FSB FINANCIAL STABILITY BOARD

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

Response to Consultation

Merchants Bancorp

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?**

   From our perspective, one area that could be further emphasized is the operational and governance complexity introduced by third-party and embedded AI, particularly in SaaS solutions. Many financial institutions, including mid-sized institutions, primarily consume AI capabilities through vendor-provided platforms rather than developing models internally. This creates a distinct risk profile characterized by:

   Unwillingness from the vendor to provide all full information

   Limited visibility into model design and training data

   Dependency on vendor change management and release cycles

   Potential for unannounced capability changes impacting business processes

   Increased concentration risk across a small number of AI providers

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

   Overall yes. A couple areas for improvement:

   Additional practical implementation guidance (e.g., examples of proportional controls)

   Clarification on how to apply certain expectations where AI systems are not directly controlled by the institution

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?**

   yes.

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

   It goes back to the Vendor management issue. We are not well suited to detect and respond to changes in third-party AI capabilities over time. Will need to develop better workflows to continuously reassess risk as AI becomes more embedded in core workflows (ex. Workflow using a copilot agent is initially approved. The data source changes. What is the trigger for reassessment?).

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.**

   Yes, here are additional case studies midsized banks like us would benefit from: Use of generative AI for internal productivity and operational efficiency

   Integration of AI within existing SaaS platforms (e.g., collaboration, CRM, security tooling)

   Governance and risk management approaches for AI capabilities embedded within vendor services

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

   Yes, but more details would be helpful. Or a link to the full case study with specific governance decisions or control design choices

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

   Yes.

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

   From our perspective, the most important takeaway is that AI risk is increasingly a third-party and ecosystem risk, rather than solely a model development risk.