Quarterly Insights: Financial Services

U.S. Financial Services Regulatory Center

Q2 2026

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Message From Ashley Ensley
To Our Community

As we move through 2026, financial institutions are operating from a position of relative strength while facing an environment characterized by change. Economic momentum has improved, bank earnings remain sound, and balance sheets are broadly resilient. At the same time, inflation, interest rates, geopolitical uncertainty, evolving credit dynamics, and supervisory change are creating a more complex planning landscape.

This edition of our Financial Services Quarterly Insights examines that landscape from several angles. We begin with the macroeconomic and market developments shaping expectations for growth, inflation, monetary policy, and financial performance. We also look at how regulatory and supervisory priorities are being recalibrated in major global markets, with a growing emphasis on risk-based judgment, operational readiness, and institutions' ability to explain and defend their decisions.

A central theme across this quarter is that fewer prescriptive requirements do not mean less risk. Rather, it returns more responsibility to boards, management teams, and first-line risk owners to understand their institution's exposures, align control activities with the risks that matter most, and demonstrate that governance is keeping pace with strategy.

Whether evaluating capital and liquidity assumptions, control environments, emerging technologies, third-party relationships, or supervisory expectations, institutions will need clear rationale, disciplined documentation, and evidence that controls are designed and operating as intended.

In this issue, we aim to help leadership teams move beyond identifying what changed and focus on what those changes require: informed decision making, deliberate governance, and practical actions that support resilience and sustainable growth.

We hope this publication serves as a useful resource as you prepare for the months ahead. As always, our Financial Services team is ready to discuss these developments and help translate them into actionable insights for your institution.

Have a great summer, and thank you for reading,

Ashley Ensley

National Sector Leader, Financial Services, Assurance Partner

Economic Overview

From Fragile to Fluid

The U.S. economy enters mid-2026 in a resilient fashion while facing an increasingly complicated environment. Q1 gross domestic product (GDP) grew 2.1% in the third estimate, up from the 1.6% second estimate and well above the 0.5% growth in Q4. Real GDP was revised up primarily because of a downward revision to imports, partly offset by a downward revision to consumer spending. A cleaner gauge of private demand, real final sales to private domestic purchasers, rose 1.7%.

As in previous quarters, momentum continues to be the open question. Consumer spending slowed materially in Q1, with real personal consumption expenditures rising 0.5%. Inflation has again outpaced wage growth, pressuring household purchasing power, while business fixed investment continued as one of the stronger parts of the macroeconomic picture. However, artificial intelligence (AI)-driven business investment remains a bright spot. With a U.S.–Iran Interim peace agreement signed by both parties, full-year growth consensus sits around 1.8% to 2.4%. Positive news certainly, but real downside risks persist.

The Quarter at-a-Glance

Indicator	Latest	Prior	Change
Real GDP	2.1% (Q1 2026, final)	0.5% (Q4 2025)	+1.6 pp vs. prior
Headline CPI	4.2% (May, YoY)	3.8% (April)	+0.4 pp vs. prior
Core CPE	3.4% (May, YoY)	3.3% (April)	+0.1 pp vs. prior
Unemployment	4.3% (May)	4.3% (April)	0.0 pp vs. prior
Payrolls	+172K (May)	+179K (April)	-7K vs. prior
Fed Funds Target	3.5-3.75% (Q1 2026, final)	3.5-3.75% (Q4 2025)	0.0 pp vs. prior
S&P 500	~+9% (YTD)	-7% (Q1 2026)	+16 pp vs. prior; Strong
Brent Crude	~$73	$126 (March Peak)	-$53 vs. prior; Erased war gains
Bank Net Income	$80.5B (Q1 2026)	$77.7B (Q4 2025)	+$2.8B pp vs. prior; Record
Industry ROA	+1.26% (Q1 2026)	1.24% (Q4 2025)	+0.02 pp vs. prior

Economic Overview

Inflation: Progress Interrupted, Then Reversed

Inflation accelerated with the energy shock, even as underlying measures remained less extreme. Headline U.S. Consumer Price Index (CPI) rose 4.2% over the year ended May, up from 3.8% in April, while the Personal Consumption Expenditures (PCE) price index rose 4.1% over the year and core PCE rose 3.4%. The U.S. Bureau of Labor Statistics (BLS) reported that energy accounted for more than 60% of the monthly CPI increase in May. Core CPI increased 0.2% for the month.

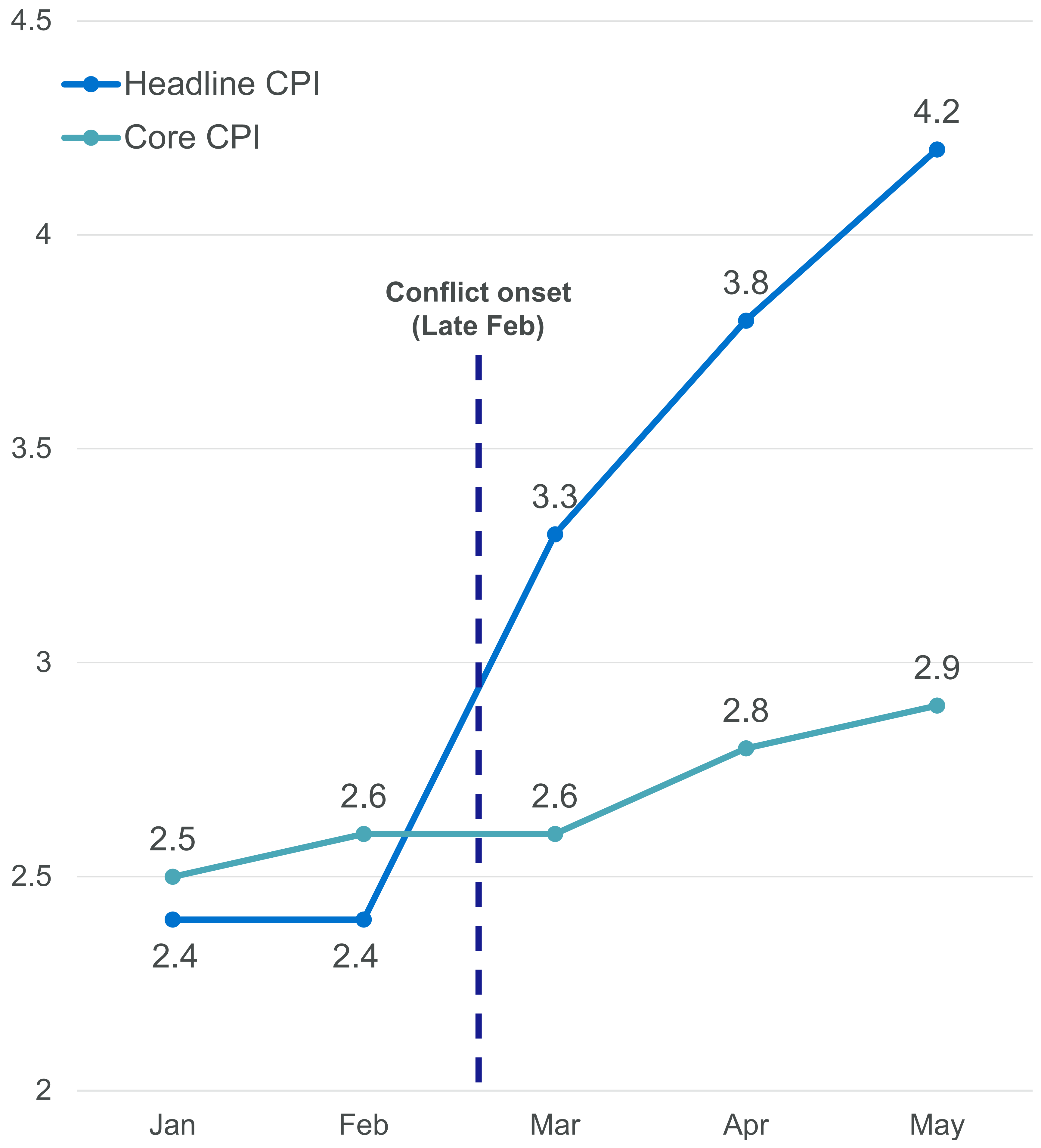
With oil prices falling back from mid to low $70s in late June as flows through the Strait of Hormuz improved, May potentially marked the peak of the recent inflation surge. The planning implication remains clear: the rate environment is likely to be higher and more volatile than many 2025 plans assumed.

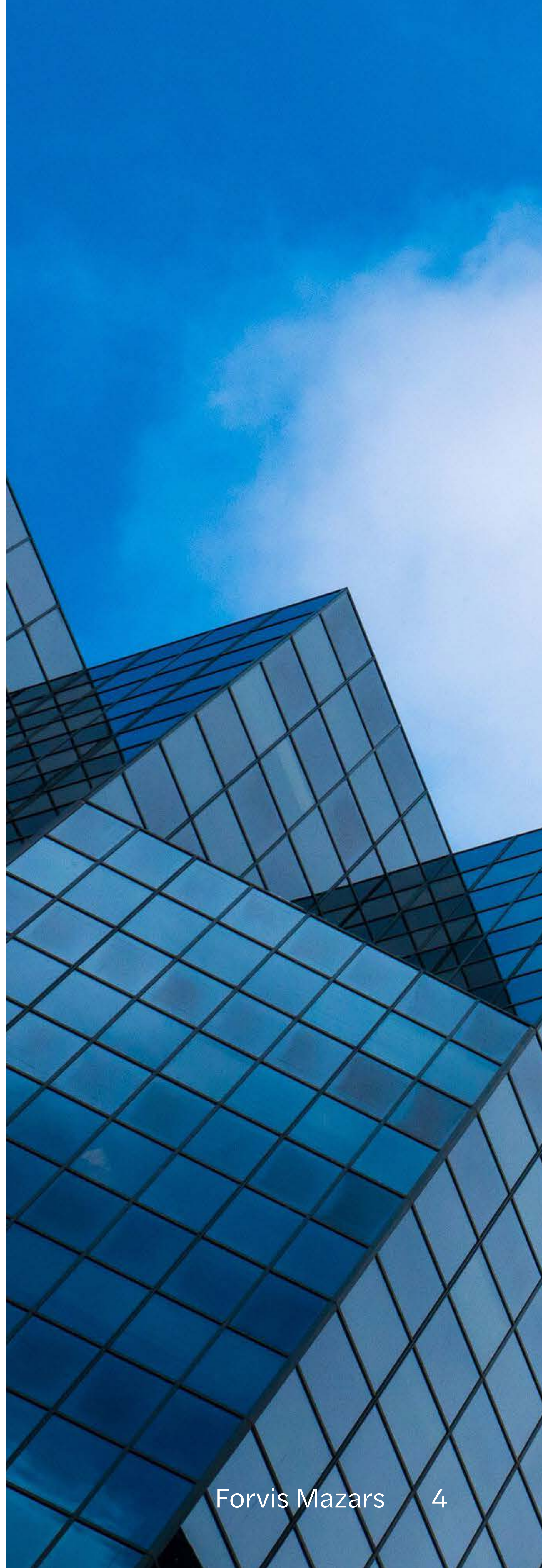
Labor Market: Stable Against a Difficult Backdrop

The job market has held up better than expected. Nonfarm payrolls rose 172,000 in May, and unemployment held at 4.3% for a fourth straight month. Upward revisions added a combined 93,000 jobs to March and April. The job market is stable rather than expanding or, as one Federal Reserve (Fed) official put it, "stable without being good."

Two warning signs stand out: long-term unemployment rose to 27.5% of unemployed workers in May, and the average hourly earnings growth of 3.4% trails headline CPI inflation, turning real wages negative. For institutions whose credit quality rests on household income, especially auto and card lending, the income-inflation gap warrants close monitoring.

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



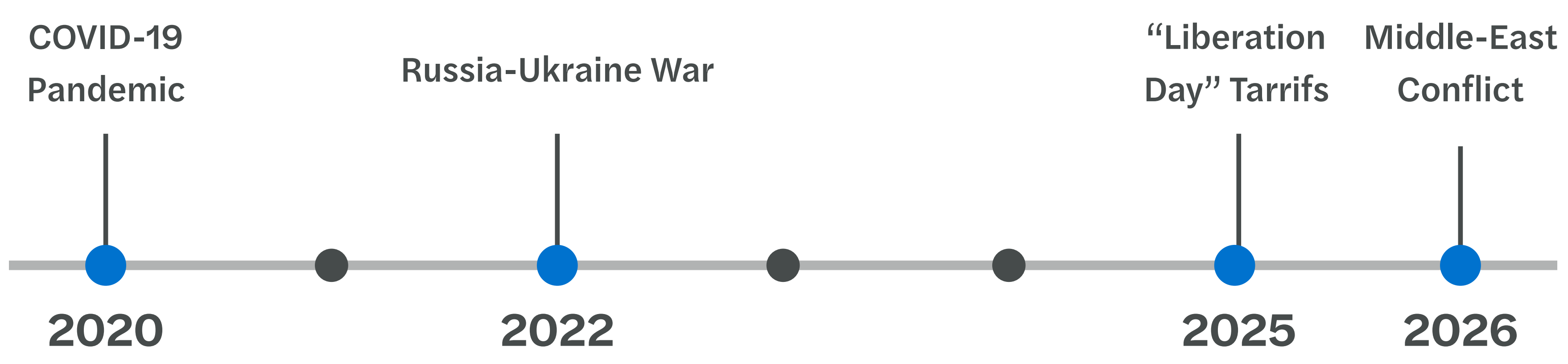


Economic Overview

The Middle East Conflict Moves Toward Resolution

The Middle East conflict has been the dominant external force on the outlook. Disruption around the Strait of Hormuz threatened a route that carries roughly one-fifth of global oil trade. By late June, flows had improved and Brent crude had fallen back to the low $70s, but the situation remained fragile with shipping, insurance, logistics, and security risks still elevated. The lesson for financial institutions is not that the shock has passed, but that energy and logistics disruptions should be treated as recurring planning scenarios. The conflict also reinforces supervisory attention to operational resilience, including cybersecurity, third-party concentration, and continuity planning.

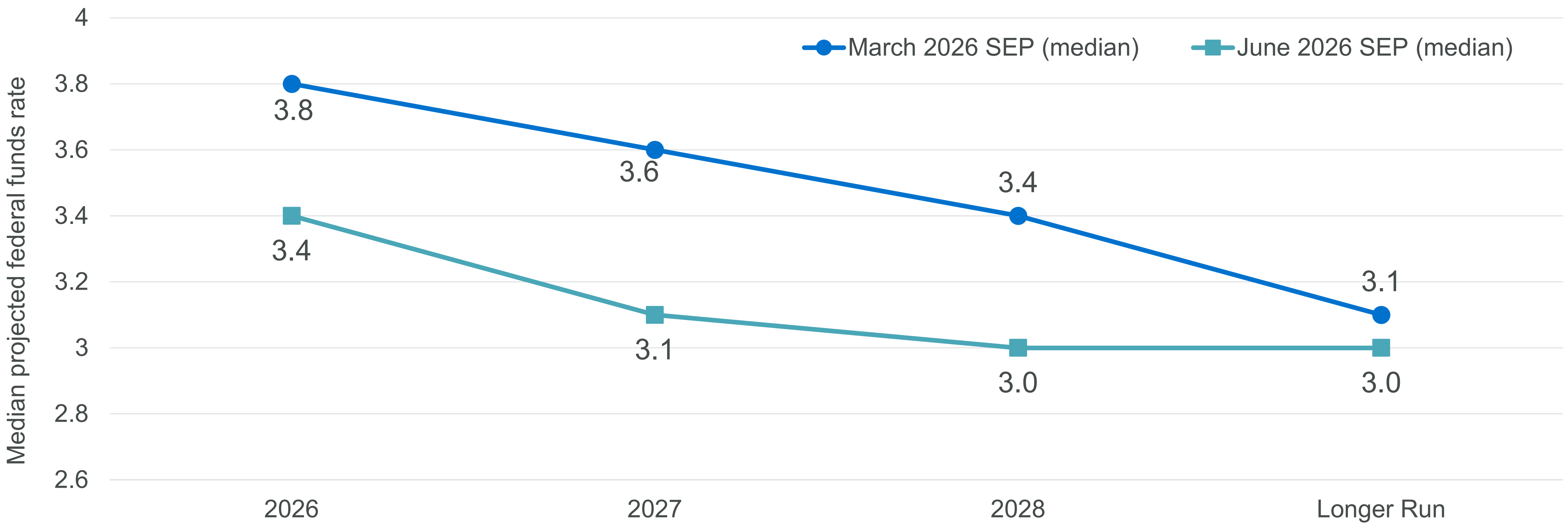
A Recurring Pattern: Major Supply Shocks Since 2020



Federal Reserve: A New Chair, A New Regime

The Fed has undergone its most significant leadership change in eight years. Jerome Powell’s final meeting in late April produced a divided 8-to-4 vote. Kevin Warsh, confirmed by the Senate on May 13 by the narrowest margin in the modern era, was sworn in as the 17th chair on May 22. His first meeting, June 16 to June 17, held rates at 3.50% to 3.75% but broke sharply with the prior era. The Federal Open Market Committee (FOMC) statement was cut to about 130 words, the easing bias was removed, and the dot plot shifted from a projected cut to a possible 2026 hike, with reductions pushed to 2027. The practical message is that the base case is becoming an extended hold, with a real probability of a hike, and major forecasters have removed 2026 cuts entirely.

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



Economic Overview

Financial Markets: Strong Rebound on High Valuations

Equities recovered sharply in Q2 and traded near record highs in late June. After falling nearly 7% in Q1 as a result of the energy shock and a technology rotation, the S&P 500 rebounded to above 7,600 in early June, notching another record high of the year and closing the best quarter since 2020, up over 9% year-to-date (YTD). Bloomberg noted that the second quarter rally increased the S&P 500's value by more than $8 trillion.[1] The rebound rested on exceptional earnings with 84% of companies beating Q1 estimates, by almost 20% in aggregate, the widest positive surprise since 2021. Financials were also among the leaders. With valuations near 26 times their trailing price-to-earnings ratios, there is little room for disappointment. High valuations and a renewed AI-debt concentration in the largest names mean portfolios warrant stress testing against both a geopolitical shock and a faster earnings slowdown.

Consumer Sentiment: A Floor but Not Yet a Foundation

Consumer mood remains historically weak but improved in June. The University of Michigan Index of Consumer Sentiment rose to a final June reading of 49.5 from 44.8 in May. Long-run inflation expectations edged down from 3.9% in May to 3.3% in June. Even with that improvement, sentiment remains far below normal, and spending intentions continue to favor necessities. Institutions with heavy consumer-facing exposure should expect softer volume growth until inflation and energy conditions normalize more fully.

The Banking Industry: Record Earnings, Emerging Margin Pressure

The FDIC's First Quarter 2026 Quarterly Banking Profile confirmed the industry's strength. FDIC-insured institutions reported record net income of $80.5 billion and return on assets of 1.26%. Net interest margin was 3.31%, down 8 basis points from the prior quarter. Annual loan growth was 7.1%, deposits increased for a seventh straight quarter, the net charge-off rate was 0.59%, unrealized securities losses were $325.1 billion, problem banks declined to 54, and the Deposit Insurance Fund reserve ratio was 1.43%

FDIC's First Quarter 2026 Quarterly Banking Profile at-a-glance

Net income
$80.5B

ROA
1.26%

NIM
3.31%

FDIC Metric (Q1 2026)	Value	Trend
Annual Loan Growth	7.1%	Fastest Since Q2 2023
Deppoist Growth	+1.2%	7th Straight Quarter
Net Charge-Off Rate	0.59%	–4 bps QoQ
Unrealized Securities Losses	$325.1B	Up QoQ
Problem Banks	54	–6 QoQ (1.3% of total)
Deposit Insurance Fund	$157.4B	Reserve Ratio 1.43%

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 on hold, or potentially moving tighter if 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

Regulation & Supervision: Evolving on Multiple Fronts

The supervisory backdrop is shifting on several fronts. The Office of the Comptroller of the Currency's (OCC) Spring 2026 Semiannual Risk Perspective highlighted credit, market, operational, and compliance risks, while also addressing innovation and the operating environment. The FDIC has established an independent Office of Supervisory Appeals. Treasury and related agencies have continued continued the GENIUS Act implementation implementation through proposed rulemakings and public comment processes. More broadly, the Fed's reduced forward guidance places more weight on institutions' own scenario analysis.

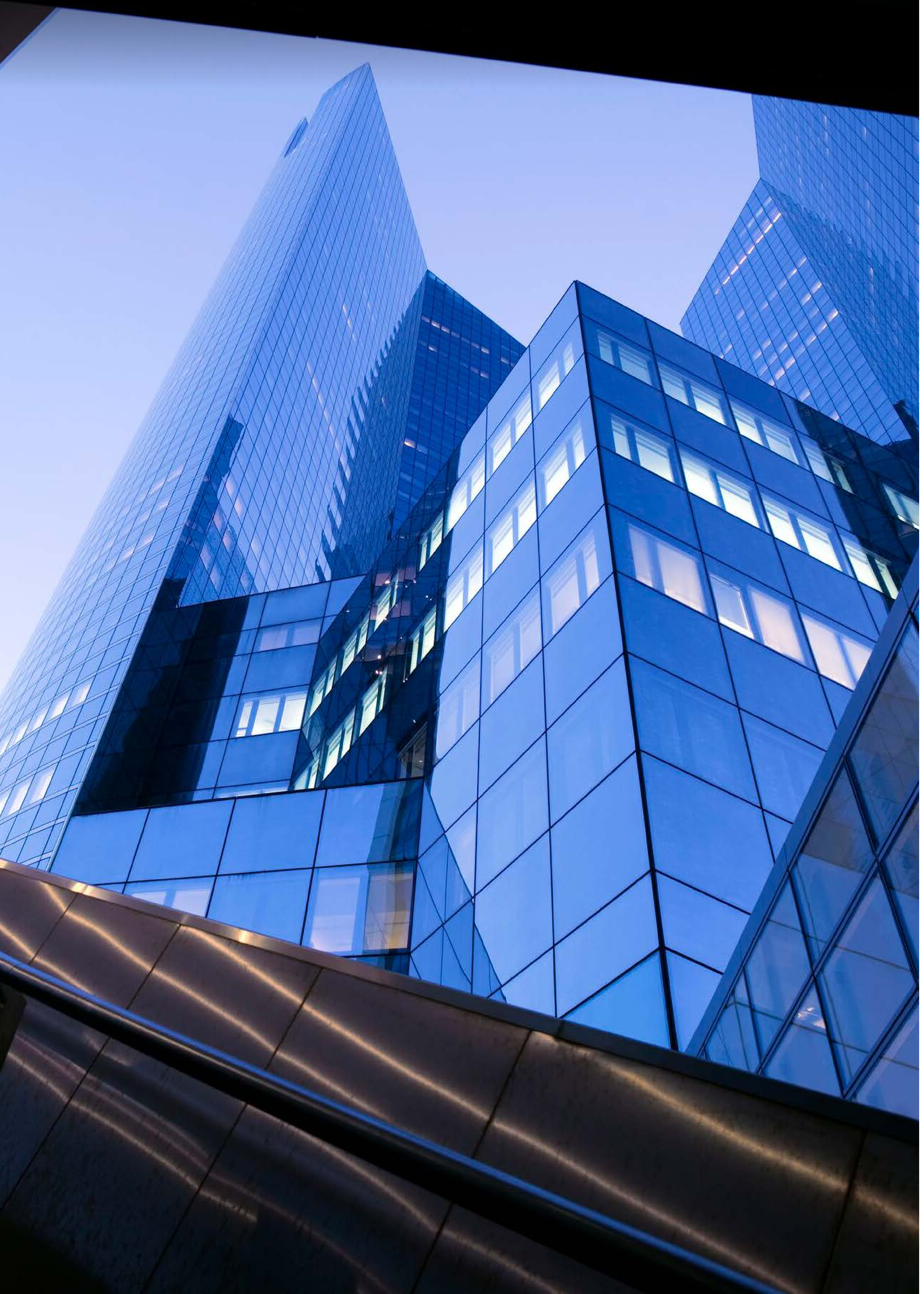
Implications for Financial Institutions

Q2 ended with added complexity without changing the industry's underlying strength. Margin planning should incorporate extended-hold and renewed-hike paths. Credit frameworks should account for weak sentiment, negative real wage pressure, and energy volatility. Liquidity planning should continue to stress deposit stability and contingent funding. The securities strategy should remain disciplined around duration and hedging. Operational resilience should be treated as a board-level planning issue, not merely a technology exercise.

Balance sheets remain strong. The open question is whether risk frameworks and strategic assumptions are keeping pace with an environment that continues to move faster than the planning cycle.

Financial Institution Implications

	What Changed	What to Do
Margins	Deposit-repricing tailwind fading; rates higher for longer	Plan across hold and hike paths; watch nonparallel moves
Credit	Negative real wages, weak sentiment, energy cost pressure	Test allowances vs. sustained energy prices, delayed easing
Liquidity	7th quarter of deposit growth, but uninsured balances rising	Stress contingency funding against 2023-style scenarios
Securities	Elevated long yields, reduced legacy underwater positions	Selective, well-hedged duration extension
Operations	Conflict elevates cyber and infrastructure risk	Harden continuity and third-party programs



Not Deregulation but a Return of Agency

Fewer prescriptive rules don't mean less risk; rather, the responsibility for managing risk has returned to the bank.

Across the federal banking agencies, the supervisory posture is shifting. Prescriptive requirements are being relaxed, asset-based thresholds raised, and rigid expectations are giving way to a more principles-based framework that is truly risk-based. While it is tempting to simply call this deregulation, that label misses what is actually happening, and it can lead bankers to the wrong conclusions.

A more accurate way to read the moment is the return of agency, that is, the responsibility of an institution to identify its own risks and to decide for itself how to appropriately manage them, rather than being instructed on both. For some time, supervisors have told institutions not only which risks they should manage but precisely how to manage them. The current regulatory direction returns to banks the discretion to identify their unique risks and the autonomy to manage them in the way that best fits their business. But with that discretion comes responsibility. Just because the prescriptiveness of rules has changed, that does not mean that a bank's risk profile has changed. Rather, less prescriptive rules mean the burden of judgment has returned to the bank.

Less Rulebook Is Not Less Risk

A relaxed requirement may only change what is mandatory. It does not change what is necessary for a bank to manage its risk. Credit, interest rate, liquidity, operational, third-party, compliance, and cyber risks are no smaller today than they were when the rulebook was thicker. Indeed, several of these risks are growing. When a specific control is no longer required, the exposure it was designed to address does not disappear with the mandate. Instead, the bank assumes greater responsibility for that risk and must apply its own judgment regarding the best approach to identify, measure, monitor, and manage it.

Not Deregulation but a Return of Agency

Keep, Remove, or Replace – On Purpose

Principles-based supervision is healthy in that it invites a genuine re-examination of the control environment. But it calls for well-reasoned calibration, not reflexive reaction. As part of a well-reasoned response, bankers may view legacy controls as falling broadly into three categories:

- **No longer required, but still essential** because they address a risk that remains material to your institution. These controls should stay, but they should be justified by the bank's own risk assessment rather than by a citation to a regulatory decree.
- **No longer required, and no longer well-matched to the bank's risk.** These controls should be carefully considered and may be either retired or scaled back. But remember, as the bank's activities change, so can its risk profile. A well-managed governance repository allows retired controls or scaled-back control elements to be reinstated as the need arises.
- **Better replaced than retained** as a principles-based mandate allows for the development of new or different controls that are better tailored to the true risk profile or how the bank actually operates.

Read More

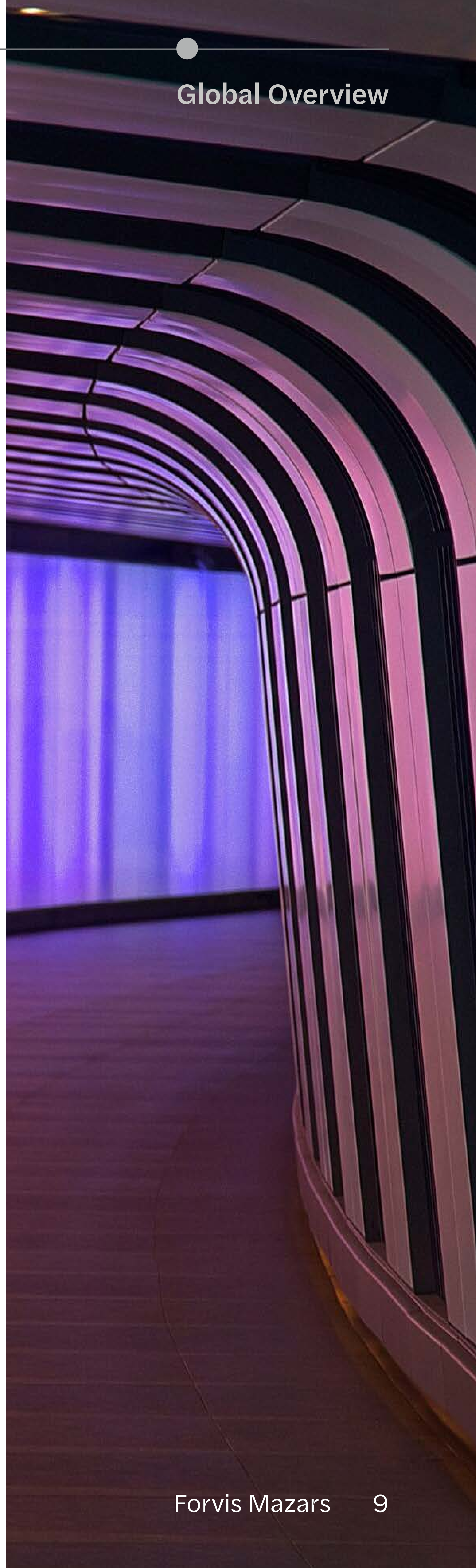
FDICIA Part 363 Has Changed, But the Risk Hasn't

Establishing a well-reasoned process to assess governance and controls can help prevent two mistakes that are worth considering. The first is misinterpreting relief from a requirement for relief from the need to manage the risk exposure, which could result in stripping out controls to capture cost savings, only to discover the exposure was real. The second is inertia. Keeping every legacy control "to be safe" may waste resources and quietly signals that no real risk assessment was performed.

The Board Still Owns the Risk

Regardless of the regulatory framework, the board and senior management ultimately own the institution's risks. Risk ownership is not contingent on a rule requiring it; it is a core managerial responsibility. In a prescriptive regime, it was tempting to exercise that responsibility by letting "we met the requirement" stand in for "we managed the risk." In a principles-based regime, those two statements are clearly different—and only the second one matters.

Now is the time to reaffirm the fundamentals of sound governance. Banks can do so by conducting a current and honest assessment of risk appetite, a deliberate re-baselining of the control environment, documented decisions about what changed and why, and a meaningful independent internal audit process. The agency that has returned to the institution should flow down to the first line, where risk is actually owned and taken. Relief in the rulebook should not be read as permission—real or assumed—for the front line to relax its risk assessments or ignore potential essential operational controls.



Not Deregulation but a Return of Agency

The Examiner Has Not Left the Building

While prescriptive requirements may have eased, this is clearly not the same as easing supervision. Safety-and-soundness authority remains fully intact, and examiners will continue to form judgments about whether an institution understands and manages its risks.

What has changed is the nature of the conversation. Bankers are less able to defer to the requirements the way they once could. No longer can the response to the examiner be, in effect, "tell us what you want and we'll do it," or to treat "we weren't required to" as a sufficient answer when a risk materializes. In a principles-based world, the burden of proof shifts away from the examiner and toward the institution. You are expected to show your reasoning: why you kept one control, why you retired another, and how those choices map to your risks. The risk assessment and the rationale behind it become the artifact that examiners, auditors, the board, and ultimately the shareholders will look to for confidence that the institution and its risks are well managed. Institutions that navigate this well will be those that can explain their judgment clearly and defend it on the merits.

Agency Is an Opportunity

This is good news for well-run banks. A framework that trusts institutions to manage their own risks rewards those who genuinely understand them. It frees capacity once spent satisfying generic checklists and redirects it to the risks that impact the franchise. For institutions with the discipline to use it, agency is not a burden to absorb; rather, it is room to compete.

The Bottom Line

The current environment is easing requirements, not eliminating risk, and certainly not changing the ultimate ownership of it. The rulebook may be growing lighter, but the responsibility remains as heavy as ever, and it sits squarely with the bank. Institutions that thrive will treat this not as a license to do less, but as a mandate to manage deliberately: to keep the discipline the rules instilled, right-size it to their own risk profile, and be ready to explain their judgment to anyone who asks.

Managing Controls & Controlling Your Risk

A common misconception is that fewer rules automatically translate into a lighter control burden. While control burden may lessen, principles-based supervision shifts the conversation away from whether a policy exists or a checklist was completed, and toward whether the institution is effectively identifying, measuring, monitoring, and managing its material risks. Examiners are asking how risks are identified, how decisions are made, and how leadership knows the organization is operating within its risk tolerance.

Controls sit at the center of that discussion. When controls are well designed, appropriately scaled, and actively monitored, they give regulators confidence that management understands its business and exercises sound judgment. When controls are generic or misaligned, they increasingly draw supervisory criticism and subject institutions to potential vulnerabilities.

The movement toward less prescriptive regulation can be an opportunity to revisit and strengthen control environments so that they remain risk-based, proportionate to the institution's exposures, and demonstrably effective.

Reframing Controls Around Risk & Strategy

Many control environments are built by mapping controls directly to regulatory requirements. That approach is defensible in a prescriptive regulatory environment but is far less effective in a system with less guidance that is grounded more in judgment and materiality.

Effective control design starts with answering some important questions, particularly: What could go wrong, how could it go wrong, and how would we know if it did? Controls should flow from that analysis and understanding of the risk profile. Controls are not made to eliminate all risks, but provide the ability to identify potential areas that have a detrimental impact on the bank.

Let's consider a concrete contrast. Under a prescriptive lens, a control may read: "Quarterly review of overdraft program disclosure for compliance with Regulation E." Under the risk-based lens, the same activity becomes: "Monthly monitoring of overdraft fee revenue concentration, customer complaint speed, and reversal rates against board-approved tolerances, with escalation when any indicator breaches the threshold." The first proves that a task was performed, while the second proves that risk is being managed.

This shift puts more responsibility on the first line of defense than some organizations are accustomed to carrying. In a principles-based system, management cannot solely rely on compliance teams to define what good looks like. Management is expected to understand its risks, explain how those risks arise from strategy and operations, and ensure controls are embedded into how the business operates.

When accountability sits clearly with the first line, there may be a greater opportunity for controls to be more practical, better understood, and more sustainable. This reflects the extent to which those responsible for and most familiar with the risk are also responsible for designing, executing, and interpreting the control. This should not be viewed as reducing the importance of the second or third lines; rather, it increases their effectiveness by allowing the second line to provide more robust review and challenge, and providing the third line with a stronger, better risk-grounded framework to audit.

Credit, liquidity, operational, and compliance risks remain key anchors for controls. At the same time, emerging risks demand fundamentally different considerations and control architectures. Cyberthreats and third-party risks lend themselves to inventory, performance, and monitor control models. AI and advanced analytics require explainability, model validation, and human checkpoints that traditional control libraries were not built for. Digital assets introduce custody, settlement, and counterparty exposures that feel familiar but cross traditional risk channels. Treating all of these as a single "emerging risk" bucket reduces effectiveness and can, itself, become a control weakness.

Managing Controls & Controlling Your Risk

From Risk Identification to Control Execution

Strong control environments are built through a continuous cycle: identifying risk, designing controls, testing effectiveness, monitoring performance, and improving where needed.

Risk identification sets the foundation. Institutions that rely only on historical losses or prior exam findings tend to design controls that look backward. More resilient institutions build forward-looking risk identification into their cadence. With these organizations, three practices stand out:

- Pre-mortems on new products and services, where teams identify key risk considerations and potential failure modes before launch;
- Reverse stress testing of the control environment; and
- Horizon scanning that translates external developments, e.g., regulatory, technological, and competitive, into specific risk inventory updates.

Control design should reflect both the severity of the risk and how the business operates. Overly complex controls in low-risk areas create friction and distract from more relevant, material risks. Conversely, thin or informal controls around material risks leave institutions exposed. The goal is proportionality. Controls should be strong enough to manage the risk without becoming overbearing or a source of risk themselves.

Testing and monitoring are where many programs struggle. It is one thing to say a control exists; it is another to show that it operates as intended. Regular testing, meaningful metrics, and clear escalation thresholds transform controls from theory into evidence. Regulators increasingly want to see exactly that evidence. They want to understand how management knows controls are effective, not just that they are documented.

When issues surface, strong remediation restores credibility. Timely action, clear ownership, and attention to root causes signal that management is in control, even when problems occur. Institutions that handle control issues transparently and decisively tend to earn more credibility than those that focus on minimizing the appearance of findings.

Where Control Programs Commonly Break Down

As organizations adapt to this supervisory environment, they should be aware of a few problematic patterns that routinely appear.

1. **Control Accumulation**
   Control accumulation is where controls are continually added but are rarely retired as risks shift. Institutions that fail to actively review and decommission these legacy measures inherit control noise that distracts attention from what actually matters.
2. **Control Environment & Risk Gap**
   A separate breakdown occurs when control environments do not keep pace with emerging risks. New technologies, delivery models, and third-party arrangements can introduce risk exposures before control structures have fully adjusted. Closing the gap requires shifting risk identification from a calendar event to a continuous process that is embedded in strategic planning and the product and service life cycle.
3. **Automation Without Oversight**
   Automation can be a powerful control tool, particularly for high-volume and repeatable activities. However, without clear ownership, validation, and explainability, automated controls can quickly become liabilities. Instead of less automation, institutions should take a considered approach where every automated control is documented, validated, monitored for drift, and owned by an accountable stakeholder.

Managing Controls & Controlling Your Risk

Right-Sizing Controls in Practice

Right-sizing controls involves making deliberate choices about where control rigor is needed most. High-risk activities deserve deeper controls, more frequent monitoring, and greater management attention. Lower-risk activities should be governed efficiently, with the resources required and without unnecessary complexity.

There is also a growing shift away from measuring whether controls were performed toward measuring whether they are effective. It is no longer sufficient to show that compliance checks occurred. Instead, institutions are increasingly expected to demonstrate that controls are keeping risk within agreed boundaries.

Key performance and key risk indicators are primarily where principles-based supervision either holds together or falls apart. Strong programs build a three-layer indicator framework: risk appetite indicators, business outcome indicators, and early warning indicators. Without all three layers, management risks only seeing the rearview mirror.

Several practical tools underpin this approach:

- A current and rationalized control library that appropriately distinguishes anchor and compensating controls;
- Risk and control self-assessments that are refreshed in step with business changes; and
- Independent testing plans that emphasize coverage by risk severity.

While these tools have been around for a long time, what is new is the lens with which they drive decision making.

Closing Thought

The move toward principles-based supervision has elevated the importance of controls and put an emphasis on self-identification by management. With fewer explicit instructions, institutions must be able to explain their choices, justify their control design, and demonstrate effectiveness. Controls are proof that management understands its risks and operates within deliberate boundaries.

Principles-based supervision serves as a return of managerial responsibility from the regulator back to the institution, not a relaxation. Organizations that recognize this change early can compete more effectively based on the quality of their judgment.

Integrating Strategy, Business Planning, & Controls

Converting Autonomy Into Advantage

Recent developments, like the Federal Reserve's update to its Statement of Supervisory Operating Principles, Federal Financial Institutions Examination Council's (FFIEC) CAMELS overhaul, and "unsafe or unsound" rulemaking, reinforce that institutional judgment, not solely the rulebook, will increasingly drive supervisory outcomes.

This shift creates opportunity, but it also raises the standard for how institutions make, document, and defend strategic decisions. The institutions best positioned to benefit will embed controls into strategy and business planning so autonomy is sustainable. Strategy, risk appetite, and controls should not operate as separate disciplines. They should function as an integrated decision framework that aligns growth priorities, risk-taking, and control investment.

Why Integration Matters

A fragmented approach creates blind spots within strategy. While strategy identifies where the institution wants to grow and compete, risk appetite guides acceptable boundaries and controls define how activities are governed. When these components operate independently, fragmentation causes decision making to become inconsistent, and management may lack a clear basis for determining whether growth remains within appetite or whether the control environment is keeping pace.

An integrated approach, however, elevates the conversation. As banks expand into new lending segments, increase reliance on nontraditional funding, deepen third-party relationships, deploy AI, or explore engaging in digital asset activities, a dynamic control inventory becomes essential. Institutions need a planning process that identifies how those choices change the risk profile and what governance, staffing, data, controls, and monitoring are required.

What Good Looks Like: The Integrated Planning Model

A practical integrated planning model operates as a continuous loop that follows a process

01
Strategic Objectives
Define growth priorities.

02
Risk Appetite
Shapes decisions and sets boundaries.

03
Risk Identification
Highlights exposures created or changed by the strategy.

04
Controls Are Designed
And right-sized to the risk, complexity, and the criticality of the activity.

05
Ongoing Monitoring
Feeds back into strategic planning so that management can make appropriate adjustments when assumptions, performance, or risk conditions change.

Integrating Strategy, Business Planning, & Controls

Converting Autonomy Into Advantage

The process should begin with strategic intent; for example, growth, efficiency, technology adoption, or customer acquisition. The more well-defined the objectives are, the easier it becomes to identify risk implications and to translate risk appetite into decision-making criteria such as metrics, limits, tolerances, and escalation triggers.

Risk identification should be forward-looking. Management should ask what risks the strategy creates, increases, or changes; whether existing controls are viable; whether monitoring captures the risk indicators; and whether risk, compliance, and internal audit are appropriately positioned to provide timely challenge.

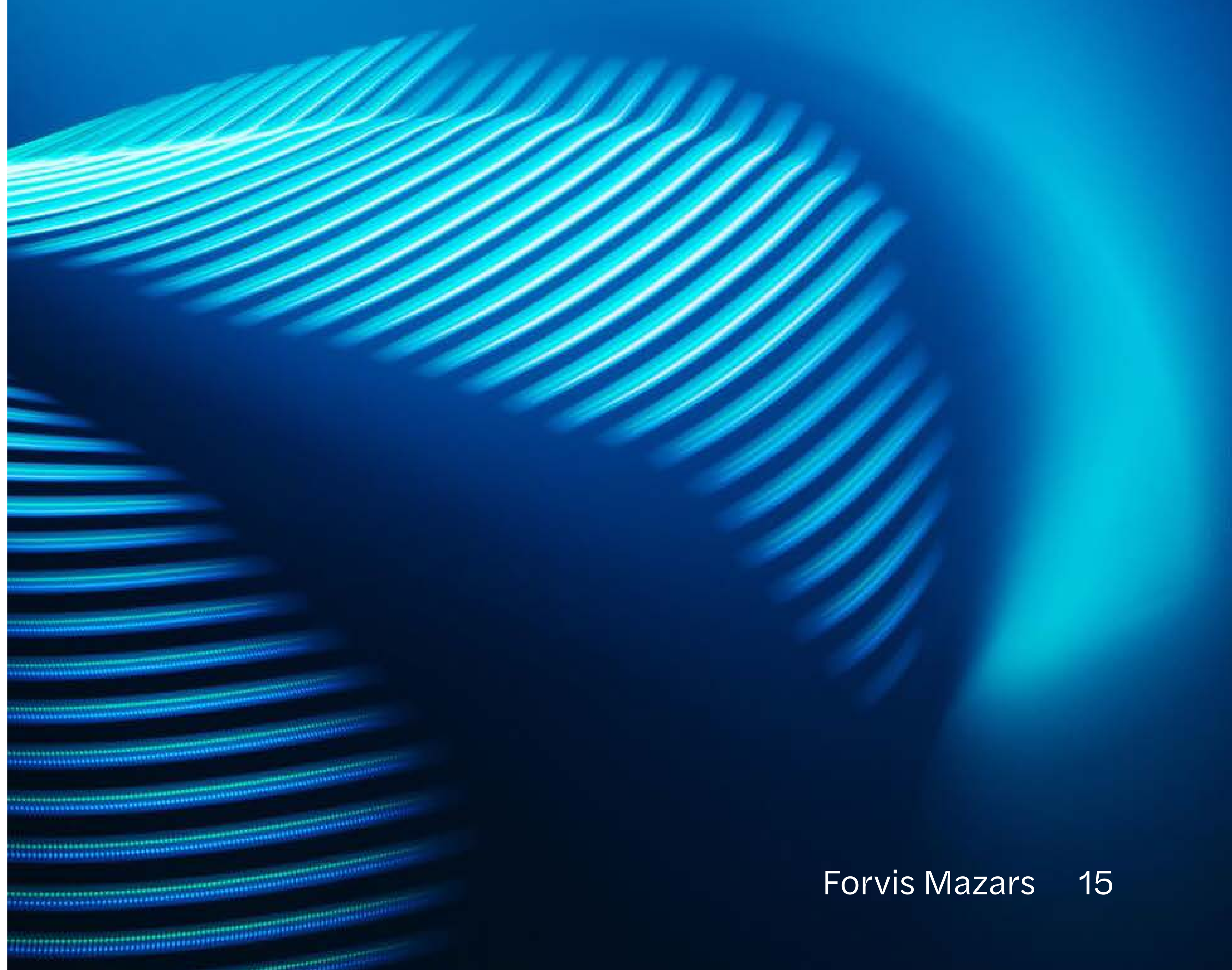
Control design should follow and complement the analysis process. High-risk or rapidly developing initiatives may require enhanced approvals, more frequent reporting, stronger data governance, and additional board visibility. Meanwhile, lower-risk initiatives may be supported through existing governance channels or streamlined monitoring. The goal is not to add processes for its own sake. Instead, the goal is to ensure that the control investment follows strategic risk and supports sustainable execution.

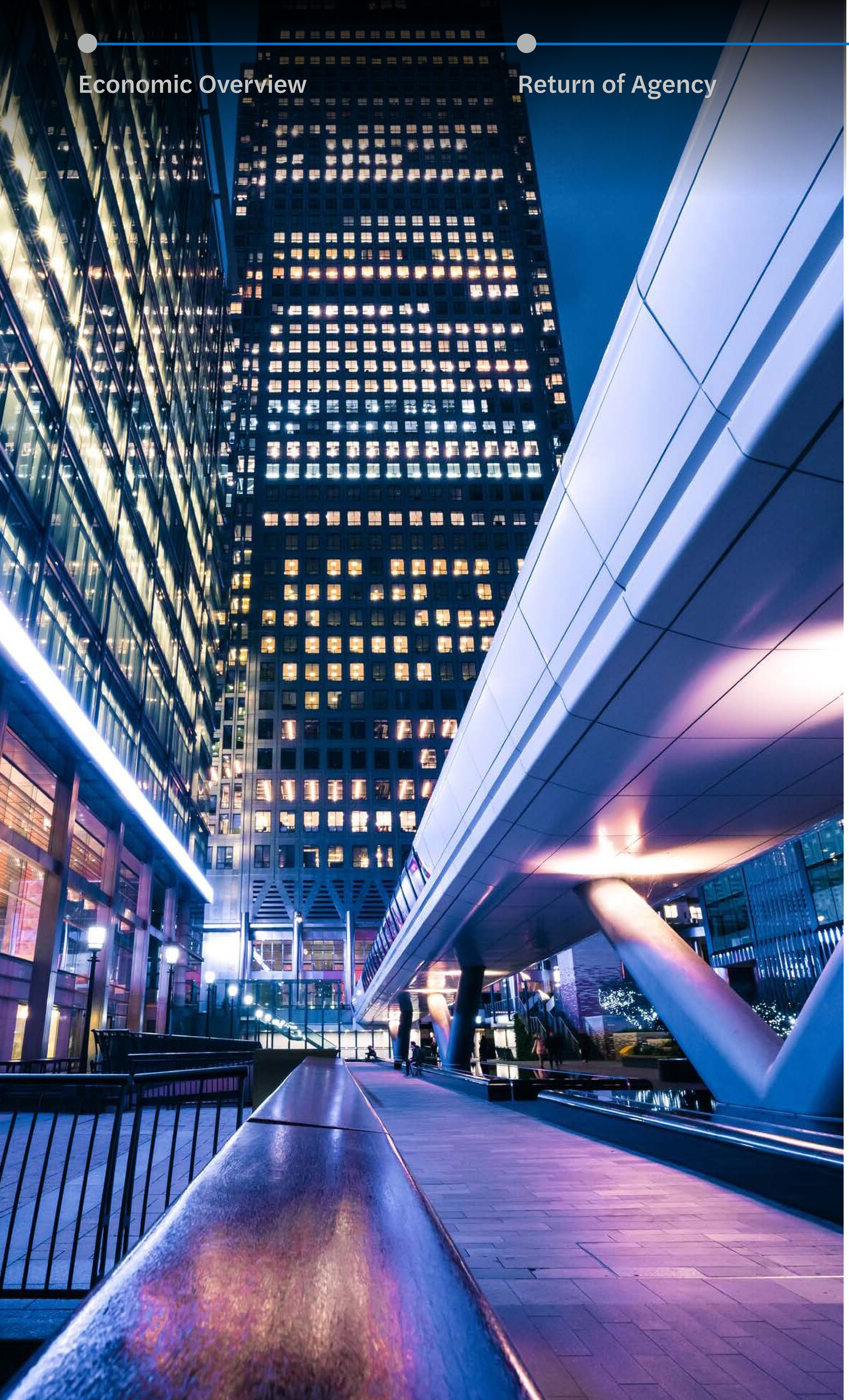
Stress Testing the Integrated Model

Governance is the mechanism that turns integration from a concept into a repeatable management practice. The board's role is to challenge whether the strategy is realistic, risk-informed, and supported by an appropriate control environment. Stress testing is an important overlay and one of the most practical ways to test whether strategy, risk appetite, and controls are properly integrated. A strategic plan may appear sound under baseline conditions, but weaknesses can often emerge during periods of stress.

Institutions can use scenarios to test whether the strategy remains viable under adverse conditions, whether controls remain effective as internal and external conditions change, and whether emerging risks are appropriately reflected in planning. Relevant scenarios may include funding pressure, liquidity or interest rate shocks, asset quality deterioration, AI model issues, cyber events, or rapid changes in customer behavior. There are many qualitative and quantitative scenarios that can be developed and modeled. Nonetheless, the objective is to identify whether strategic assumptions, risk limits, and control capabilities remain aligned when conditions change and to adjust before risk results in loss, supervisory criticism, or remediation.

> "Institutions need a planning process that identifies how those choices change the risk profile and what governance, staffing, data, controls, and monitoring are required."





Integrating Strategy, Business Planning, & Controls

Converting Autonomy Into Advantage

Where to Begin With Practical Deliverables

Institutions can begin by enhancing existing planning tools. Integrated business and risk planning templates should include strategic objectives, risk appetite considerations, key exposures, required controls, owners, data needs, monitoring metrics, and escalation triggers. Budgeting and resource allocation processes should also confirm whether control functions, technology, staffing, and reporting capabilities are sufficient to support planned growth.

Governance and decision-making frameworks should clearly articulate which strategic changes require committee review, independent risk challenge, legal or compliance input, model risk review, third-party assessment, or board visibility. Processes and reviews should be appropriately documented in alignment with the risk the product, service, or activity poses and the criticality of its function.

Scenario and stress testing playbooks should evaluate strategy, controls, and emerging risks on a repeatable basis, integrating key risk indicators, control testing results, audit findings, and external trends and developments so monitoring informs whether to continue, alter, or halt the strategy.

Closing Insight

The current regulatory environment gives institutions more room to exercise judgment but also makes that judgment more visible and raises the potential implications of fallout. Autonomy is valuable when management can demonstrate that decisions are grounded in strategy, bounded by risk appetite, supported by controls, and adjusted through monitoring.

The supervisory lens is being recalibrated, but the risk environment remains. Institutions that build strong connections between where they want to go, how much risk they are willing to take, and how they determine the business is operating within those boundaries will position themselves to effectively navigate this new environment.

Q2 Regulatory Landscape

Q2 marked the transition from policy design to operational execution.

Where Q1 introduced sweeping reforms, including the comprehensive capital package, GENIUS Act implementation architecture, and supervisory tailoring agendas, Q2 delivered the prudential rules, joint frameworks, and supervisory guidance to make those reforms operational. Joint agency action remained a defining feature of the quarter, anchored by an interagency rewrite of model risk management guidance, coordinated implementation of the GENIUS Act for permitted payment stablecoin issuers (PPSIs), and a sweeping FDIC reform package targeting resolution readiness and deposit insurance assessments. The comment windows for the Q1 capital package closed on June 18, positioning the agencies for finalization decisions in the second half of 2026. At quarter-end, Congress added a legislative dimension with bipartisan passage of the ***21st Century ROAD to Housing Act***, intersecting prudential, consumer compliance, and housing finance priorities.

Q2 Regulatory Landscape

Executive & Legislative Developments

Executive and legislative activity in Q2 experienced an uptick, with two financial services-focused executive orders, key agency nominations, and a wave of bipartisan congressional action on housing, community banking, and digital assets. Together, these actions reinforced the administration's coordinated push to operationalize the GENIUS Act, accelerate AI adoption, and reduce regulatory friction for community institutions.

- **21st Century ROAD to Housing Act (Late June):** Both chambers passed the bipartisan 21st Century ROAD to Housing Act and the bill now awaits President Donald Trump's signature. The supply-side housing affordability package includes zoning and permitting incentives, expanded financing for affordable and manufactured housing, restrictions on large institutional single-family investors (those owning more than 350 single-family properties), and incorporates the Credit Union Board Modernization Act, which reduces required board meeting frequency for well-managed federal credit unions from monthly to at least six per year. The bill is also likely to support de novo bank formation through streamlined applications, phased-in capital requirements, and extended exam cycles for institutions up to $6 billion in assets.
- **Brian Johnson Nominated as CFPB Director (June 10):** Trump nominated former Consumer Financial Protection Bureau (CFPB) Deputy Director Brian Johnson to serve a five-year term as director of the CFPB. The nomination is pending Senate confirmation.
- **Executive Order on Promoting Advanced AI Innovation & Strengthening Cybersecurity (June 2):** The White House issued an executive order directing federal agencies to collaborate with industry to accelerate AI innovation while enhancing cyber defenses, protecting critical systems, and safeguarding U.S. technological leadership.
- **House Passage of Community Banking & Deposit Access Bills (May 20):** The House passed three additional bills with direct implications for community banking:
  - Keeping Deposits Local Act (H.R. 3234): increases the amount of reciprocal deposits not treated as brokered funds and broadens eligibility to banks with CAMELS ratings of 1 to 3;
  - American Access to Banking Act (H.R. 4544): directs regulators to simplify de novo applications and expand outreach; and
  - Community Bank Deposit Access Act (H.R. 5317): excludes certain custodial deposits from brokered classification for qualifying banks under $10 billion in assets.
- **Executive Order on Restoring Integrity to America's Financial System (May 19):** The White House issued an executive order directing regulators to tighten Bank Secrecy Act (BSA) controls, strengthen customer due diligence and customer identification standards, and address credit and financial-system risks tied to illicit activity and certain higher-risk borrowers.
- **House Financial Services Committee Advances Regulatory Relief Package (April):** The House Committee on Financial Services advanced four bills aimed at reducing regulatory burdens, protecting retirement savings, enhancing trade accountability, and safeguarding financial privacy, including H.R. 941, the Small Lenders Exempt from New Data and Excessive Reporting (LENDER) Act, which would delay the CFPB's small business lending data collection requirements under Section 1071 of the Equal Credit Opportunity Act (ECOA) until June 1, 2031, remove several mandatory data points, prohibit demographic data collection through visual observation, and require a plain-English model disclosure.

Joint Banking Agencies

Joint agency action carried forward Q1's momentum, with the quarter's most consequential interagency action coming in mid-April. The agencies prioritized closing out Q1's open rulemakings, *e.g.*, capital package, model risk management (MRM) rewrite, reputation risk codification, and anti-money laundering and combating the financing of terrorism (AML/CFT) modernization, while simultaneously advancing data-standardization and operational risk priorities heading into the second half of the year.

Q2 Regulatory Landscape

- **Financial Data Transparency Act Joint Data Standards (June 25):** Federal financial regulators issued a joint final rule establishing common data standards to improve interoperability of regulatory data, with implementation beginning October 1, 2026, and no immediate change to reporting requirements.
- **Capital Package Comment Windows Closed (June 9 & June 18):** Comment windows for the Q1 capital package closed mid-quarter, positioning the agencies for finalization decisions in the second half of 2026.
- **Revised MRM Guidance (April 17):** The OCC, Federal Reserve Board (FRB), and FDIC jointly issued revised MRM guidance, marking the most significant update to the interagency framework since SR 11-7 was introduced in 2011. The revised guidance rescinds and replaces all prior MRM issuances and establishes a risk-based approach tailored to a banking organization's model risk profile, size, and complexity.
- **Reputation Risk Final Rule (April 10):** The FDIC and OCC issued a joint final rule codifying the elimination of "reputation risk" from supervisory programs, prohibiting regulators from criticizing or taking adverse action based solely on reputation risk and from encouraging institutions to terminate customer relationships based on legally protected or lawful activities.
- **Community Bank Leverage Ratio (CBLR) Framework Modifications Finalized (April 22):** The federal banking agencies finalized modifications to the CBLR framework, with a July 1, 2026 effective date.
- **AML/CFT Program Modernization (April 7):** The agencies issued a joint proposal to revise AML/CFT program requirements, advancing the program-effectiveness agenda.

Federal Reserve Board (FRB)

The FRB's Q2 agenda centered on payments modernization, stress testing, and operational refinements to its supervisory framework, alongside continued advocacy for capital and accounting reform. The Board advanced multiple FedNow and payment-access proposals, finalized its 2026 stress test results, and renewed calls for relief from the CECL accounting standards.

- **2026 Stress Test Results (June 24):** The FRB's 2026 stress test found that all 32 large banks remained above minimum capital requirements under the severely adverse scenario despite significant projected losses. The FRB indicated that 2026 results will not affect large-bank capital requirements, which will remain in place until 2027.
- **Payment System Risk & Regulations A & D (May 26):** The FRB proposed revisions to its payment system risk policy and amendments to Regulation A (extensions of credit by Federal Reserve banks) and Regulation D (reserve requirements), with comments due July 27, 2026.
- **Limited "Payment Account" Proposal (May 20):** The FRB proposed a limited "payment account" to expand access to payment systems for nonbank entities while preserving prudential and risk-management safeguards.
- **Renewed Calls for CECL Relief (May):** The FRB renewed calls for relief from the CECL accounting standards.
- **FedNow & Regulation J (April 8):** The FRB proposed amendments to Regulation J that would allow FedNow participants to use nonreserve bank intermediaries, enabling the service to support the U.S. domestic leg of cross-border payments while preserving existing funds-availability rules.

Office of the Comptroller of the Currency (OCC)

The OCC extended Q1's supervisory modernization and preemption agenda and added a bank-like financial crime framework for stablecoin issuers. The quarter's activity spans risk-management modernization, federal preemption of state mortgage and interchange laws, and continued implementation of the GENIUS Act.

- **Lending & Loan Portfolio Risk Management Handbook (June 25):** The OCC issued a revised Comptroller's Handbook booklet on lending and loan portfolio risk management, consolidating prior guidance, outlining examiner expectations across the loan life cycle, and rescinding several outdated supervisory materials.

Q2 Regulatory Landscape

- **Bank-Like AML/CFT & Sanctions Framework for PPSIs (June 22):** The OCC issued a notice of proposed rulemaking to establish BSA, AML/CFT, and sanctions standards for OCC-supervised PPSIs under the GENIUS Act. The proposal would require coordination with the Financial Crimes Enforcement Network (FinCEN) for certain enforcement and significant supervisory actions and signals that emerging payment activities carry equivalent risk management standards to traditional banking, with comments due July 24.
- **Comptroller Jonathan Gould FDIC Vote Abstention (Late May):** Gould's explanation of his abstention from an FDIC vote hinted at potential future changes to resolution plan requirements.
- **Mortgage Escrow & Preemption Final Rules (May 15):** The OCC issued two coordinated final rules on national banks' and federal savings associations' real estate lending powers, formally codifying banks' authority to establish and manage escrow accounts and determining that federal law preempts state interest-on-escrow laws, with effective dates of June 18 (state interest-on-escrow) and June 30 (Illinois interchange order and national bank noninterest charges and fees).
- **Semiannual Risk Perspective (May 8):** The OCC released its Semiannual Risk Perspective, highlighting key risks facing the federal banking system across credit, operational, cyber, and compliance dimensions.

Federal Deposit Insurance Corporation (FDIC)

The FDIC reoriented resolution policy from narrative planning to operational readiness alongside proposals on deposit insurance assessments and confidential supervisory information disclosure, which together represent the most significant rewrite of FDIC resolution and assessment policy in more than a decade. Earlier in the quarter, the FDIC also advanced its GENIUS Act prudential framework, rescinded nonsufficient funds (NSF)-fee guidance, and published research on depositor behavior during the 2023 bank failures.

- **Streamlined Resolution Submissions Rule (June 25):** The FDIC issued a notice of proposed rulemaking that would raise the insured depository institution (IDI) resolution submission threshold from $50 billion to $100 billion, with CPI-W indexing every three years, shift covered IDIs to a three-year filing cycle, eliminate credibility determinations and the public section of submissions, and replace narrative-heavy submissions with operationally relevant data.
- **Deposit Insurance Assessment Reforms (June 25):** A companion assessment proposal raises the small bank threshold from $10 billion to $30 billion, lowers base assessment rates, and introduces a resolution readiness adjustment of up to one basis point for large or highly complex institutions that complete virtual data room testing or provide temporary access to service providers and internal systems.
- **Confidential Supervisory Information Disclosure Flexibility (June 25):** The FDIC proposed allowing banks to share confidential supervisory information with affiliates and service providers for business purposes without prior approval, subject to confidentiality agreements.
- **Hill Speech on Resolution Preparedness (June 11):** FDIC Chairman Travis Hill outlined a pivot toward execution-focused resolution preparedness, market-based discipline through assessment discounts for resolvability investments, potential relief from Part 370 and qualified financial contract (QFC) requirements, and a planned overhaul of the FDIC's resolution contracting process. Hill also previewed the possibility of congressional action to provide flexibility around the least-cost mandate.
- **Q1 2026 Quarterly Banking Profile (May 29):** The FDIC reported strong performance for Q1 2026, with net income of $80.5 billion (up 3.6% QoQ), return on assets of 1.26%, and continued deposit expansion.
- **GENIUS Act BSA/AML Standards for FDIC-Supervised PPSIs (May 22):** The FDIC proposed a rule implementing BSA/AML and sanctions standards for FDIC-supervised PPSIs, building on the joint FinCEN/Office of Foreign Assets Control (OFAC) proposal of April 8 and establishing a notice-and-consultation framework with the FinCEN for significant enforcement actions; comments are due August 4.

Q2 Regulatory Landscape

- **Depositor Behavior Staff Report (May 14):** The FDIC released a staff report finding that the 2023 bank failures were primarily driven by rapid deposit runs led by a small group of large, often uninsured depositors, underscoring both the stabilizing role of deposit insurance and the risks posed by deposit concentrations.
- **Re-Presentment NSF Fee Guidance Rescinded (April 10):** The FDIC rescinded its existing supervisory guidance on multiple re-presentment NSF fees, formally withdrawing prior expectations issued through Financial Institution Letters.
- **GENIUS Act Stablecoin Standards Notice of Proposed Rulemaking (NPR) (April 7):** The FDIC issued a proposal establishing a prudential framework for FDIC-supervised payment stablecoin issuers, including standards for reserve assets, redemption, capital, risk management, custodial services, and the treatment of tokenized deposits under federal deposit insurance law.

National Credit Union Administration (NCUA)

The NCUA continued its deregulation campaign, advancing finalizations from Q1's eight deregulation rounds and adding new actions. Q2 brought the operational half of the agency's GENIUS Act framework, multiple final rules effective in late June and July, and continued board-level reinforcement of the deregulatory direction set in Q1.

- **June Board Meeting (June 24):** The NCUA received briefings on regulatory updates, the Share Insurance Fund's Q1 performance, and the agency's mid-year budget, reinforcing the deregulatory direction and improving credit union system conditions.
- **Deregulation Project – Q2 Finalizations:** Q2 saw the finalization of the federal credit union noninterest charges and fees preemption (effective June 30), dependent care and board member expense reimbursement (effective July 9), records preservation and catastrophic act preparedness (effective July 16), and the prohibition on the use of reputational risk (effective July 27). The agency also proposed requirements for insurance and a Depository Institution Management Interlocks Act major-assets threshold increase, with comments due July 6.
- **GENIUS Act Implementation Proposal (May 18):** The NCUA proposed a rule implementing the GENIUS Act for federally insured credit unions (FICUs) and their subsidiaries. The proposal builds on the NCUA's February 2026 licensing framework by establishing detailed standards for the issuance of payment stablecoins through FICU subsidiaries, including credit union service organizations (CUSOs), clarifying that FICUs may not issue payment stablecoins directly and requiring 1:1 high-quality liquid asset reserves, monthly public disclosure of reserve composition and redemption policies, prohibitions on paying yield or interest, custody and safeguarding expectations, and capital and liquidity requirements tailored to operational and technology risks.

Consumer Financial Protection Bureau (CFPB)

CFPB activity remained narrow in volume but consequential in direction, continuing the rollback of disparate impact-era guidance paired with discrete actions on ability-to-repay considerations for noncitizen borrowers and the formal rescission of special purpose credit programs (SPCP) guidance.

- **SPCP Guidance Rescission (June 17):** The CFPB rescinded its December 2020 advisory opinion on SPCPs under the ECOA. The rescission aligns CFPB guidance with the April 2026 Regulation B amendments, which revised the SPCP framework applicable to for-profit organizations and prohibited the use of protected characteristics as eligibility criteria.
- **Immigration Status & Ability-to-Repay Statement (June 8):** The CFPB issued a notice reminding lenders that, under federal lending laws, including the Truth in Lending Act's ability-to-repay requirements, they may need to consider a borrower's immigration status when evaluating repayment capacity, particularly where the potential loss of U.S.-based income could affect future payments.
- **Regulation B Disparate Impact Final Rule:** On April 22, the CFPB finalized amendments to Regulation B, adopting the November 2025 proposal without substantive change after approximately 64,500 comments. The final rule eliminates the disparate impact framework under the ECOA (including the "effects test"), narrows the discouragement provision by

Q2 Regulatory Landscape

restricting its scope to oral or written statements or images, raises the liability threshold to a "knows or should know" standard, and tightens SPCP requirements for for-profit creditors.

Securities and Exchange Commission (SEC) & Financial Industry Regulatory Authority (FINRA)

The SEC advanced its disclosure modernization, capital formation, and SEC-Commodity Futures Trading Commission (CFTC) harmonization agendas, while FINRA continued its "FINRA Forward" implementation.

- **SEC-CFTC Portfolio Margining RFC (June 26):** The SEC and CFTC issued a joint request for comment (RFC) on harmonizing portfolio margining frameworks across securities and derivatives markets to improve risk management efficiency, reduce fragmentation, and enhance customer protections.
- **M&A Rights Disclosure Clarification (June 23):** The SEC updated guidance clarifying that companies registering securities underlying rights tied to a business combination must include full deal and target-company disclosure.
- **SEC-CFTC Harmonization Joint RFCs (June 18):** The SEC and CFTC issued joint requests for comment on swap and security-based swap data reporting and on derivatives product definitions, continuing the Q1 harmonization memorandum of understanding (MOU) between the agencies.
- **FINRA Rule 605 Form & Rule 3210 Exemption (June 17):** FINRA released a new electronic Rule 605 authorization form ahead of the August 2026 reporting expansion and proposed a Rule 3210 exemption for Section 530A "Trump Accounts."
- **Rescission of Climate-Related Disclosure Rules:** The SEC proposed rescission of its climate-related disclosure rules.
- **SEC/NFA MOU (May 21):** The SEC and National Futures Association (NFA) signed an MOU to enhance cooperation, coordination, and information sharing on regulatory oversight, including emerging risks, examinations, and market conditions.
- **Public Company Reporting Framework:** The SEC proposed a significant overhaul of the public company reporting framework (Release 33-11419), collapsing filer categories into two tiers, large accelerated filers (LAFs) and nonaccelerated filers (NAFs), by raising the LAF public float threshold to $2 billion, adding a five-year seasoning requirement, and extending scaled disclosure relief to a broader set of issuers.
- **Registered Offering Reform NPR (May 19):** The SEC proposed sweeping rule changes to expand access to streamlined offering tools, reduce disclosure and reporting burdens, and lower costs for public companies while maintaining investor protections and encouraging more firms to go public; comments due July 27.
- **FINRA Intraday Margin & Structured Products Review (May 19):** FINRA issued Regulatory Notice 26-11, providing updated interpretations and guidance to help firms implement the new intraday margin standards under Rule 4210, and announced a review of higher-risk structured products focused on nonprincipal-protected "worst-of" notes and concentration risks.
- **Broker-Dealer Equity Collateral (April):** The SEC allowed broker-dealers to use equities as collateral under Rule 15c3-3.
- **SEC Chair Atkins MFA Conference Remarks (May):** Paul Atkins outlined leadership priorities in remarks at the Managed Funds Association legal and compliance conference.

Commodity Futures Trading Commission (CFTC)

The CFTC's Q2 focused on market modernization, harmonization with the SEC, and fintech innovation. The agency advanced new frameworks for event contracts and 24/7 futures trading, continued to assert exclusive federal jurisdiction over prediction markets, and reinforced its broader push to replace ad hoc no-action relief with durable, codified rulemaking.

- **Event Contract Data Reporting NPR (June 25):** The CFTC proposed a rule to revise data reporting requirements for certain fully collateralized event contracts, replacing reliance on no-action relief with a clearer, standardized regulatory framework.
- **24/7 Futures Trading & Energy Perpetual Contracts (June 22):** The CFTC issued an RFC on extending standard futures contracts to 24/7 trading and on perpetual contracts tied to physical energy commodities.

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- **Rescission of Settlement Acceptance Policy (Effective June 8):** The CFTC rescinded its policy relating to the acceptance of settlements in administrative and civil proceedings.
- **Product Self-Certification Process Upgrades (June 1):** The CFTC released upgrades to its filing system allowing exchanges to submit a single consolidated set of documents for multiple related products, streamlining reviews and reducing administrative burden.
- **No-Action Relief on Data Reporting for Event Contracts (May 13):** CFTC staff issued a no-action letter on certain swap data reporting and record-keeping requirements related to fully collateralized event contract transactions.
- **Prediction Markets Jurisdiction (May 12):** The CFTC filed an amicus brief in the Sixth Circuit reaffirming exclusive federal authority and Commodity Exchange Act preemption of state efforts to regulate CFTC-regulated markets.
- **CFTC Approves EU Capital Comparability Determination (May 12):** The CFTC approved a comparability determination for certain nonbank swap dealers under European Union (EU) capital rules.

Financial Crimes Enforcement Network (FinCEN)

The agency moved from the April joint FinCEN/OFAC PPSI proposal to the June 22 joint Customer Identification Program (CIP) rule with the federal banking agencies, while simultaneously progressing its broader AML/CFT program effectiveness modernization and a series of related advisories and information requests.

- **Joint PPSI CIP Proposal (June 22):** FinCEN and the federal banking agencies issued a joint proposed rule implementing CIP requirements for stablecoin issuers under the GENIUS Act, with comments due August 21.
- **Joint Advisory on Unauthorized Employment (Early June):** FinCEN issued a joint advisory targeting illicit finance risks linked to unauthorized employment.
- **Joint FinCEN/OFAC GENIUS Act Proposal (April 8):** FinCEN and OFAC issued a joint proposal establishing baseline AML/CFT and sanctions program requirements for all PPSIs regardless of charter type.

Financial Accounting Standards Board (FASB)

FASB added a long-awaited project to fully eliminate London Interbank Offered Rate (LIBOR) references from the Codification, advanced targeted investment company and equity-method updates, and continued its earlier-quarter deliberations on crypto-asset accounting and cash equivalent classification. In addition, two new accounting standards updates (ASUs) were issued.

- **LIBOR Project Added (June 24):** FASB added a project to eliminate LIBOR references from the Codification, including removing the LIBOR swap rate as a benchmark, replacing LIBOR-based rates with Secured Overnight Financing Rate (SOFR)-based alternatives, and making targeted technical corrections to existing hedge accounting examples. The Board made no decisions on hedge accounting and declined to add a project on financial key performance indicators.
- **Environmental Credits & Environmental Credit Obligations (May):** FASB issued ASU 2026-02, Environmental Credits and Environmental Credit Obligations (Topic 818), establishing recognition, measurement, and disclosure guidance for environmental credits, e.g., emissions allowances, renewable identification numbers, and renewable energy certificates, and related obligations arising under regulatory compliance programs.
- **Investment Company & Equity Method Updates (May 13):** FASB added projects on fair value measurement of equity securities with contractual sale restrictions and private credit disclosures for investment companies, and discussed amendments to Topic 323 to refine significant influence guidance and address complex allocation structures in equity method accounting.
- **PIK Dividends on Equity-Classified Preferred Stock (April):** FASB issued ASU 2026-01, Equity (Topic 515), providing initial measurement guidance for paid-in-kind (PIK) dividends on equity classified preferred stock; effective for annual reporting

Q2 Regulatory Landscape

periods beginning after December 15, 2026, with early adoption permitted.

- **Crypto Asset & Cash Equivalent Classification (April):** FASB advanced deliberations on accounting for crypto assets and cash equivalent classification.

Federal Financial Institutions Examination Council (FFIEC)

The FFIEC advanced one of the most consequential supervisory modernization initiatives of the quarter proposing to revise the Uniform Financial Institutions Rating System (UFIRS) and the annual release of Home Mortgage Disclosure Act (HMDA) mortgage lending data.

- **2025 HMDA Mortgage Lending Data (June 23):** The FFIEC released 2025 HMDA mortgage lending data from nearly 4,800 institutions, including updated national loan-level data sets and tools to support analysis and public access.
- **UFIRS Revisions:** The FFIEC proposed revisions to the UFIRS aimed at modernizing how examiners assess the CAMELS across insured depository institutions. The proposed updates seek to better align ratings with material risk, enhance transparency in examiner judgments, and reflect changes in the operating environment since the framework's last meaningful update, with comments due August 17, 2026.

U.S. Department of the Treasury

Treasury's Q2 agenda focused on closing out the GENIUS Act implementing rulemaking architecture, extending bank-grade cyberthreat intelligence to digital asset firms, and concluding a multimonth AI Innovation Series intended to inform a modernized regulatory posture for AI in financial services.

- **AI Innovation Series Conclusion (June 24):** Treasury's final AI Innovation Series roundtable highlighted that scaling AI in financial services requires updated regulatory frameworks, stronger governance, and continued public-private collaboration to support innovation while maintaining financial stability.
- **Bank-Grade Cyberthreat Intelligence Extended to Digital Asset Firms (April 9):** Treasury announced a new cybersecurity information-sharing initiative providing eligible U.S. digital asset firms with the same timely, actionable cyberthreat intelligence shared with traditional financial institutions, aimed at strengthening operational resilience and protecting the broader financial system.
- **GENIUS Act Implementing Rule (April 8):** Treasury, through FinCEN and OFAC, issued a proposed rule subjecting permitted payment stablecoin issuers to tailored AML and sanctions compliance requirements, aiming to mitigate illicit finance risks.

Financial Stability Board (FSB)

The FSB's Q2 activity was limited but pointed, with the FSB chair using the April G20 meeting to elevate global financial-stability concerns and reinforce 2026 priorities around operational resilience, nonbank financial intermediation, and crypto-asset regulation.

- **G20 Warning (April 17):** The FSB chair warned the G20 of heightened risk to global financial stability.

Basel Committee on Banking Supervision (BCBS)/Bank for International Settlements (BIS)

The BCBS/BIS Q2 contribution centered on the global digital-finance debate, with BIS issuing a high-profile warning about structural weaknesses in current stablecoin designs and calling for coordinated international action to preserve trust in money.

- **Trust in Money & Digital Finance (June 23):** BIS warned that while digital innovation and tokenization can improve payments and financial efficiency, current stablecoin designs have structural weaknesses and could pose risks to financial stability, calling for coordinated global action to preserve trust in money within the existing two-tier system.

Global Overview

In Q2, the EU and U.K. agendas continued to follow the priorities set for the year. In the EU, the emphasis remained on bank resilience, simplification, and proportionality. In the U.K., competitiveness and growth were more explicit drivers of regulatory change. Supervisors on both sides also kept their focus on uncertainty, market stress, and risk transmission through private credit and nonbank finance.

In the EU, the European Banking Authority (EBA) advanced simplification initiatives on the capital framework, supervisory reporting and Pillar 3 disclosures. Beyond prudential simplification, the EU agenda moved forward on implementation, with the Anti-Money Laundering Act (AMLA) developing the new AML/CFT supervisory framework, recovery and resolution work focused on dry-run testing and liquidity in resolution, and climate-related work centered on good practices, stress testing, and Pillar 3 disclosures.

In the U.K., developments included Prudential Regulation Authority (PRA) adjustments linked to Basel 3.1 and the Pillar 2A review, the Bank of England's (BoE) private markets scenario to assess stress transmission across banks and nonbanks, and the Financial Conduct Authority's (FCA) mortgage lending review.

Looking ahead, divergence with the U.S. will continue to affect implementation costs, capital impacts, and banks' competitive positioning.

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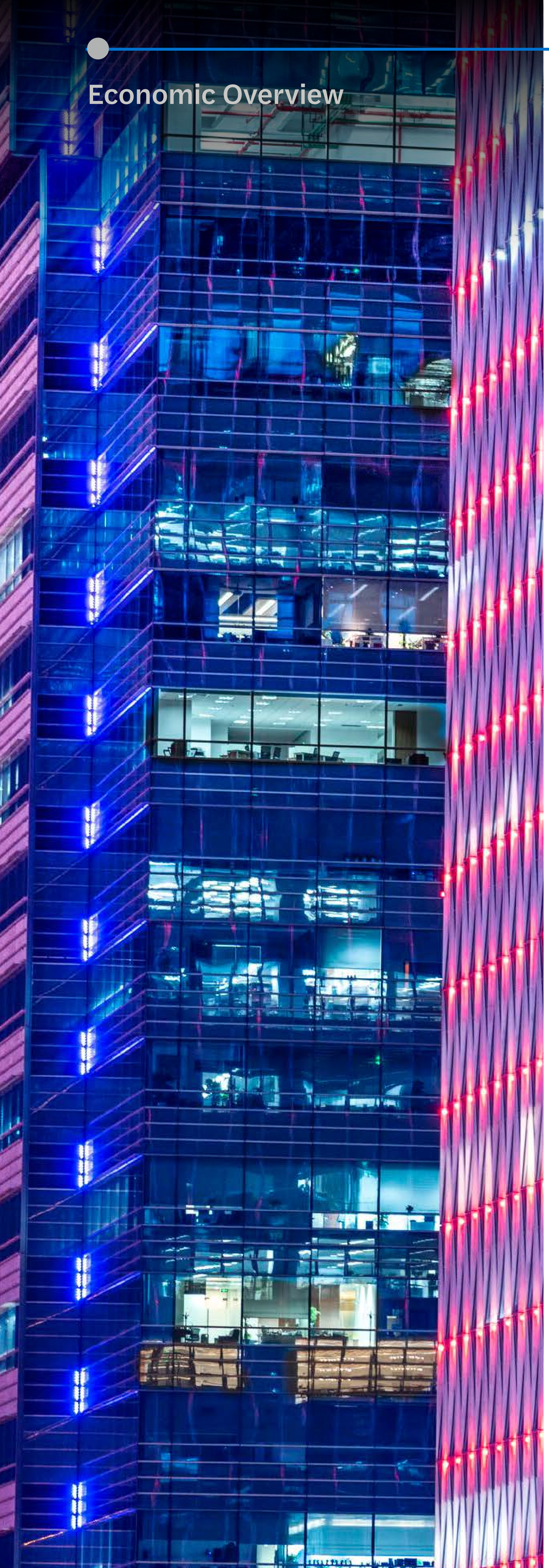

Global Overview

European Union Regulatory Overview

EU authorities continued to focus on ensuring the resilience of the banking sector, while seeking to make regulation more proportionate, usable, and less burdensome, all without weakening objectives around financial stability, AML/CFT effectiveness, resolvability, and climate risks.

EU banks remain resilient, but supervisors are widening the perimeter of risk monitoring

EU publications in Q2 confirmed that banks remain in a strong position, with sound capital, liquidity, asset quality, and profitability, even as the risk environment becomes more complex.

The EBA confirmed that banks are entering this uncertain environment from a position of strength. It shows that maintaining resilience while adapting to new sources of risks has become a supervisory expectation. It supports the European position that financial stability must be preserved through continuous monitoring.

This broader approach is also visible in the European Central Bank's (ECB) analysis of stress in global private credit markets and its implications for euro area financial stability. It also shows that supervisors are connecting bank resilience to wider market structures and potential spillovers.

These publications show that resilience remains the anchor of EU supervision.

The EU continues its work on regulatory simplification

Q2 saw further progress on the EU's broader simplification and competitiveness agenda, with regulatory initiatives increasingly focused on the efficiency, proportionality, and practical operation of the prudential framework.

The EBA's proposal on simplifications to the EU bank capital framework explains how the capital framework can be made efficient with prudential soundness. It underlines that complexity may create implementation costs, supervisory frictions, and inconsistencies.

The review of Pillar 3 Data Hub for small banks makes disclosure more proportionate and easier to manage, while maintaining comparability. This is aligned with the previous newsletter's analysis of the Pillar 3 Data Hub as a structural move toward standardized data collection and single points of access.

The EBA consultation on simplification of supervisory reporting proposes a "simpler, smarter, and more proportionate" framework. Supervisory data remains essential, but collection must be better aligned with actual supervisory needs.

AMLA continues to build the operational foundations of the new EU AML/CFT framework

The AML/CFT agenda is also entering a new stage. Following the creation of AMLA, the focus is now on developing the practical rulebook and supervisory methods that will support a more harmonized EU AML/CFT architecture.

Global Overview

AMLA's public hearing on draft Regulatory Technical Standards (RTS) for Home-Host Supervisory Cooperation is important because cooperation between home and host supervisors will be central to the credibility of the new framework. AMLA's role is to reduce cross-border divergences by setting clearer mechanisms for information exchange and coordination.

The AMLA's hearing on draft guidelines on business-wide risk assessment addresses another core building block of the AML/CFT framework.

AMLA's consultation on ongoing monitoring of business relationships complements this approach by focusing on how risks are monitored after customer onboarding. AML/CFT effectiveness depends not only on initial due diligence, but also on the ability to detect changes in customer behavior, transactional patterns, and risk profiles over time.

Finally, AMLA's consultation on group-wide requirements and business-wide risk assessment is particularly relevant for cross-border institutions, where AML/CFT risks may arise across different entities, jurisdictions, and business lines.

Recovery and resolution continue to move from planning to operational execution

As shown in previous newsletters, recovery and resolution remain central to the EU supervisory agenda, but the emphasis is moving from framework design to practical execution.

The EBA's report on banks' dry-run testing of their recovery plans underscores the importance put in the EU on dry runs to test if recovery plans are usable in real conditions. This enables supervisors to assess how institutions identify stress, escalate decisions, activate recovery options, and coordinate internal governance.

The Single Resolution Board's (SRB) consultation on updated operational guidance on liquidity and funding in resolution underscores that even a well-designed strategy can fail if the institution cannot maintain sufficient liquidity during the resolution weekend and subsequent stabilization phase.

Climate and nature risk expectations remain robust

In the EU, sustainable finance continues to follow the broader simplification trend, but by refining its framework to become more proportionate and better integrated.

Instead, authorities are trying to make environmental, social, and governance (ESG)-related requirements more proportionate, better integrated into existing risk frameworks, and more useful for decision making.

The ECB's publication on good practices for climate and nature risk management confirms that climate and nature-related risks remain embedded in supervisory expectations. The focus on good practices is significant because it moves the discussion from high-level principles to concrete implementation examples.

The EBA also published an early consultation on a simplified EU-wide stress test with climate risk integration. The stress-testing framework is being simplified but will also integrate climate risk as part of the future design.

The EBA also updated its Pillar 3 disclosure requirements on ESG risks, equity, and shadow banking exposures, maintaining ESG disclosures as a core component of market discipline and supervisory transparency, but with simplification in mind.

For the next quarter, more activities are expected along the simplification agenda

Looking ahead, attention is increasingly turning to the European Commission's upcoming report on the competitiveness of the EU banking sector, expected in Q3 2026. The report is expected to assess barriers to scale, cross-border integration, and regulatory efficiency, and may provide the foundation for future policy and legislative initiatives under the Savings and Investments Union agenda.

Global Overview

United Kingdom Regulatory Overview

The U.K. regulatory activity continued to focus on the growth and competitiveness agenda, while maintaining financial stability and supervisory discipline. The BoE and the PRA are recalibrating parts of the capital framework and expanding their monitoring of nonbank risks, while the FCA is proposing to review mortgage lending rules.

Basel 3.1 Implementation Shifts From Rule Finalization to Targeted Recalibration

The PRA has published a consultation proposing adjustments to the Internal Model Approach for market risk. It builds on the PRA's final Basel 3.1 rules and reflects further analysis of industry feedback, quantitative impact data, and developments across key jurisdictions. The proposals include changes to key model validation requirements and a more targeted framework for nonmodellable risk factors. The proposals reflect the small number of firms planning to adopt internal models in the U.K. post-Basel 3.1 and aligns with the broader objective to reduce regulatory burden and improve international consistency.

Pillar 2A recalibration is another illustration of the PRA's proportionate and competitive agenda. The targeted amendments to the Pillar 2A framework are meant to maintain the overall calibration of firm-specific capital requirements once Basel 3.1 is implemented. The PRA is not only implementing Basel 3.1 but also examining if the different layers of the prudential regulation remain coherent in practice. It aims to reduce avoidable burden while preserving risk sensitivity and prudential resilience.

The Bank of England Expands Its Monitoring Over Nonbank Institutions

In line with international concerns, the BoE is increasing its understanding of interlinkages between banks and nonbanks with its second system-wide exploratory scenario exercise. The exercise aims to improve the BoE's understanding of private markets' reaction to an economic downturn. At this stage, the exercise does not signal immediate regulatory action. It is primarily intended to assess if private markets could amplify stress across the financial system, including through their indirect links with banks. The final report will be published in early 2027.

FCA's Mortgage Lending Reforms Focus on a More Flexible but Still Prudent Framework

The FCA is also consulting on proposed reforms to mortgage lending rules to improve access to home ownership for creditworthy borrowers while maintaining robust affordability standards. The targeted adjustments would refine a range of product areas, including interest-only and part-and-part mortgages.

Looking Ahead

The focus will continue to be on the implementation of Basel 3.1 ahead of its January 1, 2027 effective date in the United Kingdom. The next phase of the PRA's Pillar 2A review should also provide further indications on proportionality, while the Bank of England's private markets exercise may influence future supervisory priorities for bank and nonbank interconnections.

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Source

1. "The Lower Income Consumer Has Felt Inflation the Most Says Suzuki," bloomberg.com, June 30, 2026.

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