



Our Take

PwC's Financial Services Risk & Regulation Update

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1 Fed pulls back the curtain on capital stress testing and smooths SCBs

What happened? On September 30th, the Fed [announced](#) several actions on stress testing. Specifically, it:

- [Finalized a rule establishing annual public input and disclosure](#) for supervisory stress test scenarios and models, along with revisions to the stress test calendar and global market shock framework;
- [Finalized a separate rule averaging stress test results used to calculate stress capital buffer \(SCB\)](#) requirements along with changes to related FR Y-14 reporting;
- [Published its review of comments on the supervisory models](#) proposed in October 2025 and documentation for the finalized [credit](#), [market](#), [operational risk](#), [current pre-provision net revenue \(PPNR\)](#), and [aggregation](#) models; and
- [Proposed a new noninterest income model](#) for the 2027 test along with FR Y-14 reporting changes.

The Fed estimates that the complete package of model, scenario, and SCB changes will reduce annual volatility in capital requirements by approximately 50% without materially changing aggregate capital levels.

What does the final transparency rule do and how does it differ from the proposal? The final rule is substantially similar to the [proposal from October 2025](#) and establishes:

- **Annual public input and disclosure.** The Fed will publish proposed scenarios for comment each year. It will also publish model documentation annually and seek public input before implementing a material model change, which would be any estimated to affect an individual firm's projected post-stress CET1 ratio by at least 20 basis points or change the average absolute result across covered firms by at least 10 basis points. Routine re-estimation, updated data, and other adjustments that do not introduce a new model or conceptually change an existing model will not require public input.
- **Revised calendar.** The Fed will retain December 31st as the stress test jump-off date, publish proposed scenarios by January 10th, finalize scenarios by February 28th, move the general capital-plan deadline from April 5th to April 30th, publish final model documentation by May 15th, and continue publishing results by June 30th. The earlier proposal would have moved the jump-off date to September 30th and published scenarios and model materials by October 15th of the prior year.
- **Two global market shocks.** After the October 2025 proposal sought input on multiple-shock alternatives, the final framework will use two shocks with the same as-of date and apply the one producing greater trading and counterparty losses for each firm. The Fed also tightened the ranges in which the shocks will typically fall, while retaining flexibility to go beyond those ranges in exceptional circumstances.

What does the final SCB averaging rule do and how does it differ from the proposal? The final rule is substantially similar to the [proposal from April 2025](#) and establishes:

- **Two-year averaging.** For firms tested in two consecutive years, the SCB will be based on the average capital decline projected under the two stress tests. The final rule adopts the proposal's equal

weighting of the two tests and does not adopt alternatives such as three-year averaging or using only the latest result when it is lower. Firms without two consecutive annual results will continue to use their most recent test result. The Fed generally will not use averaging when it recalculates a firm's SCB following a material change in the firm's risk profile, such as an acquisition or divestiture.

- **Later effective date and implementation.** New SCB requirements will take effect on January 1st instead of October 1st, as proposed. Averaging will begin with requirements calculated following the 2028 stress test and averaged SCBs will first be effective on January 1st, 2029.

What is in the finalized 2027 model documentation? After being issued for comment for the first time in October 2025, the models to be used for the 2027 stress tests were finalized with targeted changes and clarifications based on the 30 comments received, including:

- **PPNR.** The Fed finalized the proposed use of granular position data for net interest income and bank-provided projections for noninterest income and expense, but the finalized noninterest income model may be replaced in whole or in part by the separate model proposal discussed below.
- **Credit risk.** The Fed generally adopted the credit risk models as proposed. While there were some updates, the Fed generally declined requests for greater segmentation or recognition of additional risk mitigants, citing data limitations, complexity, or concerns about consistent treatment across firms.
- **Market risk.** The Fed largely finalized the proposed changes to the securities, fair-value-option, yield-curve, credit-valuation-adjustment, and counterparty-default models. These include shorter liquidity horizons and other changes generally intended to reduce the severity and complexity of projected market losses.
- **Aggregation and deferred tax assets (DTAs).** In a change from the proposal, the Fed extended the period for assessing the valuation allowance on DTAs arising from temporary differences, allowing firms to recognize more of those assets under stress.
- **Operational risk.** As proposed, the Fed eliminated the macroeconomic regression previously used to project operational losses and will primarily use a distributional model based on historical operational losses, scaled using an asset measure that excludes certain highly liquid assets.

What is in the proposed noninterest income model? The Fed proposed replacing the noninterest income model included in the finalized 2027 PPNR documentation with a more granular framework intended to better reflect how different business activities generate fee income. The proposed framework would use granular FR Y-14Q data and one of four approaches for each revenue category:

- **Volume-based models** would generally project revenue by separately estimating business activity and the fee earned on each unit of activity. They would apply to portions of card fees, mortgage production and servicing, deposit fees, investment banking, asset management, wealth management, and investment services.
- **Regression models** would apply where appropriate business-volume data are unavailable but revenue can be related to economic or financial variables.
- **Flatline projections** would apply where the Fed did not identify an appropriate statistical relationship, where flatlining would avoid double counting, or where revenue has historically remained resilient under stress.
- **Sales and trading revenue projections** would have a historically calibrated reduction applied to reflect adverse revenue outcomes.

What reporting changes did the Fed finalize and propose?

- **Final reporting changes.** The Fed finalized FR Y-14 reporting changes supporting the 2027 models and SCB calculation. In response to comments, it withdrew a proposed requirement for firms to submit additional supporting documentation with the FR Y-14Q trading schedule, concluding that the existing standardized fields provide sufficient information.

- **Proposed reporting changes.** The Fed proposed collecting additional data on noninterest income, mortgage servicing rights, wholesale loans, and other risk exposures to support the proposed noninterest income model, improve reporting consistency, and inform potential future model changes.

What's next?

- Comments on the proposed noninterest income model and related FR Y-14 revisions are due December 1st. The Fed expects to announce by May 15th, 2027 whether it will implement any portion of the proposed model for the 2027 test.
- Proposed scenarios for the 2027 stress test will be published by January 10th and finalized by February 28th. Capital plans and company-run stress tests will generally be due by April 30th, final model documentation will be published by May 15th, and results will be released by June 30th.
- Finalized reporting revisions will apply beginning with the June 30th, 2027 report date. The proposed reporting revisions would generally apply beginning with the December 31st, 2027 report date.



Our Take

A more transparent and stable test, but not necessarily an easier one

The final rules mark the most significant change to the stress testing framework since the SCB was introduced. The two-year averaging and opportunity to comment on scenarios should help make SCBs more stable, while detailed model documentation gives firms much greater insight into how supervisory results are produced. However, the benefits of greater transparency will likely come with heightened expectations from senior management and other bank stakeholders for firms to forecast the Fed's results and reconcile them with internal projections. Meeting those expectations will be a substantial undertaking.

The Fed has published more than 1,300 pages of detail covering 21 supervisory models across credit, market, operational risk, PPNR and aggregation. Firms seeking to replicate the results will need to interpret the Fed's specifications, connect them with granular regulatory data, validate their calculations against published results and keep the analysis current as models change. The payoff from overcoming that complexity is a clearer, earlier view of capital impacts and what is driving them, whether changes in the firm's portfolio, the scenarios or the Fed's modeling assumptions.

This work will also help firms prepare for the Fed's broader use of stress testing in ongoing supervision. As Vice Chair for Supervision Michelle Bowman recently [noted](#), forward-looking scenario analysis and reverse stress testing could be used to identify firm-specific financial and nonfinancial vulnerabilities and inform supervisory priorities. Firms should therefore be prepared to explain how their own scenarios identify material vulnerabilities and translate them into potential financial effects.

The first comment process shows both the opportunity and the limits of engagement

The results of the first public comment process show that firms can influence the supervisory models when they identify a specific weakness and offer a practical, well-supported solution. The DTA revision illustrates this point: after commenters challenged the proposed assumptions as overly punitive, the Fed extended the valuation-assessment period, allowing firms to recognize more deferred tax assets under stress.

By contrast, comments generally gained less traction when the Fed found that the data needed to implement the change were incomplete, inconsistent, or insufficient to support reliable estimates. This suggests that firms will have a stronger basis for influencing the models when they can quantify why a difference matters, demonstrate that consistent data are available, and propose an alternative that improves risk capture.

The proposed noninterest-income framework will be the next major test of the comment process. Firms should assess whether its measures of business activity, fee assumptions, economic sensitivities and starting values appropriately capture their revenue sources. Comments may be more effective where firms can show how specific assumptions distort the relationship between stressed business volumes and revenue, quantify the resulting capital effect and support a workable alternative with reliable FR Y-14 data.

2 Digital assets: Fed releases GENIUS proposals and more

What happened? The following notable events took place regarding digital assets over the past two weeks:

- On September 24th, the Fed released two [proposals to implement the GENIUS Act](#). The proposals detail the Fed's regulatory rulebook for stablecoins and provide a tailored application process for banks subject to Fed oversight to obtain approval to issue stablecoins.
- Also on September 24th, the CFTC released [updated FAQs](#) on tokenized investments and blockchain recordkeeping.
- On October 1st, the SEC released a [proposal](#) to create a regulatory framework for crypto asset custody by registered investment advisers and regulated funds.

Which firms are covered by the Fed GENIUS Act proposals? The proposals apply to stablecoin issuers subject to Fed oversight under the GENIUS Act, which includes (A) insured state member banks and (B) state-qualified issuers (including certain nonbanks and uninsured state-chartered depository institutions) with \$10 billion in stablecoins outstanding.

What do the Fed GENIUS Act proposals contain? The proposals provide a broad set of requirements for stablecoin issuers. Key examples – and how they compare with the GENIUS Act itself and proposals from the OCC and FDIC – include:

Area		GENIUS Act baseline	Fed proposal	OCC and FDIC proposals
Reserves	Backing	1:1 at all times	<i>Same as Act</i>	<i>Same as Act</i>
	Eligible assets	Cash, deposits, short-term Treasuries, overnight repo, government money market funds	<i>Same as Act</i>	<i>Same as Act</i>
	Diversification	Left to regulators	Principles-based	OCC: Requests feedback on principles-based or hard limits FDIC: 40% cap per institution
	Shortfall	Left to regulators	Plan within 24 hours; liquidation by next business day	OCC: liquidation after 15 business days FDIC: at FDIC's discretion
Activities	Scope	Core stablecoin activities only	Same as Act; no lending	Both: same as Act FDIC: also bars credit to buy the issuer's coins
	Yield	Issuers can't pay interest or yield	Certain third-party arrangements presumed prohibited	Certain third-party arrangements presumed prohibited
Risk management	Approach	Left to regulators	Principles-based; parent bank's risk framework can count	OCC: bank-style safety and soundness standards FDIC: detailed IT and key management
Redemption	Timing	"Timely," undefined	2 business days	2 business days
	Surges	Not addressed	No volume relief; extension only at Fed's discretion	OCC: automatic 7 days if redemptions top 10% in a day FDIC: extension at its discretion

Area		GENIUS Act baseline	Fed proposal	OCC and FDIC proposals
Reporting	Public	Monthly certified, examined reserve reports	<i>Same as Act</i>	<i>Same as Act</i>
	Supervisory	Left to regulators	Weekly and quarterly reports; annual exam	OCC: weekly and quarterly reports
Capital	Approach	Tailored to business model and risk	Standardized formula: - Tiered operational risk charge of 2% of the first \$20 billion outstanding, 1.5% of the next \$30 billion and 1% above \$50 billion 25% of 3 year average non-reserve revenue add-on - Adjustments related to other categories such as operational losses and uninsured deposits.	Individualized, set by supervisor
	Calibration	Left to regulators	2% to 1% by size tier, plus a revenue add-on	\$5M floor during de novo period
	Liquidity buffer	Not required	None	12-month operational backstop
	Shortfall	Left to regulators	Liquidation if still short at next quarter-end	OCC: liquidation after two quarters FDIC: at FDIC's discretion
	Parent bank	Parent can't be required to hold extra capital for the issuer	Issuer's minimum deducted from parent CET1	Both: issuer deconsolidated FDIC: also deducts issuer's retained earnings

What do the CFTC FAQs say? They cover two topics:

- **Tokenized customer fund investments.** Futures Commission Merchants (FCMs) and Derivatives Clearing Organizations (DCOs) may invest customer funds in tokenized forms of already-permitted investments. The token must give holders the same or equivalent legal and economic rights, and the investment must meet the rule's liquidity, concentration, maturity and custody requirements.
- **Blockchain recordkeeping.** Firms may keep records on a blockchain if they meet the CFTC's existing recordkeeping requirements, including prompt production on demand (including under circumstances where a network goes offline) and controls that ensure records are authentic.

What does the SEC proposal contain? The proposal sets forth a number of requirements around asset custody, including:

- **Self-custody as a fallback.** Advisers could self-custody client crypto assets only if they determine, before taking custody and on a quarterly basis thereafter, that no permitted custodian is available. Advisers that self-custody would need to meet several conditions, including documented safeguarding expertise; private key management, with at least two people authorizing transactions; annual internal control reports from an independent accountant; and quarterly account statements.
- **State trust companies as custodians.** Advisers and funds could use state trust companies authorized by their state banking authority to custody digital assets. On an annual basis, the adviser or fund would be required to conduct due diligence on the trust company, including reviewing the trust company's audited financials and internal control report as well as confirming that client assets are segregated from the trust company's own assets.
- **On-chain records and broader modernization.** The proposal explains that records kept on a

crypto network could satisfy existing SEC recordkeeping rules. The proposal would also modernize the custody rules more broadly, for example:

- dropping the requirement that custody-rule accountants be registered with, and inspected by, the PCAOB; and
- adding exceptions for discretionary trading authority, standing letters of authorization and inadvertent custody.

What's next? Comments on the Fed proposals are due by November 30th and comments on the SEC proposal will be due 60 days following its publication in the Federal Register.



Our Take

With CLARITY stalled in Congress, the agencies are writing the rulebook themselves

Following the CLARITY Act falling short of the votes it needed in the Senate last month (see *Our Take* [here](#)), the agencies have steadily delivered on their pledge to push ahead without it. For the foreseeable future, further regulatory developments will continue to be steered by the regulators rather than Congress. However, agency action is more vulnerable to legal challenge and easier for a future administration to reverse than a statute. Much of the recent activity also comes as staff FAQs, exemptions and no-action relief rather than final rules, which is the fastest form of guidance but also the least durable.

The Fed largely joins the GENIUS chorus but hits its own notes on stress

The federal banking agencies now have a complete set of GENIUS Act implementation proposals, with broad alignment on two-business-day redemptions and restrictions on certain third-party yield arrangements. The differences in the Fed proposal largely center around what happens in periods of stress, with the Fed proposing stricter standards for mitigating reserve shortfalls and redemption surges. Those differences will matter to banking organizations deciding where to house an issuer.

Timing is now the binding constraint as the GENIUS Act comes into effect on January 18th, 2027, and comments on the Fed proposals are not due until the end of November. For many firms – especially certain nonbanks and uninsured state banks that would be subject to Fed oversight – meeting this standard will be a very significant undertaking. Setting up a reporting function that can generate weekly reports will be a particular challenge for most firms, and the tight timeline to implement an AML and sanctions function will be daunting for firms both large and small. Assessing and certifying that the fair value of reserves meets or exceeds outstanding issuance will be complex.

The market regulators fit emerging technology into existing rules

The CFTC FAQs and the SEC custody proposal share a common approach by updating existing rules to account for digital assets and blockchain technology. While much of the CFTC FAQs will provide welcome clarity for firms offering and facilitating tokenized investments, they also remind firms that the use of blockchain does not mean that rules will be tailored or modified, including that firms must still be able to produce records if the network or its blockchain explorer goes down. The hard work therefore moves to proving that a token's rights match the underlying asset and that on-chain records can be produced on demand. Firms registered with both market regulators should design a single on-chain recordkeeping approach that works under both regimes.

For asset managers, the SEC proposal is the more consequential development as it addresses the current market gap that a permitted custodian may not be readily available for certain crypto assets. While the state trust company route will likely serve to fill this gap, it also creates an annual due diligence obligation that will require firms to examine whether their third-party risk management programs can confirm areas such as asset segregation and adequate controls. Self-custody, by contrast, is a narrow backstop as it is available only when no permitted custodian exists. Advisers and funds should map their holdings against which custodians can actually hold them, test existing trust company relationships against the proposed diligence standards and consider commenting on how the self-custody conditions would work in practice.

3 SEC targets broader private market access and stronger valuation practices

What happened? On September 30th, the SEC issued a series of proposals to 1) [update performance-based compensation rules for investment advisers](#), 2) [modernize interval fund and multiple share class requirements](#), and 3) [request comment on additional ways to qualify as an accredited investor](#).

Separately, on September 28th, SEC staff issued a [statement](#) reinforcing existing fair value measurement and disclosure requirements for private assets.

What would the investment adviser performance-based compensation proposal do? The proposal would expand the circumstances in which registered investment advisers may charge performance-based compensation by:

- **Creating a new exception for regulated funds.** Advisers could charge registered open- and closed-end funds and business development companies (BDCs) performance fees of up to 20% of net capital gains or net capital appreciation, including realized and unrealized gains. The fund would need to meet specified governance standards, and its board would need to determine that the arrangement is in the fund's best interests after considering factors including the fund's strategy, valuation practices and the basis for calculating the fee.
- **Using accredited-investor status to expand the "qualified client" definition.** Currently, individuals generally qualify to pay performance fees if they have at least \$1.4 million assets under management (AUM) with the adviser or a net worth of more than \$2.7 million. The proposal would replace the AUM pathway with accredited-investor status, which generally requires more than \$1 million in net worth, excluding a primary residence, or annual income above \$200,000 individually or \$300,000 jointly. The existing \$2.7 million net-worth pathway would remain.
- **Adding disclosure requirements.** Regulated funds would be required to separately disclose all performance-based compensation paid to their advisers, including compensation based on capital gains or appreciation as well as interest, ordinary income or dividends.

How is the SEC considering expanding accredited investor qualification? The Commission is requesting comment on additional, non-wealth-based ways for individuals to qualify as "accredited investors," a designation that would make them eligible to purchase private, unregistered investments. The first route would be available to individuals passing a [new accredited-investor exam](#), to be developed by FINRA, with no accompanying minimum net worth, income, or existing license. Additionally, the SEC is seeking comment on whether to qualify anyone holding, in good standing, any of the following: [US CPA license](#), a [chartered financial analyst](#), a [certified financial planner](#), or the [FINRA Series 79 \(investment banking representative\)](#), or the [FINRA Series 86/87](#) (research analyst).

What would the interval fund proposal do? The proposal would modernize requirements for interval funds, a type of registered closed-end fund that can invest in less-liquid assets while offering investors opportunities to sell shares back to the fund at scheduled intervals. It would also expand the ability of registered closed-end funds and BDCs to offer multiple share classes. Proposed key changes include:

- **More flexible repurchases.** Interval funds could add monthly repurchase offers to the currently permitted quarterly, semiannual and annual intervals. New funds could also defer their first repurchase offer for up to two years. Separately, interval funds and other closed-end funds or BDCs could make discretionary repurchase offers annually rather than once every two years.
- **A principles-based liquidity requirement.** The proposal would replace the current requirement to hold liquid assets equal to 100% of a repurchase offer with a standard requiring funds to manage their portfolios so they can meet repurchases without selling assets at prices that deviate significantly from their carrying values.

- **Multiple share classes.** Closed-end funds and BDCs would be able to offer multiple share classes with different fees and distribution arrangements, using a framework like the one already available to open-end mutual funds. The proposal would also permit the fee and early-withdrawal-charge arrangements needed to support those share classes.
- **Disclosure and reporting updates.** The proposal would revise prospectus and reporting requirements, permit deferred sales loads under specified conditions and rescind most existing exemptive orders addressing monthly repurchases and multiple share classes.

What is in the SEC statement on private asset valuations? The statement reminds registrants holding private assets, particularly private credit, and their auditors, about existing fair value measurement and disclosure requirements. It does not establish new requirements, but highlights areas where the assets' illiquidity and limited market pricing can require significant judgment, including:

- **Valuation practices.** The statement notes that a lack of timely borrower information does not relieve management of its responsibility to estimate fair value as of the measurement date. Valuations should reflect reasonably available information that market participants would consider, and valuation techniques should be calibrated at initial recognition and reassessed as market conditions change.
- **Portfolio disclosures.** SEC staff expressed concern that existing disclosures may not provide investors with enough information to understand the risks underlying a fund's reported values and income. For example, the statement highlights disclosure of loans for which the fund has stopped recording interest because collection is uncertain, and loans for which interest is added to the amount owed rather than paid in cash.
- **Use of NAV.** The statement includes a reminder that management may elect to use an investee fund's reported net asset value (NAV) to estimate fair value (provided accounting conditions are met), but the decision is optional and investment-specific. It notes that management should continually evaluate relevant information as it evolves, including changes in market conditions and secondary-market data, and document why the use of NAV remains appropriate.

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



Our Take

Broader market access will put product governance and investor safeguards to the test

Taken together, the SEC's actions could expand the ways private market and other differentiated strategies reach a broader investor base. As access broadens, however, more of the investor-protection burden will fall on product governance, board oversight, valuation, liquidity management and disclosure. For firms, the expansion opportunities presented by the proposals will therefore come with a corresponding need to demonstrate that products are appropriately structured, priced, distributed and governed for the investors they are intended to serve. Specifically:

- **Expanding performance-based compensation** could make registered funds more attractive vehicles for differentiated strategies while heightening valuation and incentive concerns. Allowing advisers to earn performance fees from registered funds could change the economics of bringing strategies historically concentrated in private funds to a broader investor base. At the same time, allowing compensation based on unrealized appreciation would create a more direct connection between adviser compensation and valuations that may involve significant judgment. Key elements still under consideration, including whether fees should be limited to realized gains, what is the appropriate fee cap, and what the measurement period should be, will determine the strength of those incentives. Fund boards would sit at the center of the framework, with responsibility for assessing whether the arrangement is in the fund's best interests considering its strategy, valuation practices and fee methodology. Firms and boards would therefore need to evaluate how performance-fee structures affect valuation risk, adviser incentives and expected investor outcomes.

- **New accredited-investor pathways** would move the definition closer to demonstrated competency and further from financial capacity as the primary measure of eligibility. That shift could broaden participation in private offerings, although the incremental population may be smaller than the number of credential holders suggests because some already qualify under existing standards. More importantly, accredited status could provide less assurance that an investor has the financial resilience to withstand illiquidity or substantial loss. Firms distributing private offerings may therefore need to place greater emphasis on understanding a client's liquidity needs, concentration, investment horizon and ability to withstand loss, given that accredited status may no longer be a proxy for those characteristics.
- **Interval fund reforms** could accelerate use of these structures as a distribution channel for less-liquid strategies, while making liquidity design and execution increasingly important. A standing framework for multiple share classes would reduce reliance on individual exemptive orders, while greater flexibility around repurchases and liquidity management could make interval funds easier to structure and distribute. The proposal's open questions will determine how much flexibility funds ultimately gain and what that means for investors' ability to exit. A longer period before a new fund's first repurchase could provide additional time to build the portfolio but would also extend the period before investors can seek liquidity. Similarly, smaller repurchase amounts for funds offering monthly liquidity could make more frequent offers easier to manage while limiting the amount investors can redeem at each interval. Firms would therefore need to align portfolio liquidity, repurchase terms, investor communications and operational capabilities and ensure boards have an oversight model capable of supporting more frequent liquidity decisions.

Broader private-market access raises the stakes for valuation

Even as the SEC works to expand access to private assets, the staff statement demonstrates the high expectations that remain for valuation processes, supporting evidence and investor disclosures. The message for firms is that valuation needs to move with the underlying asset as borrower and market information evolves. The statement's focus on information quality, calibration, portfolio disclosures and the use of secondary market activity highlights the importance of incorporating new information into valuation conclusions as it becomes available. Firms should consider whether their processes identify and evaluate new information promptly, whether changes in borrower performance and credit risk are appropriately reflected in valuations, and whether disclosures give investors sufficient information to understand the relationship between reported values, market conditions and underlying asset performance.

The statement also reinforces the importance of a defensible evidence trail. Registrants should be able to demonstrate how a valuation was determined, as well as why the methodology, information and assumptions supporting it remain appropriate as conditions change. That includes processes for determining when new evidence warrants a change in valuation or related disclosures. For auditors, the statement reinforces the importance of evaluating whether management's valuations reflect information available at the measurement date and whether sufficient appropriate audit evidence supports those conclusions.

4 Fed updates supervisory operating memorandum, again

What happened? On September 24th, the Fed issued an updated [statement of supervisory operating principles](#) (SOP) that supersedes the [version](#) last updated in April 2026.

What has changed? The updated SOP incorporates lessons from the [new review](#) of Silicon Valley Bank's failure and introduces several changes intended to address supervisory decision-making, escalation, and intervention practices:

- **Supervisory escalation and decision-making.** The SOP adds new guidance intended to address what the Fed describes as a culture of excessive risk aversion and indecision by supervisory teams. Under the revised SOP, examination teams will be required to provide regular reports to Reserve

Bank leadership identifying supervisory concerns where examiners are uncertain whether the standard for action has been met or whether taking action might be inconsistent with Board or Reserve Bank expectations. The SOP also states that supervisory staff will not be criticized for reasonable mistakes made in good faith.

- **Revised probability standard.** The April SOP directed supervisors to estimate both the probability and severity of potential harm and provided examples of quantitative tests that would "clearly be sufficient" to establish significant harm, including losses that would cause a bank to become less than well capitalized or experience significant liquidity outflows. The updated SOP removes those examples and no longer requires supervisors to estimate probability using quantitative tools. Instead, it states that, until reliable probability tools are developed, the good-faith standard is satisfied if supervisory staff have sufficient evidence that "significant harm is plausible."
- **Broader scope for MRAs and MRIAs.** The April SOP focused largely on potential harm to a firm's financial condition. The updated SOP expands supervisory considerations to include impacts on other firms, the Deposit Insurance Fund (DIF), a firm's resolvability, and US financial stability. These concepts are incorporated throughout the document, including the standards for Matters Requiring Attention (MRAs) and Matters Requiring Immediate Attention (MRIAs).
- **Additional guidance on enforcement action termination.** The April SOP directed supervisors to terminate enforcement actions promptly once underlying deficiencies had been remediated. The updated SOP goes further by introducing a concept of "substantial compliance." Where remaining deficiencies are limited in scope, management has the capacity to complete the remaining work, and any necessary compensating controls have been implemented, examination teams are instructed to consider whether the enforcement action should be terminated and, if appropriate, replaced with an MRA or MRIA.



Our Take

The bar for findings remains elevated and examiner judgment stays central

These latest revisions reinforce the Fed's ongoing effort to focus the activities of supervisory staff and any formal supervisory findings on issues that pose meaningful risk to safety and soundness rather than procedural, documentation, or process deficiencies. At the same time, the revised SOP confirms that those outcomes will continue to rely on supervisory judgment rather than specific formulaic standards. This approach leaves examiners with some discretion but tasks the Fed with an ongoing challenge to drive consistency in application.

Notably, by using revision of the SOP to drive change, the Fed is diverging from how the other banking agencies are implementing their supervisory agenda. Unlike the OCC and FDIC rulemaking to define "[unsafe and unsound practices](#)," which was subject to notice-and-comment rulemaking before being finalized, the Fed's SOP continues to be updated through periodic revisions that are circulated internally before being released publicly. Concepts introduced as meaningful clarifications only months ago have already been revisited, underscoring that the SOP remains an internal management document rather than a settled regulatory standard. While that approach allows the Fed to respond quickly as supervisory priorities change, firms have less certainty regarding which concepts will be in place during the course of their supervision, and are left navigating similar concepts of materiality and risk-based supervision through definitions that vary across their supervisors. Firms with multiple regulators will need to account for those differences while maintaining a sufficiently consistent approach to risk identification, escalation, and remediation across the enterprise.

5 Congress expands Russia sanctions while Treasury targets Iran and cartels

What happened? The following notable events took place regarding sanctions over the past two weeks:

- On September 18th, the President signed the [Lindsey O. Graham Sanctioning Russia and Iran Act](#) into law. The Act represents a notable expansion and codification of the US Russia sanctions framework, converting a patchwork of executive orders into statute.
- On September 29th, the Office of Foreign Assets Control (OFAC) [designated](#) nearly 50 individuals and entities tied to the Sinaloa Cartel's Los Mayos faction, including cartel leaders and other individuals, money-laundering casas de cambio, and a group of Mexican officials for taking bribes to shield cartel operations from law enforcement.
- Also on September 29th, OFAC [issued](#) new and amended Cuba sanctions regulations, effective September 30th. The rules end US banks' authorization to process Cuba-related "U-turn" transactions and expand prohibitions on dealings with Cuba Restricted List entities.
- On September 30th, OFAC [designated](#) 10 targets tied to criminal network Tren de Aragua (TdA), including an operative wanted for a malware-driven ATM jackpotting scheme that has stolen over \$40.7 million from US financial institutions across over 1,500 attacks, with proceeds laundered through cryptocurrency. A separate TdA leader was designated for running illicit gold mining operations alongside narcotics exporting.
- On October 1st, OFAC [issued](#) new sectoral sanctions targeting Iran's automotive and rail sectors as well as its iron, steel, aluminum, and copper sectors. The action reached major automakers (IKCO, SAIPA), state rail operators, and steel producers, along with foreign suppliers in Indonesia, the UAE, Türkiye, Hong Kong, China, and Germany that kept the networks supplied.
- Also on October 1st, Treasury [took coordinated action](#) against the A7 Network, a Russia-linked shadow banking network also exploited by Iran, including the IRGC and Hamas. FinCEN proposed a rule barring transmittals involving A7 affiliates while OFAC designated A7 as a significant transnational criminal organization. The network reportedly processed over \$17 billion between January 2025 and June 2026 and has ties to Iran's largest crypto exchange, Nobitex, and to North Korean crypto hacks.

What is in the Lindsey Graham Act? The Act contains the following Russia sanctions provisions on three different timelines:

- **Upon enactment:**
 - **Debt and existing sanctions:** US purchases of Russian sovereign debt are banned, and the existing executive-order sanctions on Russia are locked into law.
 - **Termination:** Russia-related sanctions can be lifted only if Russia signs a peace agreement accepted by Ukraine and ends hostilities and cannot be lifted unilaterally by the President. Congress then has 30 days (60 in late summer) to block the termination.
 - **Waiver:** The President can waive any measure by certifying to Congress that doing so serves the national interest.
 - **Carve-outs:** Existing Treasury general licenses are preserved and companies have 270 days to wind down Russian operations.
- **Within 30 days (by October 18, 2026):**

- **Designations:** Sanctions apply to senior Russian officials, the Bank of Russia, Sberbank, VTB, and Gazprombank (all already restricted), plus state-affiliated entities and the shadow fleet.
- **Prohibitions:** Bans take effect on US fund transfers to the Russian government or officials, US exchange trading of state-affiliated Russian issuers, new US investment in Russia, and exports of US energy to Russia.
- **Tariffs:** Duties of up to 500% apply to Russian imports as well as all goods from the top five buyers of Russian oil or gas and the top five facilitators of sanctions evasion.
- **Every 180 days (starting April 2027):**
 - **Ongoing reviews:** The President must make additional designations, and USTR must re-rank the top buyers of Russian oil and gas and adjust tariffs.



Our Take

Foreign banks face greater secondary sanctions risk

Any foreign financial institution that conducts a significant transaction with Sberbank, VTB, Gazprombank, or another state-owned Russian bank now faces the full sanctions toolkit including asset blocking and correspondent-account restrictions, regardless of any US nexus. Firms with cross-border correspondent relationships, particularly with banks headquartered in jurisdictions that continue to transact with Russian state banks, should reassess counterparty risk down the correspondent chain, not just at the level of their direct relationships. In doing so, they should be careful to not assume the secondary-sanctions exposure is uniform across all the covered Russian institutions.

Shadow fleet risk now reaches the entire logistics chain

In addition to vessel owners and operators, the Act targets insurers, senior crew, vessels conducting ship-to-ship transfers with sanctioned tankers, and ports that service them. A UK, EU, G7, or Five Eyes listing can serve as evidence for a US designation. Firms in maritime insurance, ship finance, commodities trading, and port operations should treat a UK, EU, or allied listing as a leading indicator of likely US action rather than waiting for a formal OFAC designation. They should extend screening down to insurers, crewing agents, and ship-to-ship transfer counterparties, not just the registered owner or operator of record.

Tariffs are now a sanctions tool

The Act's high tariffs on Russian goods and top buyers of Russian oil and gas are notable in that it formally merges tariff policy and sanctions, blurring the line between trade compliance and sanctions compliance. As determinations of top buyers of Russian oil and gas come from trade data rather than OFAC lists, firms must expand their sanctions programs beyond traditional SDN screening. Trade and sanctions teams should monitor USTR determinations together, and banks should flag trade finance, correspondent, and commercial exposure to newly covered countries.

Different targets, same underlying playbook

Taken together, the OFAC actions expand sanctions focus beyond Russia while reinforcing the same structural lesson as the Graham Act: sanctions risk increasingly travels through layered, multi-jurisdictional networks rather than discrete, single-country targets. The A7 Network is the clearest example, a single shadow-banking infrastructure built around Russian sanctions evasion that Iran, the IRGC, Hamas, cybercriminals, and North Korean hackers all independently plugged into, which means a network built to evade one sanctions program can become exposure for several at once. For compliance teams, the practical implication is consistent across all of the previous two weeks' actions. Screening and due diligence built around named individuals or countries alone will miss the facilitators, exchangers, and sub-agents that make sanctions evasion networks function, and that is exactly where the next wave of designations is likely to land.



On our radar

FDIC and Fed issue resolution plan feedback letters; OCC's Gould dissents. On September 29th, the FDIC and Fed [issued](#) resolution plan feedback letters to 15 domestic and foreign banking organizations with more than \$250 billion in assets, identifying no formal shortcomings or deficiencies. In his capacity as an FDIC Board member, OCC Comptroller Jonathan Gould [dissented](#) from one of the feedback letters, arguing that the agencies were effectively directing changes to a firm's preferred resolution strategy outside the existing shortcomings-and-deficiencies framework.

FSOC meeting covers financial stability, fraud, and supervisory reform. On September 29th, the Financial Stability Oversight Council (FSOC) [met](#) to review its quarterly financial stability monitor and receive an update from its Household Resilience Working Group on household conditions and fraud. The federal banking agencies also briefed the FSOC on supervision and regulation reform efforts.

Fed Vice Chair outlines discount window modernization. On September 22nd, Fed Vice Chair Philip Jefferson [spoke](#) on ongoing efforts to modernize the discount window, including streamlined collateral processes, increased use of the Discount Window Direct online portal, and improved coordination with the Federal Home Loan Banks. Jefferson emphasized that modernization remains an ongoing effort and highlighted continuing work to improve collateral mobility, interoperability with the FHLBs, and banks' ability to access liquidity quickly during periods of stress.

OCC updates Cybersecurity Supervision Work Program. On September 21st, the OCC [realigned](#) its examiner Cybersecurity Supervision Work Program (CSW) to the current National Institute of Standards and Technology (NIST) Cybersecurity Framework (CSF) categories and subcategories. While examination procedures are unchanged, firms that use NIST CSF can more readily map their programs to examiner objectives, and updated cross-references tie the CSW to the FFIEC IT Examination Handbook, CIS Critical Security Controls, and the Cyber Risk Institute Profile.

SEC publishes new examination handbook. On October 1st, the SEC's Division of Examinations [released](#) a new [handbook](#) providing additional guidance on the examination process, including how firms are selected, information requests and interviews, exit conferences, examination outcomes, and registrant responses. The handbook also establishes clearer expectations for engagement and key timelines, including disposition letters within 180 days, responses to deficiency letters within 30 days, and any additional staff comments generally within 60 days of a registrant's response.

Peirce departs SEC as Commission amends quorum rule. On October 2nd, SEC Chairman Paul Atkins and Commissioner Mark Uyeda [issued](#) a statement on the departure of Commissioner Hester Peirce, effective October 2nd. Her exit leaves Atkins and Uyeda as the only two sitting members of the five-seat Commission. Under SEC rules, two commissioners still form a quorum. The SEC also [amended](#) its quorum rule so that one commissioner can act alone if the other is recused.

OFAC consolidates sanctions penalty provisions. On September 25th, OFAC [consolidated](#) penalty provisions from individual sanctions program regulations into a new Part 505. The rule makes no substantive changes, but firms' sanctions policies and procedures may need citation updates as OFAC replaces program-level penalty text with cross-references to Part 505.



Additional information

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