB”) and institutions with dedicated AI engineering, data science, and model risk management teams have limited applicability to smaller financial institutions.

ICBA strongly recommends that the FSB include a case study demonstrating how a community bank can responsibly adopt AI while leveraging the broader financial innovation ecosystem. For example, the case study could illustrate a community bank working through an accelerator or similar trusted intermediary, such as ICBA's ThinkTECH Accelerator, to identify and evaluate emerging technology providers offering AI-enabled solutions designed for community financial institutions.

Such a case study could demonstrate how a community bank:

1. identifies a specific business or operational challenge where AI may provide value;

2. engages with a trusted innovation ecosystem to identify and evaluate potential technology providers;

3. conducts proportionate due diligence and risk assessment before deployment;

4. pilots the technology in a controlled environment before broader implementation;

5. establishes appropriate governance, employee training, and monitoring based on the risk of the use case; and

6. provides feedback to emerging technology providers, helping solutions evolve in ways that better reflect the operational, regulatory, and customer needs of smaller financial institutions.

This example would highlight an important model for responsible AI adoption that is not adequately reflected in the current case studies. Smaller financial institutions do not necessarily need to build AI capabilities internally or independently navigate a rapidly evolving marketplace. Trusted intermediaries and innovation ecosystems can help connect community banks with curated, community bank-focused emerging technologies while helping innovative providers better understand and serve the needs of smaller institutions.

6. Do the case studies in this report provide actionable insights for financial institutions in their responsible AI adoption?

The case studies are informative but could provide greater actionable value by explicitly connecting each example to the relevant sound practices.

ICBA recommends adding a brief standardized section to each case study identifying the risk presented, governance approach, controls implemented, role of third parties, outcome, and lessons learned. This would make the case studies more useful to institutions seeking to translate the principles into practical implementation.

The FSB should also include examples where institutions responsibly determine that existing controls are sufficient or that a full AI-specific governance process is unnecessary for a low-risk application. Responsible adoption should not be equated solely with adding additional layers of governance.

7. Are the definitions in the glossary clear and aligned with industry sound practices, including recent developments in AI?

The glossary provides a useful foundation, but ICBA encourages the FSB to align its terminology, where appropriate, with existing international and public-private efforts to establish a common financial-sector AI lexicon.

In particular, the FSB should consider the shared AI Lexicon developed by the Artificial Intelligence Executive Oversight Group (AIEOG), a public-private partnership formed by the U.S. Department of the Treasury in collaboration with the Financial and Banking Information Infrastructure Committee (FBIIC) and the Financial Services Sector Coordinating Council (FSSCC). ICBA contributed to this work, which provides a useful and comprehensive foundation of AI terminology developed for financial services use cases and risk-management considerations.

Greater alignment with this existing lexicon would promote consistency across jurisdictions and reduce the proliferation of overlapping or conflicting definitions. This is particularly important for financial institutions operating within an increasingly complex landscape of AI frameworks, regulatory guidance, voluntary standards, and supervisory expectations.

ICBA therefore recommends that the FSB review the AIEOG lexicon as it finalizes the glossary and, where the FSB determines that different terminology is necessary, clearly identify and explain material differences. The FSB should also continue to coordinate its terminology with other widely recognized international frameworks to promote interoperability rather than establish another AI taxonomy.

8. Are there any comments you would like to make on this report? Please fill in.

As the FSB finalizes the Report, ICBA encourages several refinements to ensure the sound practices remain genuinely proportionate, technology-neutral, and accessible to financial institutions of different sizes and business models. Community banks generally do not develop foundation models or sophisticated AI systems internally. Instead, AI capabilities are increasingly introduced through third-party products, core banking providers, cloud services, cybersecurity tools, and existing technology platforms. This distinction has significant implications for governance, documentation, testing, explainability, and third-party risk management.

ICBA therefore encourages the FSB to:

1. Operationalize proportionality throughout each sound practice, with practical examples demonstrating how expectations may differ for smaller institutions, lower-risk use cases, and vendor-provided AI.

2. Distinguish between AI developers, deployers, and users, recognizing that a financial institution's ability to test, explain, document, or modify an AI system depends significantly on its role in the AI supply chain.

3. Recognize reasonable reliance on qualified third-party providers and independent assurance, particularly where smaller financial institutions lack direct access to proprietary models, training data, or underlying technical architecture.

4. Avoid creating an expectation that every AI-enabled feature requires a separate, full-scale AI governance process, particularly where AI is embedded within established third-party products and does not materially alter the institution's risk profile.

5. Preserve the distinction between voluntary sound practices and supervisory requirements. Although the FSB appropriately states that the Report is not intended to establish an international standard, its recommendations could nevertheless influence supervisory expectations across jurisdictions. The final Report should therefore reinforce that the practices are a flexible menu rather than a universal checklist.

July 22, 2026

Via Secure Online Submission

Secretariat to the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Financial Stability Board Secretariat:

The Independent Community Bankers of America ("ICBA")[1] appreciates the opportunity to comment on the Financial Stability Board's ("FSB") consultation report, *Sound Practices for Responsible Adoption of Artificial Intelligence* ("Report"). As the only national trade association dedicated exclusively to serving the interests of community banks, ICBA represents the voice of thousands of community banks of varying asset sizes across the United States. Our member banks play a critical role in supporting small businesses, local communities, and rural economies.

ICBA supports the FSB's efforts to promote responsible adoption of artificial intelligence ("AI") and recognizes that, when appropriately governed and proportionately implemented, AI may help financial institutions improve operational efficiency, strengthen fraud detection, support cybersecurity and compliance workflows, enhance document review, and improve customer service. We particularly appreciate the Report's recognition that responsible AI adoption requires a proportionate, risk-based approach and that smaller, less complex, and less interconnected financial institutions may appropriately apply only those sound practices relevant to their activities, risks, and AI use cases.

ICBA has submitted several letters to the U.S. federal government regarding AI policy, cybersecurity, regulatory harmonization, and AI risk management considerations, including comments related to the Administration's AI Action Plan, Treasury's AI Request for Information (RFI), and the National Institute of Standards and Technology (NIST) Center for AI Standards and Innovation's request for information regarding security considerations for AI agents (*refer to enclosed letters*).

As the FSB finalizes the Report, ICBA encourages several refinements to ensure the sound practices remain genuinely proportionate, technology-neutral, and accessible to financial institutions of different sizes and business models. Community banks generally do not develop foundation models or sophisticated AI systems internally. Instead, AI capabilities are increasingly introduced through third-

---

[1] *The Independent Community Bankers of America ® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation's community banks through effective advocacy, education, and innovation. As local and trusted sources of credit, America's community banks leverage their relationship-based business model and innovation offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers' financial goals and dreams. For more information, visit ICBA's website at icba.org.*

party products, core banking providers, cloud services, cybersecurity tools, and existing technology platforms. This distinction has significant implications for governance, documentation, testing, explainability, and third-party risk management.

ICBA therefore encourages the FSB to:

- Operationalize proportionality throughout each sound practice, with practical examples demonstrating how expectations may differ for smaller institutions, lower-risk use cases, and vendor-provided AI.
- Distinguish between AI developers, deployers, and users, recognizing that a financial institution's ability to test, explain, document, or modify an AI system depends significantly on its role in the AI supply chain.
- Recognize reasonable reliance on qualified third-party providers and independent assurance, particularly where smaller financial institutions lack direct access to proprietary models, training data, or underlying technical architecture.
- Avoid creating an expectation that every AI-enabled feature requires a separate, full-scale AI governance process, particularly where AI is embedded within established third-party products and does not materially alter the institution's risk profile.
- Preserve the distinction between voluntary sound practices and supervisory requirements. Although the FSB appropriately states that the Report is not intended to establish an international standard, its recommendations could nevertheless influence supervisory expectations across jurisdictions. The final Report should therefore reinforce that the practices are a flexible menu rather than a universal checklist.

1. Benefits and risks of AI adoption

ICBA generally agrees with the Report's description of the benefits and risks associated with AI adoption. The Report appropriately recognizes opportunities to improve operational efficiency, fraud detection, cybersecurity, regulatory compliance, customer service, and risk management, as well as risks involving governance, data quality, model performance, cybersecurity, third-party concentration, and emerging agentic capabilities.

ICBA agrees that AI may, where appropriate and properly governed, provide important benefits for financial institutions, including in fraud detection, cybersecurity, compliance, operational efficiency, and customer service. However, the final Report should avoid suggesting that AI adoption is necessary or expected for all financial institutions or all use cases. For community banks, decisions to adopt AI should remain risk-based business decisions guided by the institution’s size, complexity, business model, customer needs, risk appetite, and available resources.

The final Report should recognize that responsible AI adoption includes the ability to adopt AI incrementally, limit AI use to lower-risk or vendor-provided applications, or decline to adopt AI where the risks, costs, or governance expectations outweigh the benefits.

Second, the Report should more clearly address AI embedded within existing third-party products. For many community banks, AI adoption will not occur through the deliberate procurement of a standalone "AI system." A core provider, cybersecurity vendor, fraud platform, or other technology provider may introduce AI functionality into an existing service. Institutions may therefore inherit AI-related risks without independently selecting the underlying model or having meaningful access to its architecture or training data.

Third, ICBA encourages the Board to carefully assess the potential for regulatory fragmentation and inconsistent supervisory expectations that could arise from differing regulatory and oversight frameworks. Financial institutions operate within established frameworks governing cybersecurity, model risk, consumer protection, privacy, third-party risk management, and operational resilience. Overlaying separate AI-specific requirements could create duplicative obligations without corresponding risk-management benefits.

2. Comprehensiveness and clarity of the sound practices

The sound practices are generally comprehensive, but additional clarity is needed regarding how they should apply proportionately across financial institutions and AI use cases.

The final Report should make clear that responsible AI governance does not require institutions to create entirely new governance structures, committees, inventories, testing programs, or control functions. Existing enterprise risk management, third-party risk management, cybersecurity, model risk management, compliance, and operational resilience frameworks can often be adapted to address material AI-related risks.

This distinction is particularly important for community banks. A community bank using an AI-enabled cybersecurity product should not be expected to implement the same governance and validation infrastructure as a globally systemic institution developing proprietary AI models for credit decisions or autonomous trading.

ICBA also recommends that the FSB distinguish more consistently among model risk, system risk, and use-case risk. Not every AI-enabled tool or use case should be treated as a "model" requiring the same level of validation under existing financial-sector model risk management frameworks. Treating all AI applications as models could unnecessarily expand model inventories and validation requirements and discourage beneficial, low-risk adoption.

3. Balance between traditional and emerging forms of AI

The Report generally strikes an appropriate balance between technology-neutral principles and risks associated with GenAI and agentic AI. ICBA supports a risk-based approach that focuses primarily on the use, capabilities, autonomy, access, and potential impact of an AI system rather than applying regulatory classifications solely based on the underlying technology.

However, some of the Report's agentic AI practices could benefit from greater differentiation based on actual autonomy and system permissions. An AI agent that summarizes documents or performs administrative tasks presents fundamentally different risks from an agent authorized to initiate transactions, modify production systems, access sensitive customer information, or interact autonomously with other systems.

The FSB should therefore emphasize capability- and permission-based controls. Factors such as system access, transaction authority, ability to execute external actions, persistence, ability to delegate tasks, and interaction with other agents may provide more durable measures of risk than technology labels alone.

ICBA particularly supports the Report's discussion of identity and access management for AI agents. As agentic systems become more capable, institutions will need mechanisms to establish and manage machine identities, enforce least privilege, authenticate agents, control delegated authority, and maintain auditable records of agent activity. These considerations should be further developed in the final Report.

4. Flexibility to accommodate future AI developments

The principles-based structure provides a useful foundation for adapting to technological change. ICBA strongly encourages the FSB to retain technology-neutral terminology and avoid requirements tied too closely to specific architectures or current generations of AI.

The final Report should also recognize that responsible AI practices will mature over time. Institutions should be able to adopt AI incrementally through controlled experimentation, pilots, and lower risk use cases without first developing governance capabilities designed for the most sophisticated AI deployments.

The FSB should further consider establishing a mechanism for periodically updating illustrative examples and technical resources without reopening or substantially expanding the underlying sound practices. This would allow the framework to remain durable while technical guidance evolves.

5. Case studies and representation of different financial institutions

The case studies provide useful illustrations but disproportionately reflect the capabilities and resources of large, internationally active financial institutions. Examples involving Global Systemically Important Banks (‘G-SIB”) and institutions with dedicated AI engineering, data science, and model risk management teams have limited applicability to smaller financial institutions.

ICBA strongly recommends that the FSB include a case study demonstrating how a community bank can responsibly adopt AI while leveraging the broader financial innovation ecosystem. For example, the case study could illustrate a community bank working through an accelerator or similar trusted intermediary, such as ICBA's ThinkTECH Accelerator, to identify and evaluate emerging technology providers offering AI-enabled solutions designed for community financial institutions.

Such a case study could demonstrate how a community bank:

1. identifies a specific business or operational challenge where AI may provide value;
2. engages with a trusted innovation ecosystem to identify and evaluate potential technology providers;
3. conducts proportionate due diligence and risk assessment before deployment;
4. pilots the technology in a controlled environment before broader implementation;

5. establishes appropriate governance, employee training, and monitoring based on the risk of the use case; and
6. provides feedback to emerging technology providers, helping solutions evolve in ways that better reflect the operational, regulatory, and customer needs of smaller financial institutions.

This example would highlight an important model for responsible AI adoption that is not adequately reflected in the current case studies. Smaller financial institutions do not necessarily need to build AI capabilities internally or independently navigate a rapidly evolving marketplace. Trusted intermediaries and innovation ecosystems can help connect community banks with curated, community bank-focused emerging technologies while helping innovative providers better understand and serve the needs of smaller institutions.

6. Actionability of the case studies

The case studies are informative but could provide greater actionable value by explicitly connecting each example to the relevant sound practices.

ICBA recommends adding a brief standardized section to each case study identifying the risk presented, governance approach, controls implemented, role of third parties, outcome, and lessons learned. This would make the case studies more useful to institutions seeking to translate the principles into practical implementation.

The FSB should also include examples where institutions responsibly determine that existing controls are sufficient or that a full AI-specific governance process is unnecessary for a low-risk application. Responsible adoption should not be equated solely with adding additional layers of governance.

7. Glossary and definitions

The glossary provides a useful foundation, but ICBA encourages the FSB to align its terminology, where appropriate, with existing international and public-private efforts to establish a common financial-sector AI lexicon.

In particular, the FSB should consider the shared AI Lexicon developed by the Artificial Intelligence Executive Oversight Group (AIEOG), a public-private partnership formed by the U.S. Department of the Treasury in collaboration with the Financial and Banking Information Infrastructure Committee (FBIIC) and the Financial Services Sector Coordinating Council (FSSCC). ICBA contributed to this work, which provides a useful and comprehensive foundation of AI terminology developed for financial services use cases and risk-management considerations.

Greater alignment with this existing lexicon would promote consistency across jurisdictions and reduce the proliferation of overlapping or conflicting definitions. This is particularly important for financial institutions operating within an increasingly complex landscape of AI frameworks, regulatory guidance, voluntary standards, and supervisory expectations.

ICBA therefore recommends that the FSB review the AIEOG lexicon as it finalizes the glossary and, where the FSB determines that different terminology is necessary, clearly identify and explain material differences. The FSB should also continue to coordinate its terminology with other widely recognized international frameworks to promote interoperability rather than establish another AI taxonomy.

ICBA appreciates the FSB's recognition that responsible AI adoption must enable financial institutions to capture the benefits of innovation while appropriately managing risk. The final Report can further advance that objective by strengthening proportionality, recognizing the realities of third-party and embedded AI adoption, and providing more practical examples applicable to smaller financial institutions.

For community banks in particular, responsible AI adoption should not require replicating the governance structures or technical capabilities of the world's largest financial institutions. A proportionate framework should allow institutions to leverage existing risk-management processes, qualified third-party providers, independent assurance, and appropriate compensating controls based on the materiality and risk of a particular use case.

ICBA looks forward to continuing to engage with the FSB and other policymakers on approaches that support responsible, secure, and accessible AI adoption across the financial system.

Respectfully Submitted,

/s/

Anjelica Dortch
Vice President, Operational Risk & Cybersecurity Policy
Independent Community Bankers of America (ICBA)

Enclosures:

ICBA Comments on Treasury RFI on Uses, Opportunities, and Risks of AI in Financial Services (August 12, 2024)
ICBA Comments on the Development of an Artificial Intelligence Action Plan (March 12, 2025)
ICBA Comments on Regulatory Reform on Artificial Intelligence (October 27, 2025)
ICBA Comments on Security Considerations for Artificial Intelligence Agents (March 9, 2026)

866-843-4222
icba.org

1100 New York Avenue NW
Suite 500 East
Washington, DC 20005

518 Lincoln Road
P.O. Box 267
Sauk Centre, MN 56378