

To: The Federal Deposit and Insurance Company
From: Gary Liotta
Subject: Comments for RIN 3064–AF94
Date: 12/4/2023

I am a Chief Risk Officer at a State Chartered Bank, and I am strongly in favor of the proposed new guidance. I believe it will provide additional consistency and support for bank risk management practices at smaller banks.


However, I also believe that considering deposit size rather than only asset size more directly corresponds to the need for the broader application of this risk management framework. Any institution with insurable deposits greater than approximately one billion dollars, represents a potentially material level of monetary risk to the deposit insurance fund. Therefore, I suggest extending the guidance to include banks that have between one and five billion dollars in insurable deposits even if they have less than ten billion in assets.

The main reason touted by bankers from smaller banks for resisting more comprehensive risk management approaches has been the cost. I believe this to be a false premise for two reasons; First, the cost of enhanced risk management usually more than pays for itself by preventing or mitigating future financial losses. Second, the general advancements in information technology now enable strong monitoring and analysis of risk related data at very reasonable costs.

Finally, I have a second recommendation that I believe should be considered for the extension of the regulatory guidance. In order for the three line of defense approach to be effective, the heads of both the second and third line must be independent of management. For publicly traded banks, the only way to achieve this is to have the heads of the second line and third line report directly to either the Board of Directors or an appropriate Director subcommittee. The head of the second line should report directly to the Risk committee and the head of the third line should report directly to the Audit committee. The heads of the second and third lines of defense should be the “eyes” and “ears” of the Board of Directors. This enables the Board to get a more objective and comprehensive perspective on the risks being taken by management. CEO’s of publicly traded companies are focused on enhancing shareholder value, not corporate governance. To be truly independent, the advancement and compensation for risk governance heads, as well as their staffing and resources, must be exclusively approved by the Board of Directors. In addition, there should be at least quarterly mandatory Director committee sessions with the second line and third line heads. These separate sessions should not include the CEO or other members of the first line management. Without true independence and segregation of reporting lines, the extension of coverage of this regulatory guidance will be of limited value. Thank you for your time and consideration.

Best regards,

Mr. Gary Liotta


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