Our Take

PwC's Financial Services Risk & Regulation Update

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1 Fed joins multi-agency AML overhaul effort

What happened? On July 7th, the Fed voted 6-1 to propose significant changes to its anti-money laundering (AML) regulatory framework. The proposal is intended to align with changes separately proposed by FinCEN, the OCC, FDIC, and NCUA in April (see *Our Take* here).

What would the proposal do? The proposal largely mirrors the changes proposed by FinCEN and the other banking agencies by:

- **Refocusing compliance expectations on effectiveness.** Financial institutions would still be required to maintain AML programs consistent with existing expectations, but examiners would focus on whether those programs are operating effectively. As part of this focus, the proposal explains that only "significant or systemic failures" would result in an enforcement action or a "significant supervisory action." In his dissent, Governor Michael Barr stated his concerns that the undefined "significant or systemic" threshold could weaken the Board's ability to adequately enforce AML rules.
- **Formalizing and elevating the risk assessment requirement.** Financial institutions would be required to have risk assessment processes that (1) comprehensively evaluate AML risks; (2) review and, as appropriate, incorporate FinCEN's AML/CFT Priorities; and (3) be updated to reflect any changes that impact risk. The proposal notes that the risk assessment should drive program design, resource allocation, and the calibration of controls.
- **Encouraging responsible innovation.** The proposal encourages financial institutions to use innovative technologies as part of their AML programs and provides that financial institutions that responsibly experiment with innovation will not incur any additional risk of enforcement actions.

How does the Fed's proposal differ from FinCEN's proposal? Notably, the Fed's proposal omits the FinCEN proposal's requirement that the OCC and FDIC notify FinCEN at least 30 days prior to taking a significant AML-related supervisory action and provide an opportunity for input. Instead, it requests feedback on whether the final rule should include a similar provision.

What's next? Comments will be due 60 days following publication in the Federal Register.

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The Fed completes the interagency AML overhaul

The Fed's proposal is consistent with the direction of change to regulation and supervision that we have seen from Treasury and the leadership of the other banking agencies: focusing on material risk, deprioritizing check-the-box requirements, and allowing financial institutions to define, based on a risk view, what "good" looks like and allocate resources accordingly. Financial institutions will have more flexibility in how they design and resource their programs, but they will also need to demonstrate that those decisions are consistent, supported by risk, and able to withstand challenge from experienced oversight functions. That will require strong expertise in second line functions and active engagement from Boards to challenge whether risk-based decisions are credible and defensible.

Financial institutions will be empowered to decide where to focus – and where to cut
The proposal's deference to financial institutions' risk-based decisions creates an opportunity for firms to consider their business and risk profile, and then to reallocate resources away from lower-value activity and toward areas of greater risk. In doing so, firms will need to maintain a very clear and consistent linkage between risk assessments and how programs are designed and operated, including monitoring, staffing, governance, and escalation decisions. Firms should also be mindful to review their programs frequently to determine whether any changes and the program overall is up-to-date and working effectively, considering that changing or eliminating processes that may appear as "check-the-box" can inadvertently result in very significant consequences given the scope of BSA/AML violations they are intended to prevent.

As financial institutions adjust, they should also consider where risk management functions can be more efficiently executed with technologies such as AI and machine learning, blockchain analytics, and more advanced data integration. These tools can improve segmentation, detection, and decision traceability, while also creating opportunities to automate lower-value activities such as routine monitoring, alert handling, and reporting.

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2 SEC publishes 2026 regulatory agenda

What happened? On July 7th, the SEC published its 2026 regulatory agenda.

What is on the agenda? The agenda covers a wide range of rulemaking topics, with highlights including several newly introduced items:

- **Retail exposure to private markets.** One agenda item would consider changes under the Investment Advisers Act and Investment Company Act to facilitate retail investor access to private markets through registered fund structures. The proposal would also consider expanding the categories of clients to whom investment advisers may charge performance-based fees. The agenda cites the significant growth of private markets over the past two decades and indicates the SEC will evaluate how individual investors may access private market investments through regulated investment vehicles while considering the circumstances under which advisers may receive compensation tied to investment performance.
- **Short sale reporting and Regulation SHO.** Another newly added agenda item would revisit short sale reporting requirements and related market rules. The current framework, adopted in 2023, requires certain institutional investment managers meeting specified reporting thresholds to report short position and short activity data. The SEC subsequently granted temporary relief from compliance with those reporting requirements, and the U.S. Court of Appeals for the Fifth Circuit

remanded the rule to the SEC for further consideration of its cumulative economic effects alongside the related securities lending reporting rule. Against that backdrop, the agenda indicates the SEC is considering amendments to reduce compliance costs and operational burdens associated with short-position reporting, as well as updates to Regulation SHO to reflect changes in market structure and trading practices since the rules were originally adopted.

- **Pay-to-play reform.** The agenda also newly includes potential amendments to the SEC's investment adviser pay-to-play rule (Rule 206(4)-5), which generally prohibits advisers from receiving compensation for providing advisory services to certain government entities following specified political contributions by the adviser or its covered associates, and imposes restrictions on certain solicitation and coordination activities. The rule is intended to mitigate conflicts of interest that may arise when political contributions influence the award of public-sector advisory business, including mandates from public pension plans. The agenda indicates the SEC is considering amendments to reduce identified compliance burdens while preserving the rule's underlying policy objectives.

What's next? The agenda identifies October 2026 as the target timing for these anticipated proposals. As with other SEC rulemakings, any proposed rules would generally be subject to a public notice-and-comment process before the Commission considers whether to adopt final rules.

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Retail access, expanded obligations. The expected proposal to enhance retail investor access to private markets could open new product development and distribution opportunities for asset managers, wealth managers and distributors. However, it remains to be seen what controls and investor protections the SEC would require, and what investors may expect, for less liquid, harder-to-value investments offered to retail investors through registered investment vehicles. Those conditions could determine whether expanded access becomes a scalable product opportunity or a more limited offering for firms with the governance, valuation, liquidity and distribution infrastructure to support it. Broker-dealers may see demand for broader retail access, but they would need to weigh that opportunity against product approval, due diligence, Regulation Best Interest (Reg BI), supervision and customer communication expectations. Registered investment advisers may face similar assessments in developing approaches to portfolio construction, allocation practices, valuation oversight, custody considerations, compliance programs and client disclosures.

Revisiting operational burdens. The short sale reporting and pay-to-play agenda items both revisit existing regulatory frameworks where firms have already invested in implementing compliance programs and operational controls. For short sale reporting, the SEC is considering amendments to recently adopted short-position reporting requirements and Regulation SHO with the stated objective of reducing compliance costs and operational burdens. Institutional investment managers and broker-dealers could ultimately benefit from a more streamlined reporting framework, although prior investments in Form SHO readiness, securities lending reporting, surveillance, reporting processes and written supervisory procedures are likely to remain relevant as the proposal evolves. For pay-to-play, the agenda signals that the SEC is evaluating potential amendments to Rule 206(4)-5 to address identified compliance burdens, including low contribution thresholds that can sometimes have punitive results to a firm. Depending on the scope of any proposal, advisers could see greater flexibility in pursuing public-sector business and reduced administrative burden. However, such amendments are not expected to eliminate the need to maintain robust controls over political contributions, conflicts of interest, solicitation activities and related compliance monitoring.

On our radar

Selig critiques Illinois crypto transaction tax in public remarks. On July 1st, CFTC Chairman Michael Selig published an op-ed criticizing Illinois legislation that imposes a tax on certain crypto asset transactions, arguing it may hinder innovation and create regulatory inconsistency compared to traditional financial transactions.

GAO issues recommendations for financial regulators. On June 30th, the Government Accountability Office (GAO) published reports identifying priority recommendations for the Treasury and the OCC, including those related to fraud and improper payments, cybersecurity, and fintech and blockchain risks. Separately, on July 2nd, the GAO released a report identifying three recommendations for the Fed: strengthening bank supervision, improving regulatory analysis and addressing blockchain-related risks.

SEC requests comment on novel ETFs. On July 2nd, the SEC published in the Federal Register a request for comment on exchange-traded funds (ETFs) investing in innovative asset classes or employing novel investment strategies. Comments are due by August 31st, 2026.

CFTC proposes data reporting requirements for event contracts. On July 1st, the CFTC published a proposal to establish an alternative reporting framework for certain event contracts, shifting reporting from swap data repositories to futures-style reporting requirements. Comments are due by July 31st, 2026.

OCC highlights FinCEN guidance on information sharing. On July 9th, the OCC issued a bulletin referencing FinCEN's updated Section 314(b) guidance, clarifying that financial institutions may share information related to suspected fraud and other illicit activity under applicable safe harbor provisions.

CFPB signals potential rulemaking on credit card late fees. On July 8th, the CFPB submitted a request for information to the Office of Information and Regulatory Affairs (OIRA) to evaluate credit card late fees and late payment practices.

FSOC to hold closed meeting on financial stability and emerging risks. On July 15th, the Financial Stability Oversight Council (FSOC) will convene in executive session to discuss topics including geopolitical risk, artificial intelligence, the quarterly financial stability monitor, proposed guidance on nonbank designations, and the Council's 2026 annual report.

Housing reform bill set to become law. On July 10th, the 21st Century ROAD to Housing Act is expected to become law after passing both chambers of Congress with broad bipartisan support, despite the President declining to sign the legislation. The bill includes provisions to expand housing supply, support community lending, and reduce regulatory barriers to housing development.

UK regulators publish update on future retail payments infrastructure. On July 2nd, UK authorities issued a policy paper outlining roles and responsibilities across the future retail payments ecosystem, including governance of core infrastructure, product-level arrangements, and approaches to consumer protection and financial crime prevention.

UK brings major cloud providers under direct oversight. On July 10th, the UK Government designated four large global cloud providers as Critical Third Parties under the UK operational resilience regime, effective July 13th. This gives the Bank of England, Prudential Regulation Authority and Financial Conduct Authority joint oversight of certain critical services these providers deliver to the UK financial sector.

BIS publishes analysis on global systemically important bank capital requirements. On July 8th, the Bank for International Settlements (BIS) released an FSI Insights paper examining differences in capital requirements for global systemically important banks across jurisdictions. The analysis highlights variability in regulatory buffers, supervisory practices, and risk-weighted asset calculations, which can affect comparability and perceptions of competitiveness.

Additional information

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