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FINANCIAL SERVICES BOARD INSIGHTS

Summary: CrowdStrike Lessons Learned & Minimizing IT Risk at Your Financial Institution

By Jessica Dore, CISA,
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On July 19, 2024, a faulty update from CrowdStrike caused a significant global IT outage, leading to widespread system failures and blue screens of death (BSOD) on both Windows and Linux systems. This incident underscores the vulnerability of modern Endpoint Detection and Response (EDR) tools that rely heavily on cloud connections for threat detection.

Given the financial and operational risks associated with such outages, it is crucial financial institutions conduct thorough risk assessments, develop manual work processes, maintain robust backup strategies, and secure additional IT resources. These measures will help ensure business continuity and mitigate the impact of similar incidents in the future.

What you can do:

- **Risk Management:** Management should perform regular risk assessments and report those results to the board along with updates to your financial institution's business continuity and disaster recovery plans.
- **Business Continuity Plan:** The board should understand the financial institution's Business Continuity Plan to ensure that manual work processes and robust backup strategies are in place to mitigate the impact of IT outages.
- **Testing and Monitoring:** The board should ensure that management is regularly testing the Business Continuity Plan and Disaster Recovery Plan and reporting results.

Want guidance in assessing your financial institutions' risk and fortifying your systems against future incidents? Contact your Rehmann advisor or Jessica Dore, a Rehmann principal specializing in technology risk management: 989.797.8391 or jessica.dore@rehmann.com.

Note: This summary originates from the full article "CrowdStrike's Lesson: 3 Ways to Minimize IT Risk (In Case the World Goes Offline Again)" available on Rehmann.com.

Maximize the Effectiveness of Your Financial Institution's Audit Committee Meetings

By Heidi Cieslik, CPA, MBA

Audit Committees (aka ACs) fulfill a vital governance role for accurate financial reporting and controls, enterprise risk assessment, and so much more. Boards are under increasing scrutiny from regulators, investors, and activists. Committee workloads are expanding in scope, complexity and volume —particularly the burdens placed on the AC to keep up with changing regulations, the management of stakeholder expectations, and the oversight of emerging issues. Agendas are often overflowing.

Careful prioritization and planning help your AC fulfill its responsibility to provide effective and transparent oversight. Below are some practical tips and tools to efficiently accomplish goals, including charter requirements:

Agenda Planning Considerations for your Financial Institution's Audit Committee

- Use the AC charter as the starting point to plan your calendar and related agendas for the year since it's a shareholder commitment and reflects required actions. It helps to map out topics at the beginning of each year while remaining agile to address emerging issues, regulatory and tax changes, and other unexpected items throughout the year.
- Designate a management liaison, such as the corporate secretary, chief audit executive, or CFO, to work with your financial institution's AC chair to set committee agendas.
- Focus first on priority issues and ensure you manage meetings to hit all planned agenda items.

Pre-meeting Materials for your Financial Institution's Audit Commitee

The criticality of the governance function of the AC can make meetings time-consuming, especially for institutions that are SEC registrants. Consider the volume of information AC members need to review and oversee careful preparation of information, which should ideally be distributed at least one week in advance. Best practices include:

- Executive summaries and dashboards that are concise, focused, and offer management insight on high-priority items, such as major changes to SEC or regulatory filings, unresolved audit findings, meaningful trends, and risk assessment results. These reports, with advance distribution, help AC members understand primary issues without experiencing information overload.
- Graphics highlight trends. Many reports and filings present information in nearly identical charts and other visuals. Highlight changes in pre-meeting materials for quick reference to call attention to important changes that will be discussed at the meeting.
- Appendices with details can provide in-depth information, as considered appropriate. You may want to consult with your financial institution's counsel to understand the AC's obligation, if any, to review appendices. Their guidance might influence executive summary and dashboard details.

More Tips for a More Effective Audit Committee Meeting

Schedule brief meetings with stakeholders —usually the CFO, controller, chief audit executive or third-party firm executive, external auditor, and others who will add value to AC meetings by their ability to clarify information and answer questions related to topics on the agenda for your upcoming AC meeting. These pre-meetings can help strengthen relationships, provide guidance on priority and emergent issues, and alert participants to questions and challenges they may hear during the AC meeting.

For a confidential review of your financial institution's AC meeting process and preparation, including the development of an effective plan, contact your Rehmann advisor or Heidi Cieslik, a principal specializing in risk advisory services at Rehmann:248.952.5000 or heidi.cieslik@rehmann.com.

The Board's Role in ESG

By Kristy Clark, CPA, CIA

In recent years, environmental, social, and governance (ESG) initiatives have been adopted in response to stakeholder interests in environmental sustainability, social issues, and corporate governance. The Center for Audit Quality (CAQ) noted that approximately 95% of public companies disclosed ESG in some form in 2020.

However, debates continue about ESG significance and impact. A 2024 survey of institutional investors, not specifically related to financial services, was conducted by the MSCI Sustainability Institute and Stanford University's Graduate School of Business. Roughly 78% of respondents indicated that they believe incorporating ESG into investment decisions can reduce risk, 61% believe it can lessen volatility, and 80% believe it impacts financial performance. A deeper dive into responses identifies the respondents' perceived priorities:

- **Environmental.** Climate change issues and how a company addresses them were the top medium- to long-term concern, with 78% of investors factoring it into their investment decisions.
- **Social.** Leadership and workforce diversity were the lowest on the list of priorities.
- **Governance.** Traditional shareholder value was the No. 1 short-term governance priority. The top five concerns respondents cited: board structure (72%), ownership structure (72%), board diversity (65%), quality of financial reporting (57%), and board chair independence (50%).

ESG Initiative Oversight: Where Should a Board Focus?

The board plays a critical role in overseeing ESG. Key areas of responsibility include:

- Board Governance Structure: Defining this structure is critical to ensure ESG is integrated into the overall corporate strategy.
- Board Agendas: With increased interest from investors, customers, and other stakeholders, ESG will likely need to be a standing board agenda item.
- Stakeholder Engagement: Understanding stakeholders' views on ESG issues and how best to incorporate them into the institution's ESG strategy is important for effective governance.

How Can a Board Improve a Bank's Incorporation of ESG Initiatives?

The board's role in ESG oversight involves a strategic approach to governance, risk management, and stakeholder communication. Thoughtful consideration of the answers to these questions will guide the board in the creation of a structure to increase transparency, accountability, and ethical practices, and ensure ESG matters are incorporated into the institution's core strategy and operations:

- How do your ESG strategies realistically compare to your peer group?
- How will you meet environmental "net zero" impact promises?
- Do current products need to be revamped to accommodate an ESG perspective?
- Do ESG concerns and initiatives consider your bank's processes, functional decisions, systems, and controls for current and in-development products and services?
- Are plans in place to anticipate potential ESG regulatory and compliance requirements?
- Is your bank measuring, reporting, and disclosing non-financial and risk-related ESG information? If not, what's the plan?

Rehmann can help your financial institution and its board members navigate the changing ESG environment by assessing and benchmarking your bank's internal ESG policies, procedures, and governance. We can also assist with data collection and reporting to help your team identify opportunities to enhance its overall ESG strategy. Contact your Rehmann advisor or reach out to Kristy Clark, a principal specializing in risk advisory at Rehmann: kristy.clark@rehmann.com or 248.952.5000.

Supreme Court Affirms CFPB Funding Constitutionality

By Beth Behrend, CCBCO, CBAP

In a 7-2 opinion issued in May 2024 by Justice Clarence Thomas, the Supreme Court of the United States (SCOTUS) ruled the statute that funds CFPB through the Federal Reserve instead of congressional appropriations satisfies the U.S. Constitution appropriations clause because the funds come from the Federal Reserve and may be used to pay CFPB expenses in carrying out its duties and responsibilities. Justices Alito and Gorsuch dissented, arguing that the ruling allows CFPB and the executive branch to enjoy financial independence by insulating it from accountability to Congress.

The case stemmed from the CFPB Payday Lending Rule in 2017 to protect consumers from predatory lending practices for multiple attempts to withdraw funds, additional fees, and overdraft charges from bank accounts. The argument was that the CFPB's funding mechanism is unconstitutional because Congress funds most federal agencies through the appropriations process. In this instance, Congress chose to fund the CFPB through the Federal Reserve to preserve its independence from the political process.

What does SCOTUS' CFPB Ruling and the 'Two Strikes' rule mean for consumer banking?

While the CFPB regulates banks above $10 billion in assets, the SCOTUS ruling is far-reaching. Financial services executives and industry advocates have expressed concerns that it could become the industry norm, pressuring profitability.

Potential Impacts

Fee income could get tighter regulatory scrutiny related to the curtailing of fees tied to deposit products. Half of bank directors and senior executives who responded to Bank Director magazine's 2024 Risk Survey reported their banks had adjusted fees due to indirect or direct regulatory pressure.

Small Business Rule under Section 1071 of the DFA to amend ECOA and Reg B was to take effect in August 2023 and require certain "covered financial institutions" to track and report new data collected from "covered originations" for small business credit transactions. After the decision, the CFPB extended compliance dates:

- Tier 1 – from Oct. 1, 2024, to July 18, 2025, with initial filing required by June 1, 2026
- Tier 2 – from April 1, 2025, to Jan. 16, 2026, with initial filing required by June 1, 2027
- Tier 3 – from Jan. 1, 2026, to Oct. 18, 2026, with initial filing required by June 1, 2027

(To read more about Section 1071 impacts, click here.)

Payday Lending Rule, which regulates payday, vehicle title, and other small-dollar consumer loans, is set to go into effect in March 2025.

Credit Card Penalty Fees, which amends Regulation Z to limit late fees to "reasonable" amounts, would have been effective May 2024; however, litigation challenging the rule on other grounds will resume so an implementation timeline is unclear.

What should banks do or consider following the SCOTUS CFPB ruling?

- Ask management to explain how revenues could change if the institution has to adjust deposit product fees. What revenue shortfall could the Institution be facing?
- How could these changes negatively impact the Institution's consumer customer base?

Board members and institution leaders should review deposit products from a regulatory point of view and create contingency plans to handle a potential decrease in fee income as late fees that rely on customer default or other actions that require them to sign up for an additional product could fall under heightened scrutiny.

Contact your Rehmann advisor for a personal consultation or Beth Behrend, a Rehmann senior manager in consulting for financial institutions: 616.975.4100 or beth.behrend@rehmann.com.
