



Our Take

PwC's Financial Services Risk & Regulation Update

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1 Agencies update model risk management guidance

What happened? On April 17th, the Fed, OCC and FDIC issued updated model risk management (MRM) guidance. Across the agencies, the updated guidance supersedes both previous 2011 guidance which established detailed expectations for model development, validation, and governance, and 2021 guidance which clarified how those expectations should be applied to in the context of BSA/AML models.¹

What does the guidance say? The guidance makes a number of changes concerning scope, oversight calibration, and reframed expectations across the model lifecycle:

- **Institution scope.** The agencies state that the updated guidance is most relevant for institutions with over \$30 billion in assets, with smaller institutions generally out of scope unless their model risk exposure is significant due to complexity or non-traditional activities.
- **Model scope and treatment of AI.** The updated guidance defines a model as “a complex quantitative method, system, or approach that applies statistical, economic, or financial theories to process input data into quantitative estimates.” It excludes simple arithmetic calculations and rule-based processes, and, most notably, explicitly scopes out generative AI and agentic AI. It states that banks should follow their broader risk management and governance practices to determine appropriate controls for any out-of-scope tools, processes or systems.
- **Materiality.** The updated guidance provides a more explicit framework for assessing the model’s risk profile or materiality based on its purpose, size of the exposure to which the model is applied, and various other considerations. Most importantly, the guidance states that management of immaterial models can be limited to monitoring their performance and the conditions under which they could become material, excluding expectations such as validation.
- **Lifecycle.** The updated guidance retains some of the same language for core lifecycle steps as the previous guidance – model development, use, validation, and ongoing monitoring. However, some of the lifecycle steps are no longer explicitly mentioned: implementation (including testing), change management and approval.
- **Validation and review.** The updated guidance states that validation generally occurs before first use, but recognizes that models may need to be used before validation is complete in certain circumstances. Notably, it no longer prescribes a minimum annual validation review cycle, noting that validation frequency can vary based on model purpose, scope of changes, and other features.
- **Monitoring.** The revised guidance replaces the previous version’s detailed expectations for process verification, benchmarking, back-testing, override analysis, and performance monitoring with a more general expectation describing sound practice as including ongoing monitoring of model performance and limitations, which it defines as evaluating whether a model is performing as expected in light of changes in products, exposures, activities, clients, data relevance, or market conditions.

¹ Rescinded agency documents include: Fed SR 11-7 (2011); Fed SR 21-8 (2021); OCC Bulletin 2011-12; OCC Bulletin 2021-19, OCC Bulletin 1997-24; FDIC FIL-22-2017 (Adoption of SR 11-7); FDIC FIL-27-2021.

- **Governance.** Unlike the previous guidance, the updated version provides no specific expectations for the board of directors, senior management, and management committees' responsibilities with respect to MRM. It instead generally discusses the benefits of clearly delineated roles and responsibilities with well-defined accountability. It also no longer includes detailed expectations for internal audit (IA) clarifies that where IA is involved, it should not duplicate activities such as validation.



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From detailed standards to judgment-driven model risk management

The updated MRM guidance continues a broader shift away from detailed supervisory rulebooks and toward an approach that relies more heavily on firm judgment and self-determination. While SR 11-7 always allowed for risk-based tiering in principle, the way it was applied in practice often left firms with limited room to differentiate across models. Supervisory feedback and examination norms tended to reinforce recurring activities such as fixed validation cycles and broadly consistent documentation standards, even where model impact varied. While the core expectation that banks manage model risk in a disciplined manner remains unchanged, firms now have greater flexibility in how they apply MRM principles and where they focus their resources. This includes reassessing which tools belong in formal MRM frameworks at all, and re-tiering those that remain in scope so that rigor is concentrated on models that meaningfully influence financial results or risk decisions, while lower-impact models are governed more proportionately. That flexibility, however, comes with a trade-off. The burden shifts to firms to decide how MRM is applied, to clearly articulate those decisions, and to defend them without relying on detailed regulatory language. Doing so requires strong judgment, clear internal alignment, and a deep command of MRM principles.

Flexibility will play out differently across businesses and model uses

The practical implications of the guidance will vary across the organization depending on how models are used and the risks they support. In financial crimes, the guidance supports reassessing whether deterministic transaction monitoring scenarios, sanctions screening rules, and similar tools should continue to sit within formal MRM frameworks or be governed through more tailored scenario management and tuning processes, while leaving expectations around effectiveness unchanged. In stress testing and capital planning, the guidance provides a clearer basis to apply proportionate treatment to lower-materiality models within large inventories, while models that drive core capital metrics are likely to remain subject to rigorous oversight. For credit, valuation, and capital markets models, firms may be able to rely more heavily on existing performance frameworks, such as benchmarking or market-based controls, where those frameworks already provide evidence of ongoing model performance. Firms should assess these impacts holistically to ensure that changes improve focus and efficiency without weakening risk management.

Firms should reevaluate governance for out-of-scope tools, including AI

While the updated guidance explicitly excludes generative and agentic AI systems from its scope, this does not reduce the need to manage their risks, including those related to data usage, explainability, and output reliability. Without prescriptive expectations from the regulators, banks need to thoughtfully integrate AI oversight into existing governance structures across risk, compliance, technology, and business functions. This includes establishing clear ownership for AI use cases, improving visibility into where AI capabilities are deployed, and exercising judgment around what level of review and monitoring is appropriate for probabilistic or difficult-to-explain outputs. Firms should also provide clear guidance to business users on appropriate use and reliance on AI-generated outputs, and ensure AI use remains aligned with existing regulatory expectations across areas such as financial crimes, consumer protection, disclosures, and market conduct.

For more, see [***Our Take Special Edition: Model risk management reset***](#)

2 SEC and CFTC propose private fund reporting simplification

What happened? On April 20th, the SEC and CFTC jointly proposed amendments to Form PF, the confidential reporting form used by registered investment advisers to report information on private funds.

What would the proposal do? If adopted, the proposal would:

- **Raise the Form PF filing threshold** from \$150 million to \$1 billion in private fund assets under management, eliminating reporting obligations for a large number of smaller advisers.
- **Narrow large hedge fund adviser reporting** by raising the \$1.5 billion threshold that triggers large hedge fund adviser status to \$10 billion, which would move many advisers from quarterly to annual reporting and eliminate their obligation to file Form PF section 2 and certain current event reports.
- **Remove or substantially scale back a range of reporting requirements adopted in 2023 and 2024**, including certain hedge fund current-reporting triggers and reporting on quarterly private equity events, monthly portfolio turnover and volatility, detailed reference asset exposure, and rehypothecation.
- **Streamline remaining disclosures**, including simplified counterparty exposure reporting, trading and clearing disclosures, and prescriptive “look-through” requirements by permitting reasonable estimates aligned with advisers’ internal methodologies.
- **Reduce reporting for complex fund structures** by permitting certain feeder funds with only limited assets outside a master fund to be treated as “disregarded” and allowing aggregated reporting.

What’s next? Comments on the proposal are due by June 23rd. In addition to the changes in the proposal, the agencies seek input on whether and how Form PF should be modified to address private credit funds. The agencies had previously delayed the compliance date for the 2024 Form PF amendments to October 1st, 2026. If the proposal is finalized, there would be a minimum 12-month transition period.



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A coordinated pullback from Form PF expansion

After several years of reform efforts aimed at increasing the scope of Form PF, this proposal represents a coordinated directional shift toward relief and limiting data collection to what the agencies deem necessary to support systemic-risk monitoring. Now, instead of expanding information demands across the alternatives space, the proposal squarely addresses long-standing industry concerns about cost, complexity, and operational feasibility. Many of the reporting elements targeted for elimination or simplification – including daily-return volatility reporting, monthly asset turnover data, expanded position-level reference asset disclosures, enhanced counterparty exposure tables, and new quarterly private equity event reporting – were among those viewed as most burdensome and least aligned with Form PF’s original systemic-risk purpose, and their removal points to a broader pullback in how much granular information regulators expect to gather through this framework. For private fund advisers, these changes would meaningfully reduce compliance friction, including fewer firms subject to filing, less frequent reporting for many hedge fund advisers, and diminished pressure to build systems around prescriptive data points not otherwise used in portfolio or risk management. At the same time, the proposal makes clear that this relief is not the end of regulatory engagement. The request for comment on private credit underscores that the sector remains a focus, and suggests that more tailored requirements could still emerge, particularly given ongoing supervisory attention and continued debate around risk, leverage, and market growth in private credit. In addition, while Form PF filers will appreciate the proposal’s scaled back reporting burden, they should also remain aware that this relief could be reversed by different agency leadership in the future, particularly if there other signs of systemic risk in the private funds market.

3 CFPB finalizes a narrower fair lending framework

What happened? On April 22nd, the CFPB issued a [final rule](#) amending Regulation B (Reg B), the implementing regulation for the Equal Credit Opportunity Act (ECOA), which prohibits lenders from discouraging or denying applicants for credit based on certain prohibited characteristics (e.g., race, religion, national origin, sex, marital status, or age). Included in Reg B are restrictions on how lenders advertise, underwrite, and offer credit.

What does the final rule do? The amendments were adopted substantially as proposed in November 2025. Key finalized amendments include:

- **Elimination of disparate impact liability.** The rule removes the “effects test,” which finds that lending criteria that appear to be neutral can in fact improperly disadvantage a protected class (e.g., minimum loan amount that results in fewer loans to certain groups). The rule removes all references to this test and provides that unequal outcomes alone, without discriminatory intent, do not violate the ECOA.
- **Narrowing the definition of what constitutes discouraging an application for credit.** The final rule narrows Reg B’s prohibition on discouragement by requiring a written or visual statement or an action evidencing discriminatory intent rather than relying on broader interpretations based on consumer perception or indirect effects. As a result, discouragement is tied to demonstrable intent to discriminate, and communications encouraging applications from specific groups are not, in isolation, deemed to discourage other applicants.
- **Tightening requirements for special-purpose credit programs (SPCPs).** For-profit lenders will be prohibited from using race, national origin, or sex as eligibility criteria in special-purpose credit programs. Lenders that continue offering them will face new documentation and evidentiary requirements demonstrating the program’s necessity to meet a specific, legally recognized credit gap. Required documentation includes written plans that substantiate the existence of a defined credit need and clearly identify the target class as well as evidence that program objectives cannot be achieved through neutral criteria.

What’s next? The final rule will be effective on July 21st.



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A narrower CFPB fair lending framework does not lessen responsibility

The CFPB is narrowing its interpretation of fair lending requirements, but firms should remain aware that the statutory prohibition against discrimination under the ECOA remains fully in effect. They should proceed thoughtfully before making structural changes to their fair lending compliance programs as fair lending scrutiny will persist in multiple directions – including from state regulators, private plaintiffs, and parallel federal laws – and the current disparate impact and discouragement definitions will still apply. For example, the Fair Housing Act (FHA) remains unaffected by the finalized amendments to Reg B, and private litigation exposure will continue to arise from practices that produce measurable adverse outcomes for members of protected classes, irrespective of how the CFPB defines discouragement or discriminatory intent. In addition, as oversight priorities shift over time, institutions should remain mindful that today’s lighter touch may draw retrospective scrutiny when the regulatory pendulum swings back.



On our radar

Senate Banking Committee holds confirmation hearing for Fed Chair nominee Kevin Warsh. On April 21st, Fed Chair nominee Kevin Warsh [testified](#) before the Senate Banking Committee, facing questions on his independence, financial disclosures, and monetary policy views. During the hearing, Warsh emphasized a broader plan to reform the Fed's policy framework, including reassessing its approach to inflation, forward guidance, and market communication. After Senator Thom Tillis (R-NC) said that he would not vote to advance Warsh's nomination until the DOJ closes its investigation of Fed Chair Jerome Powell, on April 24th Attorney General Jeanine Pirro [announced](#) that the investigation is closed.

Agencies finalize changes to the community bank leverage ratio framework. On April 23rd, the Fed, FDIC, and OCC [issued](#) a [final rule](#) lowering the community bank leverage ratio from 9% to 8% and extending the compliance grace period from two to four quarters. The rule takes effect on July 1st, 2026.

SEC Chairman Atkins outlines the SEC's regulatory strategy during keynote remarks. On April 21st, SEC Chairman Paul Atkins delivered [remarks](#) describing the agency's strategy as organized around three pillars: advancing regulatory frameworks into the modern era, clarifying jurisdictional boundaries, and transforming the SEC rulebook by returning it to first principles.

PRA publishes Phase 1 reforms to the Senior Managers and Certification Regime (SM&CR). On April 22nd, the PRA [issued](#) a policy statement setting out targeted reforms to the SM&CR. The changes include modifications to the 12-week rule for interim senior manager appointments, streamlined requirements for statements of responsibilities and regulatory references, and clarifications on the scope of senior manager roles. The reforms take effect on April 24th with more substantive Phase 2 reforms expected following legislative changes.

Lawmakers introduce legislation to expand access to federal payment systems. On April 21st, Representatives Sam Liccardo (CA-16) and Young Kim (CA-40) [introduced](#) the bipartisan Payments Access and Consumer Efficiency ([PACE](#)) Act to enable qualified payment companies to access Federal Reserve payment rails (Fedwire, FedNow, FedACH) directly. The bill would establish federal registration, consumer protection requirements, and regulatory oversight for participating firms.

Fannie and Freddie approve new credit score models. On April 22nd, [Fannie Mae](#) and [Freddie Mac](#) announced the approval of two new credit score models: VantageScore 4.0 and FICO Score 10T. The new credit models incorporate additional data than those currently in use by the enterprises, including on-time rent payment history. The announcements note that certain versions of VantageScore 4.0 are available for immediate use and the agencies will release guidance around FICO Score 10T at a later date.

OCC proposes to rescind and amend certain regulations deemed unnecessary. Pursuant to Executive Order 14219, on April 24, [the OCC proposed to amend](#) 12 CFR Part 24 (Public Welfare Investments) to remove certain references to minority- and women- owned businesses, to remove or amend certain portions of 12 CFR Part 43 (Credit Risk Retention) to align to recent court decisions involving applicability of the rule, and to remove 12 CFR Part 128 (Federal Savings Association Nondiscrimination Requirements) as duplicative of other rules governing discrimination. Comments will be due to the OCC 30 days after publication in the Federal Register.

OCC issues two interim actions related to national bank powers. On April 24, the OCC issued an [interim final rule](#) clarifying national bank powers to charge certain fees, as well as an [interim final order](#) pre-empting the Illinois Interchange Fee Prohibition Act (IIFPA). Both are effective June 30, 2026, with comments due to the OCC 30 days after publication in the Federal Register.



Additional information

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