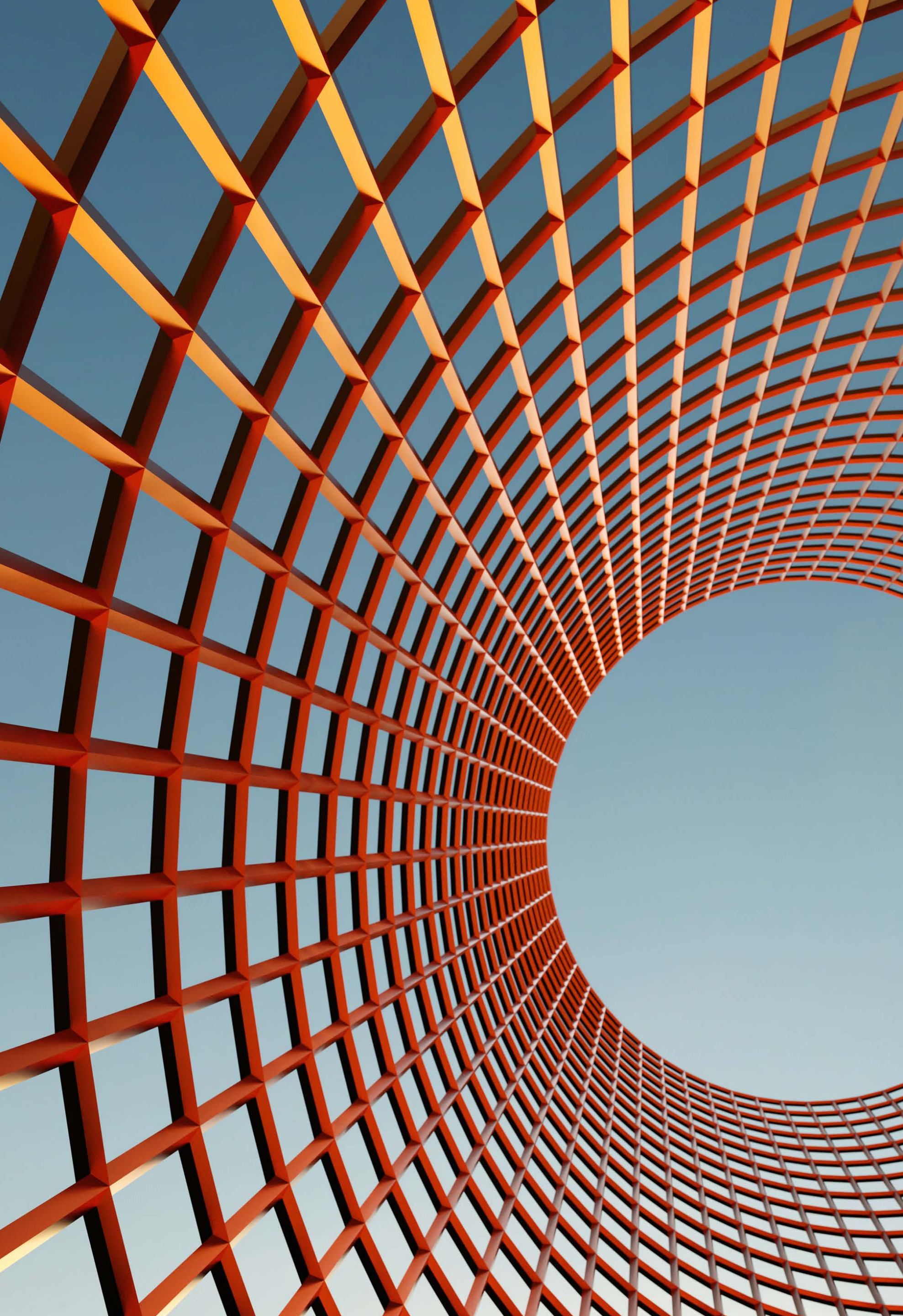




Quarterly Insights: Financial Services

U.S. Financial Services Regulatory Center

Q3 2026



Message From Ashley Ensley To Our Community

As we move into the fall season, the changing landscape around us serves as a reminder that periods of transition often bring both opportunity and uncertainty. Much like the shifting colors of autumn, the banking industry continues to evolve as economic, regulatory, and technological forces reshape the environment in which institutions operate.

This quarter, the banking industry reported strong earnings and asset quality, but those results tell only part of the story. Higher rates, flat margins, growing uninsured deposit balances, and changing credit exposures are creating new questions about the durability of performance and the assumptions underlying institutions' plans.

Meanwhile, regulators in the U.S., European Union, and U.K. are placing greater emphasis on practical readiness. From liquidity and capital to geopolitical risk, AI, cybersecurity, and third-party oversight, institutions are being asked to show not only that appropriate frameworks exist, but that those frameworks can work when circumstances change quickly.

In this edition, we highlight the developments that may have the greatest impact on financial institutions and the practical considerations leaders should keep in view. The goal is to help you look beyond individual regulatory updates and consider what the broader direction of change means for your institution.



Ashley Ensley

National Sector Leader, Financial
Services, Assurance Partner

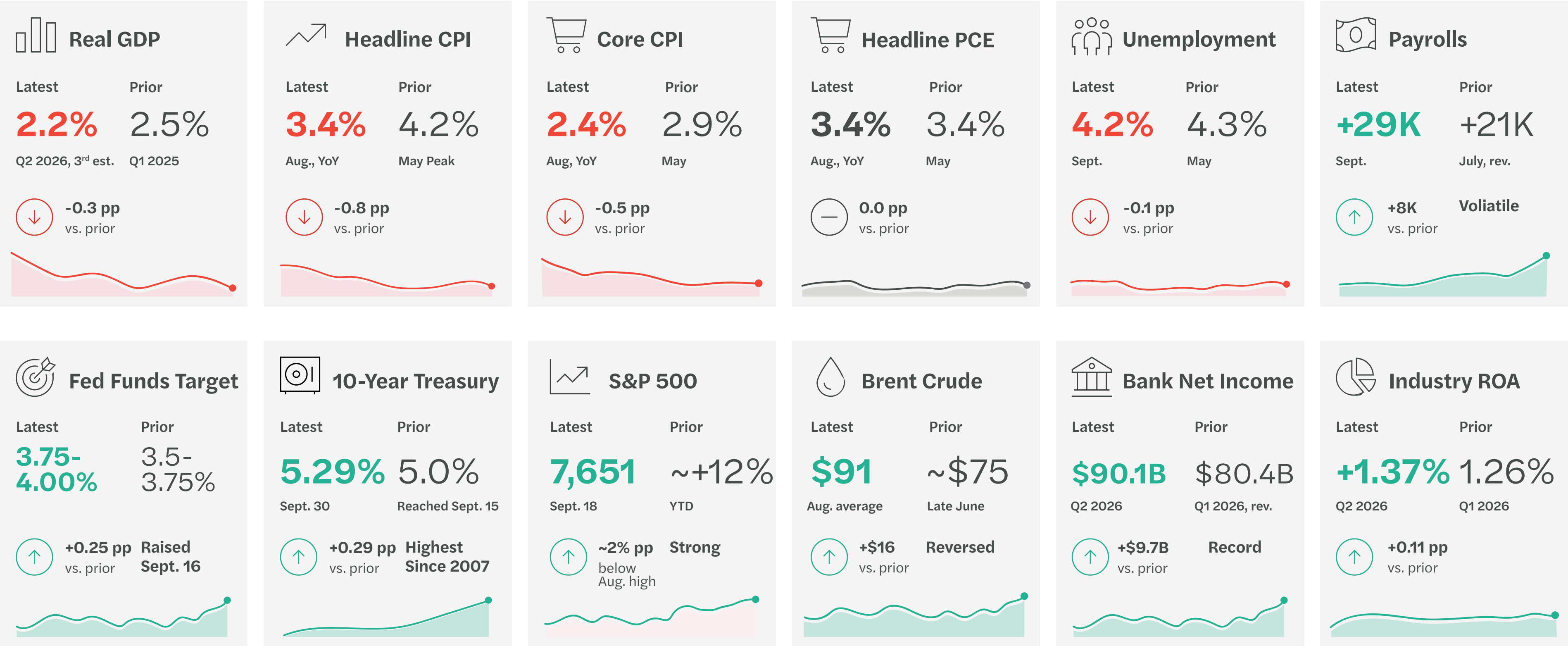
Economic Overview

From Relief to Reversal

The third quarter opened on a hopeful note: a ceasefire, falling energy prices, and a Fed on hold. None of it held. Gulf hostilities resumed, crude gave back its entire post-ceasefire decline, and on September 16, the FOMC raised rates for the first time since July 2023. Any 2026 plan built on an extended hold followed by cuts is now moot.

The economy itself is holding up. Real GDP grew at a 2.2% annual rate in the second quarter (third estimate), down from 2.5% in the first. That headline understates private demand—real final sales to private domestic purchasers, a measure of consumer and business spending—which rose 4.6%. Corporate profits rose \$400.9 billion in the quarter. Demand is strong, which supports growth and earnings but adds inflationary pressure.

The Quarter at-a-Glance



Charts are illustrative.

Economic Overview

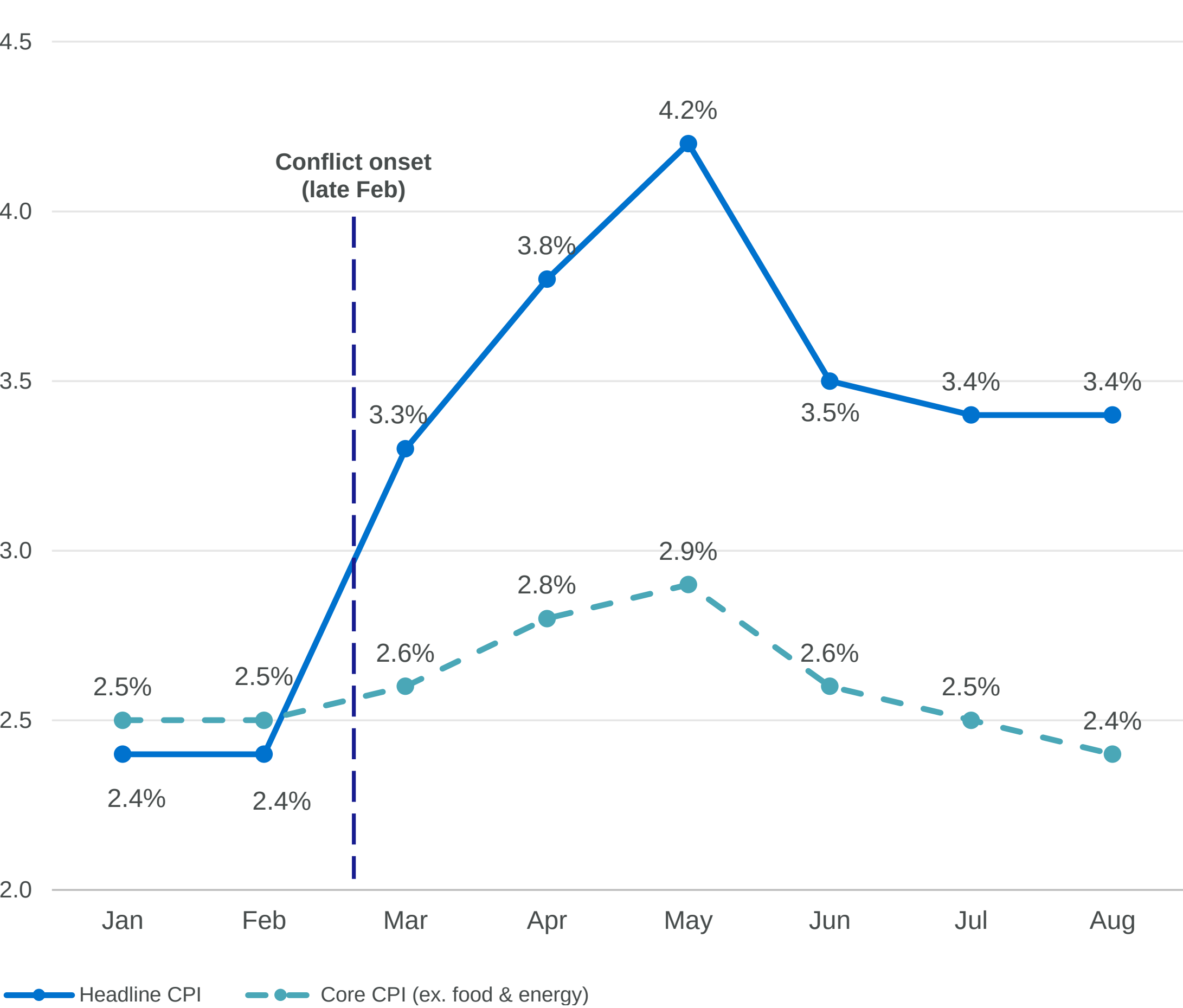
Inflation: The Headline Is Bad, the Core Is Better

Headline CPI peaked at 4.2% in May and retreated to 3.4% in August, though energy prices remain 16.3% above a year ago. Core CPI, which excludes food and energy, is the better guide for pricing and loan-loss planning, and it improved to 2.4% year over year in August from 2.9% in May, with core goods up only 0.7% and shelter cooled to 3%. The fear that increased energy costs would flow into the core price basket has yet to materialize in core goods. The Federal Reserve’s preferred PCE price index tells a similar story at a higher level: 3.4% headline and 3% core in August.

Energy & the Gulf: The Second Round of Shocks

The June ceasefire framework did not hold. Attacks on shipping and energy infrastructure resumed over the summer, and the Strait of Hormuz went from reopening back into disruption. Brent crude averaged \$91 a barrel in August against roughly \$75 in late June, settling at \$107.63 on September 10, the highest since May. Global oil inventories have fallen about 400 million barrels this year. The Energy Information Administration’s (EIA) September outlook expects Brent near \$90 through the fourth quarter before easing to an average of \$74 in 2027, with retail gasoline averaging \$3.84 a gallon this year and \$3.35 next year. The EIA does not expect Middle East production to return to pre-conflict levels until at least the second quarter of 2027, making high energy costs a multi-quarter condition rather than a spike.

Headline vs. Core CPI, Monthly (Year-Over-Year %)



Economic Overview

Labor Market: Job Growth Slows

The September jobs report showed payrolls up 29,000 and unemployment at 4.2%, down from 4.3% in May. Prior month employment numbers were revised downward with the three-month average job growth of approximately 51,000. No major industry reported significant changes in September, with job growth in healthcare up the most with 17,000 jobs added and financial services edging downward with a job decline of 7,000.

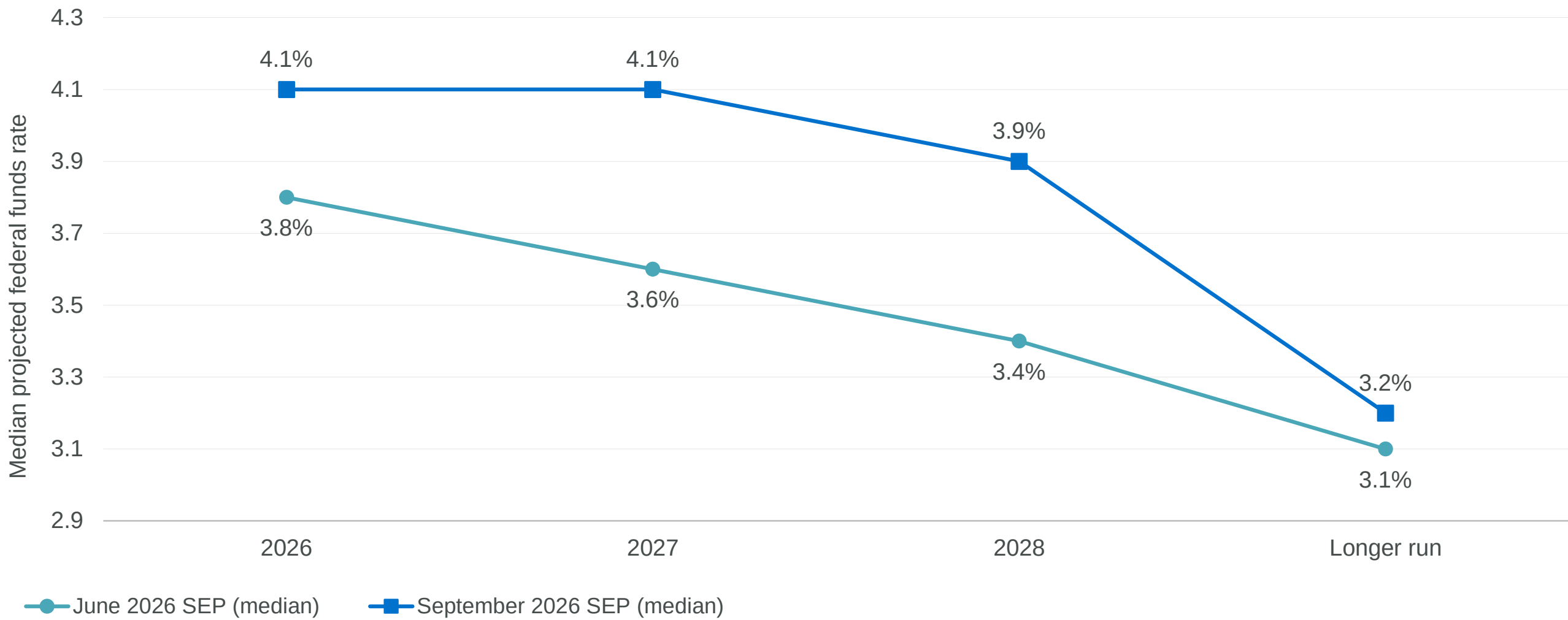
Wage concerns have not gone away. Average hourly earnings rose 3% over the year, below the 3.4% increase in headline CPI, a decline in real wages. The long-term unemployed reached 1.9 million, or 27.1% of the jobless. For institutions whose consumer credit quality depends on household income, such as auto and credit card lenders, this is the same adverse mix flagged in our last newsletter.

Federal Reserve: The Hike Finally Arrives

The FOMC held at a 3.50 to 3.75% target range on July 29, with three members dissenting in favor of an increase, then moved unanimously on September 16 to raise the range to 3.75 to 4%. The statement dropped earlier references to supply shocks; described domestic spending as resilient, productivity growth as strong, and capital investment as robust; and stated plainly that inflation remains elevated. Chair Kevin Warsh put it more bluntly: inflation has been too high for too long.

The September Summary of Economic Projections (SEP), the quarterly forecast each official submits, carries the forward-looking message. The median forecast puts the federal funds rate at 4.1% for both 2026 and 2027 and 3.9% in 2028, up from June medians of 3.8, 3.6, and 3.4%, and 16 of 18 participants expect at least one more increase this year. Median 2026 projections are 3.4% core PCE inflation, 4.1% unemployment, and 2.3% GDP growth. Warsh again did not submit his own projections. Two FOMC meetings remain in 2026: October 27 to 28 and December 15 to 16.

The Dot Plot Shift: June vs. September 2026 Median Path





Economic Overview

Rates & Markets: A 5% Long End

The quarter's most important move was in long-term rates. On September 15, the 10-year Treasury yield reached 5%, the highest level since 2007 (the start of the global financial crisis), and closed at 5.29% on September 30. The stock markets have largely shrugged off rising Treasury yields in the long end of the curve—at least so far. The S&P 500 closed on September 30 at 7,651.54, up roughly 12% for the year but about 2% below its August high; the index still lost ground in the week of the FOMC increase, and the Dow fell more than 1.5% that week. Bank stocks sold off immediately on the FOMC rate increase, and earnings guidance began moving with it. Several institutions have flagged rising deposit costs and tighter loan pricing in their pricing outlooks. The repricing mechanics are familiar: deposit rates reprice as soon as rates rise, while loan and securities yields catch up only as assets mature and renew. Institutions that locked in longer-term funding expecting cuts now face the opposite of the trade they modeled.

Consumer Sentiment & Household Credit

Consumer sentiment remains near a record low. The University of Michigan preliminary September reading fell 3.6 points to 48.1, the weakest since May's record low, with the expectations component fell 10.1% as year-ahead inflation expectations jumped to 4.6% and long-run expectations rose to 3.4%.

Household balance sheets have held up better than sentiment. The New York Fed's second-quarter report showed total household debt essentially flat at \$18.8 trillion, including \$1.26 trillion in credit card balances and \$1.71 trillion in auto loans. New 90-day delinquency transition rates were little changed from a year earlier at 6.97% for cards and 3% for auto, and 4.7% of outstanding debt was in some stage of delinquency. These levels are elevated but the trend is not yet worsening, although both could turn more negative should real wages stay negative.

The Banking Industry: Record Profits, Shifting Mix

The FDIC's Second Quarter 2026 Quarterly Banking Profile was strong on nearly every headline measure. Net income rose 12% from the first quarter to a record \$90.1 billion, and return on assets reached 1.37%, up 11 basis points from the first quarter and 24 from a year earlier. Asset quality improved: past-due, nonaccrual and net charge off rates all declined, and commercial real estate delinquencies kept falling. The problem bank list shrank by seven to 47 institutions, and the Deposit Insurance Fund reserve ratio rose five basis points to 1.48%.

However, the composition matters. Earnings growth came principally from noninterest income, including loan-sale gains and trading, rather than spread income. With deposit repricing benefits fading and the FOMC moving tighter as inflation persists, the net interest margin (NIM) path is less predictable than it appeared at year-end. Institutions that locked in higher-cost funding in anticipation of rate cuts may find those costs stickier than modeled.

Economic Overview

FDIC’s Second Quarter 2026 Quarterly Banking Profile At-a-Glance

Net income
\$90.1B
+12.0% QoQ

ROA
1.37%
+11 bps QoQ

NIM
3.32%
+1 bp QoQ

FDIC Metric (Q2 2026)	Value	Trend
Annual Loan Growth	6.8%	+1.8% QoQ
Domestic Deposit Growth	0.8%	8th straight quarter
Net Charge-Off Rate	0.57%	-2 bps QoQ
Unrealized Securities Losses	\$326.7B	Up QoQ, well below year ago
Problem Banks	47	-7 QoQ (1.1% of total)
Deposit Insurance Fund	\$161.1B	Reserve ratio 1.48%

Two lines in this table may matter more than the headline numbers. First, net interest margin barely shared in the gain, rising just one basis point to 3.32%. The \$9.7 billion earnings increase came mainly from noninterest income (up \$5.5 billion on trading and fees) and securities gains (up \$5.5 billion, mostly one-time gains on equity holdings); net interest income rose \$5.3 billion on balance growth rather than spread. Record profits built partly on one-time items and a flat margin may be less durable than the headline suggests. Community banks were the exception, with NIM up 10 basis points to 3.81% as funding costs fell, although reserve coverage slipped to 145.6% as noncurrent loans rose. Second, deposit growth may not be as strong as it looks. Total domestic deposits rose 0.8%, the eighth straight quarterly increase, but uninsured balances grew \$317.4 billion while insured balances fell about 1%. The total portrays stability; the mix suggests the vulnerabilities of 2023 may be rebuilding. A contingency funding plan sized simply to total deposits understates the risks associated with the insured/uninsured distinction.

Where Credit Pressure Is Building

The fastest-growing loan category is not a traditional one. Loans to non-depository financial institutions (NDFIs)—private credit funds, nonbank lenders, and similar firms—rose \$279.1 billion, or 22.4%, over the year, and loans to purchase or carry securities rose \$131.3 billion, or 29.7%, while one-to-four family mortgages grew only 1.1%. That gap has drawn attention from Congress and supervisors. Federal Reserve Vice Chair of Supervision Michelle Bowman told the House Financial Services Committee in June that regulators have found it difficult to see where funds to NDFIs ultimately flow and pointed to expanded data collection begun in May. The Federal Reserve added NDFI questions to its April Senior Loan Officer Opinion Survey, and the OCC has named private credit refinancing risk and rising NDFI concentrations a monitoring priority.

Regulation & Supervision: New Rules of Engagement

The most significant change in supervision during the quarter is a pair of final rules the OCC and FDIC adopted August 27 (published September 1, effective November 2). For the first time, the agencies define “unsafe or unsound practice” in regulation and set standards for when examiners may issue Matters Requiring Attention (MRAs), the formal findings banks must remediate. The definition turns on conduct contrary to generally accepted standards of prudent operations that is likely to materially harm the bank’s financial condition (for example, to capital, asset quality, earnings, liquidity, and market risk sensitivity) or present a material risk of loss to the Deposit Insurance Fund (DIF) and excludes reputational harm. Once effective, formal supervisory criticisms will generally take the form of MRAs, enforcement actions, or cited violations; agencies may also communicate nonbinding supervisory observations. In addition, the FDIC drops its separate matters requiring board attention category. Further, examination findings must rest on objective facts and sound reasoning, which gives banks firmer ground to contest them. The Federal Reserve did not join the rule but has pursued similar changes through internal policy.

Economic Overview

On capital, the agencies’ three March proposals (a streamlined framework for the largest banks, recalibrated requirements for regional and community banks, and a revised systemic risk surcharge) closed for comment on June 18 and remain pending. Separately, the FRB finalized its stress test transparency and stress capital buffer averaging rules on September 30. Two rules are already in effect: the recalibrated enhanced supplementary leverage ratio (eSLR) for the largest firms (April 1) and the community bank leverage ratio at 8%, down from 9% (July 1). GENIUS Act stablecoin rules are moving through Treasury, OCC, FDIC, NCUA, and FinCEN as the statute becomes operative on the earlier of January 18, 2027, or 120 days after final rules.

Earlier changes are also now in place as bank merger review has reverted to pre-2024 standards, the FDIC’s continuous examination threshold has risen from \$10 billion to \$30 billion in assets, and consumer compliance examinations are less frequent for eligible institutions. The direction across all of it is consistent: less process, more focus on material financial risk, and more weight placed on each bank’s own analysis.

But financial institutions should be mindful that the need for less documentation does not imply the need for less judgment. On the contrary, the quality of judgment provided by boards and senior management will become more important than ever.

Implications for Financial Institutions

The industry reported record quarterly nominal net income and a historically strong ROA, but it may be heading into a tightening cycle it did not plan for. Several risks we flagged last quarter have moved from watch items to active exposures. Balance sheets remain strong and credit is, for now, behaving. The question is not simply whether risk frameworks keep pace with a moving environment, but whether asset-liability assumptions written for an easing cycle have been rebuilt for a tightening one.

Financial Institution Implications

	What Changed	What to Do
Margins	Fed raised rates September 16; more hikes expected; deposits reprice first.	Model net interest income across hold, one-hike, and two-hike paths; test deposit betas.
Credit	Negative real wages; sentiment near a record low; energy cost pressure.	Test allowances vs. sustained energy costs, higher rates, and flat wage growth.
Liquidity	Eighth quarter of deposit growth, but uninsured balances drove increase.	Stress contingency funding against 2023-style scenarios.
Securities	10-year at 5.29%, highest since 2007; unrealized losses \$326.7B.	Re-test capital sensitivity to unrealized losses before extending duration.
Operations	Renewed conflict elevates cyber and infrastructure risk.	Strengthen and test cyber, third-party, and continuity programs.

Open Item Watchlist

Several major rulemakings remain open or awaiting further agency action as the third quarter comes to an end. Some of the year's largest proposals completed the comment process and now await finalization.

Stress testing was the notable exception, with the FRB finalizing its reforms on the last day of the quarter. Others moved forward during Q3 through new proposals and comment period closures. Below we explore recent items from the agencies to assess the direction of travel and where key initiatives are likely to land as we move into the fourth quarter.

Capital Framework Modernization

Among the most consequential rulemakings still in motion is the capital package the U.S. federal banking agencies proposed in March. The package is in fact three separate proposals, which include the [Expanded Risk-Based Approach \(ERBA\)](#) for the largest banking organizations, [revisions to the standardized approach](#), and a separate FRB-only proposal [revising the G-SIB surcharge](#) framework.

The proposals would materially change how banking organizations calculate risk-weighted assets across credit, market, and operational risk exposures. The agencies completed the public comment process on June 18, but final rules or further updates have not been released.

The open question is one of calibration rather than direction. The proposals do not specify effective dates, although each sets transition periods that run from the effective date of a final rule, including a five-year phase-in for recognizing accumulated other comprehensive income (AOCI). The enhanced Supplementary Leverage Ratio rule may be the closest precedent that institutions have for the runway to implementation: this rule was finalized and took effect two calendar quarters after adoption.

Given the volume of comments received, a finalized rule in the fourth quarter is plausible but not assured; however, on September 18, [Bowman](#) said she expects the Board to finalize the risk-based capital reforms and the G-SIB surcharge improvements before the end of this year.

Open Item Watchlist

Stress Testing Changes Finalized

The FRB’s push to increase transparency and public accountability in its supervisory stress testing process reached the finish line on September 30, roughly seven months after the extended comment period closed on February 21, when the Board finalized two rules it described as largely similar to the 2025 [proposals](#). The first, the transparency final rule, requires the Board to invite public input annually on the stress test scenarios and any material model changes, updates the framework that guides scenario design, adopts the models that will be used for the 2027 stress test, and adjusts the stress test calendar. The final rule takes effect November 2. The second requires the Board to average the results of a bank’s two most recent stress tests when calculating stress capital buffer requirements for firms subject to the test in both years and moves the stress capital buffer effective date to January 1. Averaging begins in 2028, once the calculation can rely solely on models that have been through public comment. For covered firms, the practical effect is steadier, more predictable buffer requirements for capital and distribution planning, with the trade-off that a single weak result will weigh on the buffer for two cycles rather than one.

Notably, the Board had earlier finalized the [2026 stress test scenarios](#) and departed from its ordinary practice by voting to carry forward the prior year’s stress test-related capital requirements rather than recalculating them from the results of the 2026 test. The final transparency rule also tests banks with large trading books against two global market shock components each year, using the shock that produces the largest losses. Alongside the final rules, and as Bowman [previewed on September 18](#), the Board requested comment on a revision to its noninterest income model intended to better capture differences in banks’ business models for

generating fee income. Governor Barr, who dissented at the proposal stage, did not support the final rule, arguing that model disclosure and annual comment on scenarios will make the test less responsive to emerging risks. The scope of model and scenario disclosure is likely to remain the point of contention as the framework is applied to the 2027 cycle.

Liquidity Regulation Remains Under Review

Liquidity regulation has received considerable attention, although formal rulemaking has yet to emerge.

Officials have been direct about sequencing and mechanics. At [the Roundtable on Liquidity and Lender of Last Resort](#) in March, Treasury Secretary Scott Bessent (delivered by Under Secretary Jonathan McKernan) called bank liquidity “the next big-ticket item” behind capital reform and signaled a specific mechanism. Plans called for giving banks credit toward the Liquidity Coverage Ratio (LCR) requirements for collateral pre-positioned at the discount window, with that recognition capped in normal times and expandable during stress, paired with steps to reduce the stigma long associated with discount window borrowing. At the same roundtable, Bowman [framed the underlying question more fundamentally](#), asking whether the current LCR, Net Stable Funding Ratio (NSFR), internal liquidity stress testing, and resolution planning framework actually “delivers the promised resilience” or merely results in a framework that “looks impressive on paper.”

No comprehensive liquidity proposal has been released at this time. Because Treasury explicitly sequenced liquidity behind the capital proposals, a formal notice of proposed rulemaking appears unlikely before year-end. The more probable near-term step is an advance notice of proposed rulemaking or continued roundtables testing the discount window collateral mechanic specifically.

Open Item Watchlist

AML/CFT Modernization

Beyond capital and liquidity, the agencies are also modernizing compliance-focused regimes, starting with the AML/CFT requirements. In April, FinCEN [proposed significant revisions to AML/CFT program requirements](#) intended to implement provisions of the AML Act of 2020 and place greater emphasis on program effectiveness. The OCC, FDIC, and NCUA [issued corresponding proposals](#) for institutions under their supervision.

A notable development occurred on July 9, when the FRB [issued its own AML/CFT proposal](#) for Board-supervised institutions. Comments on that proposal were due September 8.

The proposals place effectiveness, risk identification, governance, and supervisory coordination at the center of the framework, with finalization likely to turn on how regulators resolve expectations around risk assessments, internal controls, independent testing, and the respective roles of FinCEN and the prudential regulators in supervision and enforcement.

With comments now closed across all four proposals, the finalization sequence is coming into focus. FinCEN's own comment period closed June 9, and the OCC, FDIC, and NCUA joint proposal closed on a similar timeline, giving those agencies a three-month head start on finalization over the FRB, whose comment period closed on September 8. Because the four proposals are designed to work as a package, expect the FRB to move deliberately rather than rush a rule out ahead of its counterparts. A fall final rule appears possible for the joint and FinCEN proposals, with the FRB's rule following in a second wave, likely in early 2027.

GENIUS Act Implementation

Implementation of the GENIUS Act is unfolding as a coordinated, multiagency effort to stand up an entirely new regulatory regime for payment stablecoins, with FinCEN, the federal banking agencies, and Treasury each advancing distinct but interlocking pieces of the framework. Earlier proposals laid the foundation for this framework, addressing stablecoin issuance, reserve assets, deposit insurance treatment, AML/CFT obligations, sanctions compliance, customer identification programs (CIP), tokenized deposits, and prudential supervision. In June, FinCEN and the federal banking agencies [jointly proposed](#) CIP requirements for permitted payment stablecoin issuers. The comment period closed on August 21.

Open Item Watchlist

A key milestone arrived on August 18, when Treasury [issued a proposed rule](#) addressing statutory restrictions and requirements governing payment stablecoin issuance, offer, and sale in the United States. With the CIP proposal's comment period closed since August 21 and Treasury's issuance, offer, and sale rule window running through October 19, the two workstreams are on different clocks. The statutory clock is what makes the sequence matter. The GENIUS Act takes effect on the earlier of January 18, 2027, or 120 days after final implementing regulations. Comptroller of the Currency Jonathan Gould [said on August 19](#) that the OCC "will have a final rule out by November." Institutions should watch whether FinCEN, the banking agencies, and U.S. Treasury keep pace, since the remaining pieces (licensing, reserve assets, and supervisory expectations for issuers) must fall into place against a deadline that does not move.

Other Developments to Watch

Third-Party Risk Management. On September 11, the U.S. banking agencies along with the NCUA [proposed updated third-party risk management guidance](#) intended to replace existing guidance and place greater emphasis on tailoring oversight to the risk profile of individual relationships and institutions. A separate [Federal Reserve proposal](#) would provide community bank-specific guidance. Because the guidance is framed as nonbinding and principles-based rather than a prescriptive rule, institutions should watch whether that framing survives finalization or whether specific expectations get layered back in during the comment process. Issued alongside it, and providing more immediate support for community banks, is a [separate statement](#) from the three banking agencies on community banks' engagement with core service providers.

Community Reinvestment Act. In August, the OCC and FDIC proposed revisions to their *Community Reinvestment Act (CRA)* regulations aimed at reducing burden, increasing clarity, and refocusing the framework on statutory objectives. This marks the third attempt at CRA reform in recent years after the 2023 interagency rule was enjoined by a federal court. Notably, the Federal Reserve did not join this rulemaking even though it joined the OCC and FDIC in proposing

to rescind the 2023 rule in July 2025. In addition to the applicable updates, institutions should monitor whether that split among the agencies signals further divergence or whether the FRB ultimately aligns with a final rule.

CAMELS Modernization. The FFIEC's period on [proposed revisions to the CAMELS rating framework](#) closed August 17, and the agencies are now positioned to move toward finalization. A significant change is the removal of "special consideration" for the management component when assigning composite ratings, which marks a shift toward a more balanced, financial risk-driven rating approach. Institutions should watch whether that structural change survives intact, since it would mark the first material revision to the framework in nearly 30 years.

Supervisory Framework Changes. On September 1, the OCC [proposed revisions governing the treatment of violations of law](#) and the use of MRAs, continuing the agency's broader effort to recalibrate supervisory practices. In addition, the OCC and FDIC jointly issued a [final rule](#) defining "unsafe or unsound practice" for purposes of Section 8 of the Federal Deposit Insurance Act and revising the framework for issuing MRAs; it takes effect November 2 and provides among other things that mere failure to remediate an MRA is not itself an unsafe or unsound practice.

Bank Merger Review. On September 17, the FDIC Board [approved a proposed rule](#) rebuilding its framework for reviewing merger applications under the Bank Merger Act. It would codify processing timelines, including a letter filing process with deemed approval for de minimis transactions handled in as little as five days; fold credit unions, thrifts, and a proxy for centrally booked deposits into the competitive effects analysis; and revise the financial stability factor to weigh whether a transaction improves stability rather than only its systemic footprint. Comments are due 60 days after Federal Register publication. For institutions weighing transactions, this is the most consequential item on the fourth-quarter board.

Open Item Watchlist

Resolution Readiness & Deposit Insurance Assessments. On June 25, the FDIC Board approved two proposals that are designed to work together. The first would [streamline resolution submissions](#) by covered insured depository institutions and, if finalized, would increase the rule's applicability threshold from \$50 billion to \$100 billion with automatic future adjustments, moving all covered institutions to a three-year filing cycle, and eliminating interim supplements, capabilities testing, and credibility determinations. The second would [revise deposit insurance assessments](#), cutting initial base assessment rates by two basis points for small institutions and one basis point for large and highly complex institutions, raising the threshold that separates small from large institutions from \$10 billion to \$30 billion, and adding a resolution readiness adjustment that lets large institutions reduce assessments by opting into virtual data room testing, prescribed data access, or both. The FDIC has said it expects to [engage with the Federal Reserve](#) on reconsidering elements of the Title I resolution planning process, which would extend this workstream to the largest institutions and has not yet been proposed.

Securities Market Regulation. On September 16, the SEC proposed to rescind Rule 14a-8 in its entirety, which would eliminate the federal rule governing inclusion of shareholder proposals in company proxy materials and leave those determinations to state law and company governing documents. A companion proxy solicitation modernization proposal would eliminate the annual report delivery requirement and Notices of Exempt Solicitation, and shorten the minimum broker search period from 20 to five business days. Comments on both are due November 20. Separately, the SEC's August 18 Regulation Crypto Assets proposal would create two tailored registration exemptions for certain investment contracts involving crypto assets (up to \$5 million over four years and up to \$75 million per 12-month period) and a conditional safe harbor under which the

investment contract ends once the issuer completes or permanently ceases its promised managerial efforts; comments are due October 20. Because a final Rule 14a-8 rescission would likely draw litigation and is not expected to take effect before the 2027 proxy season, public companies should plan under the existing rule, while institutions with digital asset activities should watch how the safe harbor conditions are finalized alongside GENIUS Act implementation.

Looking Ahead

Together, the actions around capital, stress testing, and liquidity are not three unrelated debates but phases of a coordinated recalibration of the post-2008 prudential framework. The changes should not be read as a retreat from safety and soundness but a reweighting of where regulatory friction sits.

Stress testing has now crossed the finish line, with the FRB finalizing a more transparent framework on September 30 and its own analysis suggesting the reform is about predictability rather than a further reduction in aggregate capital. Capital reform is next, with Bowman expecting finalization before year-end. Liquidity trails both and is likely to remain in the speech and roundtable phase through year-end.

At the same time, AML/CFT modernization and implementation of the GENIUS Act continue advancing on fixed comment period deadlines, positioning both to move from proposal to operational requirement before year-end.

Institutions should treat the fall not as a lull but as a phase of a broader, multiyear regulatory recalibration cycle.

Liquidity Risk Management Readiness in an Evolving Regulatory Landscape

Capital reform, innovative products and services, tailoring supervision, and stress testing reform have dominated the prudential agenda this year, but liquidity is emerging as the next frontier of regulatory attention.

While, to date, no comprehensive liquidity proposal has been released; the absence of formal rulemaking should not be mistaken for the absence of change. Officials have been candid that liquidity reform is on the horizon.

Early signals indicate that the banking agencies are actively rethinking whether the post-2008 liquidity framework, built around the LCR, NSFR, and static high-quality liquid asset (HQLA) buffers, actually delivers the resilience it promises, or whether it simply looks strong on paper while leaving banks unprepared for the speed of a modern deposit run. The stakes of getting liquidity right are imperative. Liquidity is often the proximate cause when an institution fails. A bank can appear solvent on paper but still run out of cash in a matter of hours. For institutions, this is a moment to get ahead of the conversation rather than wait for a final rule to force the issue.

Why Liquidity Risk Is Back in Focus

The 2023 regional bank failures fundamentally changed how supervisors and institutions think about liquidity risk. What once played out over days or weeks, now has the potential to unfold in hours as quicker communication channels and mechanisms allow deposit outflows to accelerate faster than traditional cash flow projections anticipate. This dynamic is magnified by the ability of concentrated, largely uninsured depositors to quickly move balances by wire and, increasingly, by mobile banking applications. The FDIC's May 2026 staff study on the spring 2023 failures underscored just how fast this can happen. The study found that Silicon Valley Bank experienced deposit outflows of unprecedented speed and magnitude, with cumulative withdrawals reaching roughly half of its domestic deposit base within several business days surrounding its failure.¹



Liquidity Risk Management Readiness in an Evolving Regulatory Landscape

This shift in deposit mechanics carries extra weight for institutions that operate with a less diversified funding base, thinner liquidity buffer, and concentrated depositor relationships or app-based deposit franchises that behave differently than the assumptions in the legacy liquidity model. Add this to the growth of uninsured deposits tied to commercial relationships, and the potential speed and size of an outflow event can materially outpace what standard LCR and NSFR calculations were designed to anticipate.

The result is that supervisors are being more pointed and asking sharper questions related to financial institutions' liquidity positions. The conversation is moving away from whether an institution holds enough liquid assets on paper toward whether an institution can mobilize those assets and contingent funding sources within an ever-narrowing window during a liquidity event. The distinction between theoretical and usable liquidity is the thread running through the regulatory conversation today.

A Shifting Supervisory Landscape

Senior officials have indicated that a rethinking of core liquidity assumptions is more likely than incremental tweaks. The debate largely centers on whether current rules inadvertently encourage “liquidity hoarding,” pushing institutions to stockpile HQLA rather than build genuinely usable liquidity capacity. In addition, discussions on whether the long-standing stigma around discount window borrowing discourages banks from treating it as a legitimate liquidity management tool rather than waiting to borrow until other liquidity sources have been depleted.

The mechanics under discussion, principally giving institutions LCR credit, up to a cap, for the borrowing capacity created by collateral pre-positioned at the discount window, reflect a broader philosophical shift. Indeed, this is as much a cultural question as it is a technical one.

If borrowing from the discount window continues to be perceived as a signal of distress rather than a routine liquidity management tool, even a well-designed incentive structure may go underused precisely when it is needed the most. Attention to this concern is not confined to the prudential regulators alone. Discount window readiness and stigma have drawn broader policy interest across Washington, including the introduction of the Discount Window Preparedness Act, reinforcing that this is a live conversation playing out on multiple fronts.

Because no formal regulatory proposal has moved forward, this remains a thematic and directional signal rather than a compliance deadline. However, the direction of travel is consistent enough among U.S. Treasury and the agency principals leading this work, that institutions should treat it as a preview of where liquidity supervision is headed, not idle conversation.

Readiness Considerations for Institutions

Institutions do not need to wait for a final rule to begin closing the gap between paper liquidity and usable liquidity. Several readiness steps are worth considering, regardless of size or charter type:

- **Operationalize contingency funding plans.** A well-written plan is only as good as an institution's ability to execute it. Boards and asset-liability committees should confirm that contingency funding plans identify specific, currently available funding sources; specify accountable staff; and reflect realistic timelines for accessing each source under stress.
- **Test discount window and Federal Home Loan Bank (FHLB) access before a crisis.** Institutions should periodically confirm that collateral is properly pledged, documentation is current, and staff are familiar with the operational steps required to draw on these facilities.

Liquidity Risk Management Readiness in an Evolving Regulatory Landscape

- **Reassess funding concentration and depositor behavior assumptions.** Legacy cash flow models built on pre-2023 depositor behavior may understate the speed and scale of potential outflows, particularly for institutions with meaningful uninsured deposit concentrations or digitally engaged customer bases. Behavioral assumptions should be revisited, and stress tested against more severe, dynamic scenarios.
- **Diversify funding sources deliberately, not opportunistically.** A broader mix of wholesale funding, brokered deposits, correspondent relationships, and FHLB capacity provides optionality when any single channel becomes constrained or more expensive during stress conditions.
- **Elevate liquidity risk to the board level.** Given the direction of regulatory sentiment, boards should expect more scrutiny of liquidity governance. Clear, recurring board reporting on liquidity metrics, stress test results, and contingency plan testing outcomes will position institutions well regardless of how or when formal rulemaking arrives.
- **Get ahead of supervisory expectations.** Even without revisions to liquidity regulations, supervisors are probing liquidity assumptions more skeptically in current examination cycles. Institutions that can proactively walk examiners through updated behavioral assumptions, funding diversification strategies, and contingency plan testing results will be better positioned than those reacting to findings.

Positioning for What's Next

Liquidity regulation reform may be the next major piece of the current prudential recalibration, with officials signaling that formal liquidity rulemaking is likely as the capital modernization proposals are now moving through the pipeline, giving institutions a rough sequencing cue rather than an open-ended timeline. Institutions that use this period to strengthen contingency funding plans, validate operational readiness for contingent funding sources, and sharpen board-level visibility into liquidity risk will be better protected against potential liquidity stress events and will be ready to hit the ground running should this liquidity reform take shape quickly.

Conditional Approval Is the Starting Line: What Comes Next for a De Novo Bank

The FDIC revised procedures for deposit insurance applications, announced in August 2026, with the intention to provide qualifying organizers a contingent authorization within 120 days of filing and a final approval within the following 12 months, as discussed in [“The New FDIC Two-Phase Deposit Insurance Review.”](#) Most of the attention is paid to the front end of that process. For organizers who satisfy the requirements, contingent authorization (or preliminary conditional approval from the OCC for a national bank) is not the finish line; it is the starting line—the point at which the projections in the application start to become commitments.

One of the more important planning horizons for a new bank formation is the first four years: roughly a year, sometimes more, to organize and open, followed by a three-year de novo period in which capital, business plan, dividend, and audit conditions apply and supervisory attention is heavier. Below, we briefly review the organizational, or conditional approval period, the three-year de novo period that follows, and provide some insights into what each stage entails.

The Organizational Phase: Turning an Application into a Bank

- **Close the capital raise on the plan’s terms.** The FDIC’s statement of policy expects initial capital sufficient to keep the Tier 1 leverage ratio well above minimums throughout the first three years of operation, and individual orders often set a fairly high capital floor. Since pre-opening costs are generally expensed as incurred, the bank may open with an accumulated deficit that the capital infusion must also absorb. Offering terms draw scrutiny as well where the FDIC generally regards compensation plans that give organizers more than one option or warrant per share subscribed as excessive. The capital infusion deadlines in the conditional approval are firm and heavily scrutinized. Absent an extension, the OCC’s preliminary approval expires if capital is not raised within 12 months or the bank does not open within 18 months, and FDIC orders typically lapse one year after issuance if insurance has not taken effect.
- **Build the finance function before the first deposit.** Before opening, the bank needs a working general ledger, a process to file its Call Report, board reporting that compares results with the approved plan, an interest rate risk model, a liquidity and contingency funding plan, and a robust credit loss methodology. Because the bank has no loss history of its own, much of this planning will rely heavily on peer or industry data informed by the bank’s proposed product and service offerings. An independent auditor is worth engaging early, as the statement of policy calls for, and orders typically require an annual financial audit for at least the first three years. In addition, accounting policies and procedures should be agreed upon in advance of the first audit.

Conditional Approval Is the Starting Line: What Comes Next for a De Novo Bank

- **Stand up governance that operates, not just exists.** Banks should establish a strong board of directors, with a majority of the directors being independent. Furthermore, the organization is encouraged to have an audit committee made up of a majority of outside directors. Committee charters, a board reporting package, and director training before opening, including on BSA/AML obligations, complete the structure. Late changes to governance structures are difficult because FDIC orders typically require prior approval of any change in proposed management or significant ownership before opening, and the OCC may object to any new director or officer for two years after a national bank opens. Early customers often include directors and their businesses, so Regulation O approval processes should be in place from the start, along with Regulation W limits for banks with affiliates.



For more on third-party oversight, read:

“What the Agencies’ TPRM Overhaul Signals for Bank Oversight.”

- **Build the systems and test them before the first customer.** The FDIC’s handbook for organizers relays the advice of de novo bank CEOs that choosing the core processing vendor and products is one of the most important decisions to be made, and it expects contracts to be contingent on regulatory approval. In September 2026, the banking agencies identified core provider practices that make those relationships for community banks potentially harder to manage, including opaque pricing and billing, extended back-billing, undefined deconversion fees, and limits on integrating other providers, so exit terms, data access, and pricing should be settled now. Contracts should also preserve regulators’ examination authority and support incident reporting: providers

must alert the bank to significant disruptions, and the bank must notify its regulator within 36 hours of a notification incident. The board must approve a written information security program that covers service providers, and new service relationships must be reported to the regulator within 30 days. Where proprietary technology is central, a recent FDIC order required independent validation of the core system before opening.

- **Treat every condition as a deliverable.** Each condition in the contingent authorization and the final order should have an owner, a due date, and a file of evidence. For an FDIC-insured state bank, the same discipline carries into the FDIC’s pre-opening process, when organizers must demonstrate that capital, management, policies, systems, controls, and other conditions are in place before deposit insurance becomes effective. For a national bank, organizers request the pre-opening examination by notifying the OCC that organization is complete, and deficiencies must be corrected before opening. That examination is where the application has to be shown to work.

Preparing the Second & Third Lines

In a new bank formation, the second line (risk management and compliance) and the third line (internal audit) are usually a few people supplemented by outside firms, and the first examinations will test whether the independent oversight described in the application actually operates. Outside support is common, due to lack of resources or staff, and sensible, but accountability stays with the bank’s officers and board.

- **Second line: assess first, then monitor.** Before opening, the bank should have a board-approved risk appetite tied to the business plan’s limits and completed risk assessments for the enterprise, BSA/AML and OFAC, consumer compliance, information security, and third parties. Those assessments should be refreshed once real customers and transactions begin and tested against the controls in place.

Conditional Approval Is the Starting Line: What Comes Next for a De Novo Bank

- **Size the BSA/AML program to the actual business.** The program must be written and board-approved, with internal controls, independent testing, a designated BSA officer, and training, alongside customer identification and customer due diligence requirements. Proposals issued in 2026 by FinCEN and the banking agencies would add a formal risk assessment process. Completing the assessment and anticipating the risks helps calibrate monitoring and screening to the products the bank will actually offer both at the onset and in the future.
- **Build a compliance management system, not just policies.** FDIC examination guidance looks for board and management oversight and a compliance program with policies and procedures, training, monitoring or audit, and consumer complaint response. A year-one monitoring and testing calendar, a review step for new products, and exception reporting to the board from the first month turn that structure into evidence.
- **Third line: plan the first year of audit before opening.** Under interagency policy, the board and senior management are responsible for an effective internal audit function, and that responsibility cannot be delegated even when the work is outsourced. The policy's ideal structure is for the internal audit manager to report directly to the audit committee. Before opening, the committee should approve an internal audit charter, engage the provider, and adopt a risk-based plan for year one that follows the risk assessments. That plan typically covers BSA/AML, lending and credit administration, information security, financial reporting and Call Reports, deposit operations, and consumer compliance. BSA independent testing, compliance reviews, the financial statement audit, and the first examinations will land in the same year, so sequence them, keep each provider independent of the controls it tests, and track every finding to closure.

The De Novo Period: Operating Years One Through Three

- **Expect examiners early and often.** Examination policy generally calls for a limited-scope examination within the first six months of operation, a full-scope examination within the first

12 months, and at least one examination each year through the third year, without the extended intervals available to established banks. The first examinations test whether controls operate the way the application was designed by management

- **The business plan becomes the benchmark.** A de novo bank is expected to operate within its approved business plan during the first three years. If deviations or adjustments occur, the bank must provide its primary federal regulator prior notice of any significant deviation. Approval orders typically require the regulator's non-objection as well. Growing faster than planned is a deviation as much as falling short, and rapid growth consumes capital sooner. Monthly plan-versus-actual reporting to the board, with explanations for material variances, is the practical control. The 21st Century ROAD to Housing Act (ROAD to Housing Act), enacted in July 2026, adds a pilot for qualifying community banks, those with less than \$10 billion in combined assets, counting holding companies and affiliates—that become insured between January 1, 2026 and December 31, 2028. During its first two years, a bank in the pilot may request a deviation from its business plan. The statute sets a deadline for the agency's decision and treats the request as approved if the agency fails to act in time. That is a deadline for an answer, not a waiver of the need for notification and approval.
- **Capital is consumed before it is generated.** De novo business plans commonly project operating losses in the early years, and those losses reduce capital directly. The statement of policy also limits cash dividends in the first three years to net operating income, which bears on investor expectations. The ROAD to Housing Act authorizes, but does not require, the agencies to adopt a two-year phase-in of capital requirements for qualifying community banks. No implementing proposal had been published as of late September 2026, so capital plans should rely on existing expectations.
- **Funding concentrations arrive with the first large relationships.** Early deposit bases often rest on a small number of organizer, director, and anchor-customer relationships. Concentration limits, a contingency funding plan that has been tested, and defined escalation triggers matter

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more in year one than in year 10. The ROAD to Housing Act also widened the exclusion of reciprocal deposits from brokered-deposit treatment, which may broaden funding options; reliance on any single channel should still be measured against the business plan.

- **Budget for the costs of being new.** An institution insured for less than five years is assessed as a new institution, and a new small institution in Risk Category I pays the maximum initial base assessment rate for that category rather than a rate built from its own financial ratios. That treatment lasts until the bank has been insured for five years, past the de novo period. Commercial real estate deserves early attention as well. Interagency guidance identifies concentration thresholds for institutions whose construction, land development, and other land loans reach 100% of total capital, or whose total commercial real estate loans reach 300% of total capital after growing 50% or more over the prior 36 months, as candidates for further supervisory analysis. A bank that started from zero meets the growth test almost automatically, so the ratio is the test that binds.

After Year Three: Leaving the De Novo Period

Some de novo conditions end after three years; others are revisited. The OCC, for example, evaluates at the three-year mark whether its conditions should be removed or modified. As the conditions fall away, the examination cycle normalizes and the bank is measured against established peers. Growth then brings asset-size thresholds for audit, internal control reporting, and

other requirements, each with a cost that belongs in the plan before the bank crosses it. This is also when strategic options widen, including buying branches or another institution, or being acquired. Clean, well-documented financial history from the de novo years is what a buyer's due diligence, or a regulator's review of an application, will examine first.

A Similar Discipline Applies to Mergers & Acquisitions

The thought process that carries a bank from conditional approval through its formation period closely resembles the one that carries an acquirer from due diligence through integration. The stages line up:

- **Application and due diligence.** Both require a documented, defensible view of capital, earnings, risk, and management capacity. A de novo applies it to its own plan; an acquirer applies it to the target and to the combined institution.
- **Organizational phase and the period from signing to closing.** Approval conditions and commitments become tracked deliverables, while systems, policies, and reporting are built or harmonized ahead of day one.
- **Pre-opening examination and day-one readiness.** In both cases, what was described on paper must work in practice.
- **De novo period and integration.** The projections filed with the application become the benchmark. For finance, that means measuring pro forma capital after purchase accounting marks and after deducting goodwill and other intangibles, tracking conversion and integration costs against the deal model, and explaining variances before examiners ask.

Conditional Approval Is the Starting Line: What Comes Next for a De Novo Bank

Questions for Leaders on Either Pathway

Whether the path is a new charter formation or an acquisition, six questions help test readiness:

1. Does the capital plan hold the required leverage ratio through year three if profitability arrives later than planned, not only in the base case?
2. Can the finance function produce plan versus actual reporting, with variance explanations, from the first month?
3. Is every approval condition assigned, dated, and supported by evidence?
4. Could the risk, compliance, and audit functions show examiners, on the first day, the risk assessments, monitoring plan, and audit plan the application describes?
5. Does the funding plan identify its concentrations and the triggers that would require a change in course?
6. Would the bank's records support an examination, or a buyer's due diligence, without reconstruction?

Global Overview

Q3 2026 confirms that while resilience remains a core objective, supervisors and policymakers are increasingly focusing on banks’ ability to adapt to a rapidly changing environment.

Geopolitical tensions, technological transformation, and growing competition concerns are reshaping supervisory expectations. Authorities are placing greater emphasis on forward-looking risk management, operational preparedness, and strategic flexibility. At the same time, efforts to strengthen the competitiveness of the European banking sector continue to gain momentum, while the resolution framework is increasingly moving from planning to testing and execution.

Across these topics, a common theme emerges: European authorities are no longer only asking whether banks can withstand shocks. They are increasingly asking whether banks can anticipate, adapt, and recover from them.

The U.K. policy and regulatory focus is noticeably similar. The influential Financial Policy Committee’s Financial Stability Report emphasizes sources of systemic risk, including geopolitical shocks, private credit markets and AI, while maintaining confidence in the resilience of the U.K. banking sector through a robust, proportionate prudential framework that retains a strong emphasis on financial stability.



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Global Overview

European Union Regulatory Overview

Q3 developments show a gradual evolution in supervisory priorities. Capital and liquidity remain important, but supervisors are increasingly focusing on how banks respond to uncertainty, technological disruption, and crisis situations. The focus is moving from resilience toward dynamic preparedness.

Geopolitical Risks Are Becoming a Core Component of Supervisory Expectations

The publication of the [ECB’s 2026 geopolitical reverse stress test results](#) marked one of the most important supervisory exercises of the quarter. The exercise required 110 significant institutions to design their own severe geopolitical scenarios and identify the circumstances that could materially affect their capital position. The objective was to assess banks’ ability to adapt to plausible geopolitical events and their consequences. The ECB’s conclusions show that most banks were able to develop relevant and institution-specific scenarios, but important weaknesses remain. Supervisors identified shortcomings in scenario design, risk sensitivity, liquidity-solvency interactions, and the credibility of management actions under extreme stress.

Geopolitical shocks are now considered as a permanent risk driver requiring dedicated governance, stress-testing capabilities, and contingency planning. Institutions are expected

not only to survive geopolitical shocks but also to understand how those shocks could affect their business model, operations, and recovery options.

These developments also reinforce the link between geopolitical risk management, recovery planning, and operational resilience. Supervisors expect banks to demonstrate that they can identify vulnerabilities before a crisis happens and react quickly when uncertainty becomes reality.

AI Is Delivering Productivity Gains While Creating New Systemic Vulnerabilities

AI is considered both as a source of economic opportunity and as a potential source of systemic risk in Europe. An ECB survey published in August showed that AI adoption in the [workplace continues to accelerate](#). The proportion of workers using AI has doubled over the past two years, as more than 50% of workers are now using it. For central banks, the implications go beyond productivity. Recent ECB work on AI and monetary policy [highlights](#) the growing importance of understanding how technological change may influence economic activity, labor markets, and inflation dynamics over time.

At the same time, the [ESRB issued a warning on systemic cyber risks stemming from frontier AI models](#). The warning states that advanced AI systems are increasingly capable of discovering vulnerabilities, generating exploits, and carrying out

cyberattacks at a speed and scale that could fundamentally alter the cyberthreat landscape.

For banks, AI therefore creates a challenge. Institutions must accelerate adoption to remain competitive, while simultaneously strengthening governance, cybersecurity, and operational resilience frameworks.

Competitiveness Remains at the Center of the European Banking Agenda

Competitiveness became a major policy topic during the quarter with the publication of the [European Commission’s report](#) on the competitiveness of the EU banking sector. European authorities increasingly acknowledge that banks must also be able to grow, innovate, and compete internationally.

Banks remain resilient, profitable, and well capitalized. However, weaknesses continue to limit their ability to compete globally. According to the report, fragmentation between national markets, regulatory complexity, and certain elements of the EU implementation of international standards continue to create obstacles to scale and efficiency.

[Several measures have been proposed](#). These include further market integration, more efficient management of capital and liquidity across borders, greater proportionality for smaller institutions, and simplification of regulatory requirements.

Global Overview

The objective is not deregulation, but to reduce unnecessary complexity while preserving financial stability and confidence in the banking system.

The coming quarters will, therefore, be closely watched. Many of the identified barriers remain politically sensitive, particularly those relating to cross-border integration and capital mobility.

Resolution Authorities Are Moving From Framework Design to Operational Readiness

Developments in resolution continue to confirm that the concern is still moving toward operational execution.

[The SRB's latest resolvability assessment](#) shows that banks have made progress across all resolvability dimensions. However, the focus is now shifting toward operational readiness, crisis preparedness, and testing. The SRB explicitly announced its intention to move toward a testing-oriented approach supported by multiannual testing programs covering 2026 to 2028.

This shift is also reflected in several additional SRB publications released during the quarter. [Updated guidance on business reorganization planning](#), [communication capabilities](#), and [operational preparedness](#) all call for evidence that resolution strategies can actually be executed under crisis conditions.

For banks, this means greater scrutiny of dry-runs, crisis simulations, communication arrangements, valuation capabilities, and operational continuity.

Looking Ahead

The next quarter is likely to further reinforce the themes that emerged during Q3. Geopolitical uncertainty remains elevated and will continue to influence supervisory expectations. AI adoption is expected to accelerate, but so will regulatory attention on cyber resilience and operational risk. The competitiveness debate should also intensify as stakeholders respond to the Commission's proposals. Finally, recovery and resolution authorities will continue to push banks toward greater operational preparedness and testing.

UK Regulatory Overview

U.K. authorities are ensuring the prudential framework remains effective in a more uncertain environment, while retaining a strong emphasis on financial stability. Like the EU, this is not deregulation but a recalibration of the framework to concentrate on the risks with the greatest potential to affect firms, customers, and the wider financial system. This is being exacerbated by the growing attention on AI.

Maintaining Resilience Amid an Increasingly Interconnected Risk Environment

The FPC's [Financial Stability Report](#) provides a broader context for prudential measures. It encourages the U.K. financial system to remain resilient but warns that several vulnerabilities could crystallize simultaneously.

Supervisors will continue to expect firms to assess risks on an interconnected basis rather than through isolated risk categories. Capital, liquidity, counterparty exposures, market concentration, operational dependencies, and geopolitical scenarios should, therefore, be brought together in firms' stress testing and risk-management frameworks.

A More Usable, Proportionate, & Internationally Aligned Capital Framework Without Weakening Prudential Outcomes

The PRA [statement on enhancing the usability and releasability of capital buffers](#) reflects a shift toward ensuring that capital buffers can be used in practice during periods of systemic stress. The PRA has clarified that it could reduce, including to zero, other systemically important institution buffers. The intended direction is a simpler buffer framework in which capital is genuinely releasable and can absorb losses without prompting procyclical behavior.

The same emphasis is reflected in the PRA's [consultation on targeted adjustments to the Internal Model Approach \(IMA\)](#).

The PRA proposes changes to model validation requirements, the treatment of non-modellable risk factors and the interaction between standardized and internal model approaches, e.g., reducing barriers for firms moving progressively from the standardized approach to full internal-model approval. The PRA proposes that the implementation date for the IMA, including the changes resulting from this consultation, will remain January 1, 2028.

Global Overview

The PRA has introduced [rule changes to accommodate the U.K. government’s Overseas Prudential Requirements Regime](#) (OPRR). This reflects the continued transfer and adaptation of the U.K. prudential framework following Brexit and replacing assimilated EU law. The policy is designed to preserve the substance of existing requirements while ensuring that the rules continue to operate under the new U.K. legislative framework. The final policy amends multiple areas of the PRA Rulebook. The changes are largely technical and are not expected to alter prudential outcomes, but firms with exposures to entities in other jurisdictions, and U.K. branches of overseas firms will need to update regulatory interpretations, policies, methodologies, reporting references, and control documentation so that overseas prudential recognition is applied consistently under the new regime. The new rules take effect on January 1, 2027 alongside the PRA’s implementation of Basel 3.1 standards.

Oversight of Critical Third Parties Enters a New Era

The [commencement of regulatory oversight of the first designated critical third parties](#) marks an important development in the U.K. operational resilience framework. From July 13, 2026, the Bank of England, PRA, and FCA began jointly overseeing four designated global cloud and technology providers: Amazon Web Services EMEA SARL; Google Cloud EMEA Limited; Microsoft Ireland Operations Ltd; and Oracle Corporation U.K. Limited.

This recognizes that disruption at a widely used technology provider could affect multiple firms or markets simultaneously. Designated critical third parties are expected to identify and manage risks to their critical services and maintain open and timely communication with regulators and dependent firms, particularly during major incidents. Technology and third-party concentration are now core prudential concerns, not simply outsourcing or IT-control matters. The regime does not transfer accountability away from regulated firms. Existing outsourcing and operational-resilience obligations remain in place, including due diligence, risk management, and contingency planning. Firms should, therefore, anticipate increased scrutiny of concentration risk, cloud dependencies, exit and substitution arrangements, incident communication, and the extent to which boards understand systemic dependencies across important business services.

AI Is Reshaping the U.K.’s Operational Resilience Agenda

The FPC’s Financial Stability Report warns of increased financial stability risks related to cyber and operational resilience due to rapid advances in frontier AI capabilities. This follows the [joint statement by the Bank of England, FCA, and HM Treasury](#) that frontier AI models can increase the speed, scale, and cost-effectiveness of cyber activity, potentially amplifying threats to firms’ safety and soundness, customers, market integrity, and financial stability.

These concerns are echoed in recent publications from the FCA. The [Mills review on the Impact of AI on Retail Financial Services](#) describes how AI can amplify fraud, cyber, and concentration risks. The FCA’s multi-firm review of [Frontier AI and cyber resilience](#) signals how AI impacts on operational resilience have already moved from an emerging issue to a current supervisory concern.

Looking Ahead

The next quarter is likely to see continued regulatory and supervisory focus on the practical implementation of Basel 3.1 as firms prepare for the January 2027 commencement date. Supervisory attention is likely to intensify on operational readiness, including reviewing severe disruption scenario testing. The authorities’ concerns regarding critical third parties, operational and cyber resilience, and AI are creating a confluence of overlapping regulatory and supervisory priorities.

Glossary

Term	Definition
AI	Artificial Intelligence
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
bps	Basis Points
BSA/AML	Bank Secrecy Act/Anti-Money Laundering
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk
CEO	Chief Executive Officer
CIP	Customer Identification Program
CPI	Consumer Price Index
CRA	Community Reinvestment Act
DIF	Deposit Insurance Fund
ECB	European Central Bank
EIA	Energy Information Administration
ERBA	Expanded Risk-Based Approach
eSLR	Enhanced Supplementary Leverage Ratio
ESRB	European Systemic Risk Board
EU	European Union
FCA	Financial Conduct Authority

Term	Definition
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FHLB	Federal Home Loan Bank
FinCEN	Financial Crimes Enforcement Network
FOMC	Federal Open Market Committee
FPC	Financial Policy Committee
FRB	Federal Reserve Board
GDP	Gross Domestic Product
GENIUS Act	Guiding and Establishing National Innovation for U.S. Stablecoins Act
G-SIB	Global Systemically Important Bank
HQLA	High-Quality Liquid Assets
IMA	Internal Model Approach
IT	Information Technology
LCR	Liquidity Coverage Ratio
MRA	Matter Requiring Attention
NCUA	National Credit Union Administration
NDFI	Non-Depository Financial Institution

Term	Definition
NIM	Net Interest Margin
NSFR	Net Stable Funding Ratio
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OPRR	Overseas Prudential Requirements Regime
PCE	Personal Consumption Expenditures
PRA	Prudential Regulation Authority
Q2	Second Quarter
Q3	Third Quarter
QoQ	Quarter over Quarter
ROA	Return on Assets
SEP	Summary of Economic Projections
SRB	Single Resolution Board
TPRM	Third-Party Risk Management
U.K.	United Kingdom
U.S.	United States
YoY	Year over Year
YTD	Year to Date

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Source

1. “Federal Deposit Insurance Corporation Staff Studies, Dissecting Depositor Flight: An Analysis of the Spring 2023 Bank Failures,” fdic.gov, May 2026.

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