# Our Take

## PwC's Financial Services Risk & Regulation Update

10.30.26 Topics: OCC GENIUS | SEC Exams | Insurance | Sanctions | On our radar

# 1 OCC finalizes more flexible GENIUS Act rule

**What happened?** On October 21st, the OCC finalized its rule implementing the GENIUS Act for payment stablecoin issuers within its jurisdiction. Alongside the rule, the OCC published details on application processes, including waivers for existing issuers, as well as reporting forms that remain under review.

**What changed from the proposal?** The final rule responds to over 300 comment letters received in response to its February proposal. While the core proposed framework remains intact, the final rule is less prescriptive in several key areas, including reserves and liquidity, interest and yield, redemption and capital.

| Topic | Proposal | Final rule |
|---|---|---|
| **Interest and yield** | Rebuttable presumption that certain arrangements with affiliates and related third parties violate the ban | **Presumption eliminated.** Arrangements reviewed case by case through applications and supervision; no safe harbors |
| **Diversification approach** | Option A (principles plus optional safe harbor) or Option B (mandatory metrics) | **Hybrid:** Option A principles plus a slimmed mandatory floor |
| **Daily liquidity** | At least 10% of reserves | **At least 5%** of reserves |
| **Weekly liquidity** | At least 30% available within five business days | **Eliminated** |
| **Concentration** | No more than 40% at any one institution; no more than 50% of daily liquidity at one institution | **No more than 40% per counterparty**, excluding the U.S. government, qualifying custodians, and centrally cleared repo; 50% sub-limit eliminated |
| **Weighted average maturity** | 20 days or less | **Eliminated** |
| **Insured deposits** | At least 0.5% of reserves for issuers with $25 billion or more, capped at $500 million | **Eliminated** |
| **Reserve buffer** | None; comment requested | **Required to the extent necessary** to cover outstanding issuance in adverse conditions |
| **Surplus withdrawals** | Once per month | **Any time** after due diligence; reserve income exempt from that diligence |
| **Redemption surge (>10% in 24 hours)** | Automatic, mandatory extension to seven calendar days | **24-hour notice** to the OCC; issuer may request an extension |
| **Capital definition** | Common equity tier 1 plus additional tier 1 | **Total equity less deductions** (intangibles, equity-funded backstop assets) |

| Topic | Proposal | Final rule |
|---|---|---|
| **$5 million capital floor** | De novo period only | **De novo period and ongoing** |
| **Backstop funding** | Not addressed | **Up to 50%** may be qualifying debt |
| **Capital compliance** | Measured at quarter-end | **At all times**; 24-hour notice of any shortfall |
| **Extended exam cycle** | 18–36 months; under $1 billion in issuance or $25 billion in monthly trading volume | **18–24 months**; under $1 billion including affiliated issuers |
| **Foreign issuers' U.S. reserves** | Statutory "sufficient" standard | **Four defined compliance options**; U.S.-incorporated institutions only |

**What's next?** The final rule takes effect on January 18th, 2027. Per the OCC's application guidance, existing issuers with a substantially complete application pending by that date may request a waiver, including from the prior-approval requirement, but the OCC will not begin accepting applications or waiver requests until the Office of Management and Budget (OMB) approves the application information collection. The OCC will announce when submissions open.



## Our Take

**More flexibility, but less certainty**

The OCC asked where it should draw bright lines and, in several important areas, ultimately chose not to. The final rule thus emerged as a more principles-based framework that gives issuers greater discretion while leaving them with more judgment calls to defend. The clearest example is liquidity risk management: under the proposal, meeting the quantitative requirements would have offered a clear path to compliance, while the final rule requires each issuer to determine how much liquidity its redemption profile requires and then be prepared to defend that judgment.

Capital reflects the same broader shift toward flexibility and judgment. Issuers have more options for meeting capital and operational-backstop requirements, while the OCC retains an individualized approach to determining the amount of capital each issuer must hold. The result is a framework in which some of the most consequential requirements will depend on choices made by issuers and judgments made by supervisors, rather than a common set of prescribed thresholds.

**The rewards question shifts to supervision**

The OCC took a similar approach to interest and yield, stepping back from the proposed presumption against certain affiliate and third-party arrangements while declining to provide safe harbors or grandfather existing programs. Instead, the agency plans to evaluate these arrangements through applications and supervision, creating a form of "regulation by approval" in which the boundaries of permissible rewards structures may take shape through individual licensing decisions.

For issuers, exchanges and other firms whose business models rely on rewards, the lack of clear boundaries creates a meaningful design constraint. Firms will need to assess their risk tolerance before committing to a structure, particularly where the economics depend on an interpretation of the interest and yield prohibition that has yet to be tested with the OCC. The case-by-case approach also leaves firms with limited certainty that an arrangement viewed as permissible today will receive the same treatment as similar structures or under future OCC leadership.

**What should issuers do now?**

With the final rule taking effect in January, issuers and prospective issuers should consider using the coming months to prepare for the application process and begin building the capabilities the OCC will expect them to demonstrate. Priorities include:

- **Preparing for licensing.** Assess the regulatory pathway (including whether a waiver is needed), key elements of the proposed business model and areas where early engagement with the OCC may help clarify supervisory expectations.
- **Testing liquidity and redemption capabilities.** Evaluate whether existing liquidity capabilities can support expected redemption activity and more severe stress scenarios, and be prepared to explain the judgments underlying those choices.
- **Assessing rewards arrangements.** Review existing and planned rewards and third-party arrangements, including their economics, and identify structures that may warrant discussion with the OCC as part of the application process.
- **Building regulatory infrastructure.** Assess the risk management, governance, regulatory reporting, and internal controls needed to operate under the final rule. Identify gaps and prioritize building the capabilities that will need to be in place before launch.

For more, see ***Our Take Special Edition: The OCC's GENIUS Act Final Rule***

## 2 SEC outlines familiar priorities for 2027 exams

**What happened?** On October 23rd, the SEC's Division of Examinations released its fiscal year 2027 examination priorities, covering examinations of investment advisers, investment companies, broker-dealers, self-regulatory organizations, clearing agencies and other market participants.

**What are the priorities for 2027?** The priorities identify areas that the Division views as presenting heightened risks to investors or market integrity and will help guide its risk-based examination program across the following areas:

- **Investment advisers.** Fiduciary duties remain a core priority, including conflicts of interest, investment recommendations and compliance programs. Areas of focus include advice involving private credit and other complex or illiquid investments; conflicts involving fees and expenses, cash management and other financial arrangements; and whether advisers consider factors such as liquidity, risk, potential returns, volatility, costs and client objectives when making recommendations. Exams will also focus on private fund advisers, including investment allocations, leverage, affiliated service providers and fee calculations. The Division will also assess compliance program effectiveness, including annual reviews, remediation efforts and whether policies have kept pace with changes in business models, clients and services, particularly following mergers or acquisitions. Newly registered and never-examined advisers will also remain a focus.
- **Investment companies.** Examinations will focus on fees and expenses, as well as whether portfolio management practices are consistent with disclosures and marketing materials. Areas of particular focus include funds investing in private credit and other complex or illiquid assets, including the associated valuation, liquidity, redemption and conflict risks. Leveraged and inverse exchange-traded funds (ETFs) and business development companies are also identified as priority areas.
- **Broker-dealers.** Examinations will address financial responsibility, trading practices, supervision and anti-money laundering (AML) compliance. Financial responsibility reviews will cover liquidity and counterparty risk, while trading reviews will include extended-hours trading, order routing and best execution. Regulation Best Interest (Reg BI) reviews will focus on recommendations involving complex, illiquid and higher-risk products, account types, rollovers and older or vulnerable investors, including reasonably available alternatives and compensation-related conflicts. Examinations will also assess supervisory systems and controls, AML independent testing, foreign omnibus accounts and sanctions compliance. Expanded Treasury clearing requirements also enter the examination agenda as implementation moves forward.

- **Cybersecurity, technology and privacy.** Operational resilience remains a broad priority, with attention to cybersecurity governance, access controls, data-loss prevention, incident response and recovery, third parties and protection of customer information. Examinations will also address amended Regulation S-P and Regulation S-ID requirements, including incident response, customer notification, service-provider oversight and identity theft prevention. Building on the SEC's existing work around AI, the 2027 priorities expand the range of activities involving "super intelligence" and other advanced technologies, including investment analysis, customer management, compliance, AML, Reg BI and trading. Examiners will also assess firms' preparations for technology-enabled threats such as phishing and deepfakes and evaluate whether representations, controls and outcomes associated with advanced technologies are consistent with firms' regulatory obligations.
- **Market infrastructure.** The Division will focus on risks arising from evolving market structure and technology, including expanded Treasury clearing, tokenization and extended-hours trading. Clearing-agency reviews will cover risk management, governance, recovery and wind-down. Regulation Systems Compliance and Integrity (Reg SCI) reviews include a new focus on tokenization and quantum computing, along with continued attention to incident response, cloud and third-party environments.



## Our Take

**Innovation brings familiar obligations into new settings**

One of the clearest themes in the 2027 priorities is the SEC's focus on how firms are managing risks as they expand into new products, technologies and market structures. The SEC remains focused on established obligations around investor protection, conflicts, disclosure, supervision and risk management, including as firms expand into private credit and other illiquid investments, advanced technology and evolving market infrastructure.

Private credit shows how this plays out across different parts of the industry. Advisers will need to demonstrate how they consider liquidity, costs, volatility and client objectives in making recommendations; funds face scrutiny around valuation, redemptions and conflicts; and broker-dealers remain accountable for Reg BI obligations when recommending complex or illiquid investments to retail customers. Firms expanding these offerings should consider whether product due diligence, valuation, disclosures, recommendations and supervision work together, particularly for products whose liquidity and valuation may become more challenging under stress.

As firms expand their use of advanced technology, the SEC is looking at whether existing controls and regulatory obligations continue to work as intended. For tools used in investment analysis, customer management, anti-money laundering, recommendations and trading, firms should be prepared to demonstrate that representations about their use are accurate, controls operate as intended and technology-enabled activities remain consistent with applicable regulatory obligations and firm policies. Ongoing monitoring and validation will be particularly important as tools, use cases and underlying models change over time.

One notable omission is digital assets, which are absent as a standalone examination priority for the second consecutive year. This does not mean SEC examiners are overlooking these products. As with the other innovative products highlighted in the priorities, examiners can assess digital asset risks through existing requirements around investor protection, disclosures, conflicts of interest and risk management.

# 3 States target “price optimization” in insurance rates

**What happened?** Over the last two months, four states have taken action on insurers’ use of “price optimization” to set rates. The practice involves adjusting premiums using factors unrelated to expected insurance losses or expenses, such as a customer’s likelihood of shopping around or accepting an increase, to charge the highest price the customer will tolerate.

- **On September 2nd, the Texas Department of Insurance (TDI)** issued Commissioner’s Bulletin B-0007-26, stating that price optimization in ratemaking, pricing or establishing a rating plan is unfairly discriminatory and violates the Insurance Code.
- **On September 21st, Michigan’s governor** approved Public Act 98, expressly prohibiting property and casualty (P&C) insurers from using price optimization in ratemaking.
- **On October 9th, the West Virginia Offices of the Insurance Commissioner (OIC)** issued Bulletin No. 26-03, interpreting existing ratemaking and unfair-discrimination provisions as prohibiting price optimization.
- **On October 12th, the Washington State Office of the Insurance Commissioner** issued Technical Assistance Advisory 2026-01, reaffirming its 2015 guidance that pricing unrelated to cost and risk is unfairly discriminatory.

**What are the key elements of each state action?** Each state sets out restrictions on using customer behavior in pricing, with different provisions on actuarial adjustments, rate filings and enforcement:

- **Texas.** The bulletin treats any use of price optimization in ratemaking, pricing or establishing a rating plan as unfairly discriminatory. It states that customer loyalty cannot justify higher premiums and that policyholders with the same risk profile receiving different premium increases through price optimization constitutes unfair discrimination. Insurers must classify risks using cost-based loss and expense considerations and fully disclose those considerations in rate filings. It states that noncompliance violates state law and will prompt appropriate enforcement action.
- **Michigan.** The law prohibits P&C insurers from using price optimization in ratemaking and classifies the practice as an unfair method of competition and an unfair or deceptive act or practice. The definition covers rate or premium adjustments based on price tolerance that lack actuarial justification and rely on factors unrelated to loss or expense. It specifically includes estimates of willingness to pay more, measures of price sensitivity and the likelihood of shopping, canceling, failing to renew or complaining to an insurer or its representative.
- **West Virginia.** The bulletin permits sound actuarial judgment but prohibits rate adjustments based on non-risk-related policyholder characteristics. The OIC states that price optimization can produce different increases for policyholders with the same loss history and risk profile and can result in excessive or inadequate premiums. P&C insurers must fully disclose cost-based loss and expense considerations in rate filings. The bulletin expects all P&C insurers operating in the state to refrain from price optimization and warns that noncompliance will prompt appropriate enforcement action.
- **Washington.** The advisory reaffirms the agency’s 2015 guidance as an interpretive policy statement. The advisory describes insurers using statistical analysis, often with non-insurance data, to estimate how much a customer will pay at renewal before shopping for another policy. Customers with the same expected costs and risk profile can consequently receive different premium increases, including a “loyalty penalty” for remaining with an insurer. The advisory describes those practices as unfairly discriminatory and states that unlawfully discriminatory rates will not be approved.

# Our Take

**Insurance pricing decisions face renewed scrutiny**

The recent state actions signal renewed scrutiny of price optimization, a practice that regulators and consumer advocates have challenged for more than a decade. These actions differ in legal force but share a clear position: premiums must reflect expected cost and risk, not an estimate of whether a customer will renew, shop around, or accept an increase. For carriers, this means examining how rates are selected and adjusted after the initial calculation, including changes requested by business teams.

A key compliance risk arises when insurers adjust rates calculated from expected claims and expenses using estimates of customer behavior, such as the likelihood of renewing or shopping for another policy. Such considerations may influence final premiums or decisions about pricing tiers and placement with affiliated insurers. Insurers should establish controls over the rate-selection process to identify and prevent adjustments based on customer willingness to pay, while documenting the insurance costs supporting their pricing decisions.

Complex models, alternative data and vendor tools, including those using artificial intelligence and machine learning (AI/ML), can make those influences harder to trace. Reviewing filed rating variables alone could miss how product or pricing teams use model outputs when selecting final premiums. Actuarial, product, legal and compliance teams should agree on where customer-behavior information may be used, who approves pricing adjustments and what evidence supports those decisions.

For multistate carriers, centralized pricing systems can carry the same practice across jurisdictions with different restrictions. These four states are unlikely to be the last to act, and insurers operating in other states should assess whether similar concerns exist in their own pricing practices. A common enterprise standard could reduce compliance gaps, with state-specific controls where requirements differ.

**What should insurers do now?** P&C insurers should consider the following actions related to decisions and controls connecting calculated rates to final premiums:

- **Inventory pricing practices and models.** Identify internal and vendor tools, including AI/ML models, that incorporate price sensitivity, retention, sales conversion or customer lifetime value, and assess how their outputs influence premiums, pricing tiers and adjustments.
- **Validate support for rate adjustments.** Review differences between calculated and selected rates for a documented loss and expense rationale, including departures presented in state filings, and confirm that supporting considerations are fully disclosed where required.
- **Strengthen pricing governance.** Clarify responsibilities across actuarial, product, legal and compliance teams. Establish policies governing whether and how retention and demand analytics may be used, with controls preventing impermissible outputs from flowing into rates.
- **Prepare for regulatory scrutiny.** Assemble the documentation needed to explain pricing models, inputs and adjustments in response to filing objections, data calls or market conduct examinations. Multistate carriers should also assess whether shared pricing policies address applicable state restrictions.

# 4 FinCEN issues first-ever foreign bank subpoena over Iran ties

**What happened?** On October 21st, the Financial Crimes Enforcement Network (FinCEN) issued an administrative subpoena under Section 5318(k) of the Bank Secrecy Act (BSA) to investigate a Greek bank's potential ties to Iran and its proxies. Separately, as part of Operation Economic Outcast, Treasury sanctioned four entities and five individuals, including a Panama- and Greece-based law firm, and identified nine vessels as blocked property for supporting Iran's shadow fleet.

**What is Section 5318(k) and what did FinCEN do?** Section 5318(k) gives US authorities the power to obtain records from foreign banks that maintain correspondent accounts in the United States, including records relating to other accounts at those banks, even when held outside the United States. Foreign banks that fail to comply with a qualifying subpoena can face daily penalties and potential termination of their US correspondent relationships.

The authority has existed for years, but this marks the first time FinCEN has used it to pursue a foreign bank over an Iran nexus. FinCEN did not name the bank, disclose the transactions under investigation, or allege the institution violated any law. The agency confirmed it is working closely with European partners, including authorities in Greece, and separately issued information requests to six other European banks regarding their relationships with OFAC designated Iranian financial institutions, also without naming them.

**Who else was targeted?** The law firm was designated for registering shell and front companies used to obscure beneficial ownership of shadow fleet vessels moving Iranian steel, petroleum, and petrochemicals. The notice identified the firm's use of employees as directors and officers of registered companies to conceal their true beneficial owners. Treasury also designated a ship manager and two shipping agents, including entities based in Singapore and the UAE, and identified nine vessels as blocked property.

## Our Take

**Banks face greater scrutiny of Iran exposure**

FinCEN's decision to use Section 5318(k) demonstrates a willingness to pursue foreign banks directly as part of Treasury's campaign against Iranian sanctions evasion. For institutions maintaining US correspondent accounts, the risk now extends to compulsory investigations even before a bank is designated or accused of wrongdoing. Failure to comply with a qualifying subpoena can also put US correspondent access at risk, giving foreign banks a strong incentive to maintain records that can be retrieved and produced promptly.

The separate information requests to six European banks suggest that FinCEN is examining potential Iran-related exposure across a wider group of institutions. Those requests may prove consequential for banks with indirect exposure through correspondent banking and trade finance relationships, where transactions can pass through multiple institutions. Banks should assess whether their due diligence identifies relationships with designated Iranian financial institutions, including through intermediaries, and whether they can substantiate their findings with transaction records and supporting documentation.

**Professional intermediaries face sanctions exposure**

Treasury's targeting of professional intermediaries marks a further expansion of Operation Economic Outcast, which has moved from broad sectoral sanctions in August to shadow fleet vessels in early October and now to the law firms and shipping agents supporting those networks. The progression suggests that Treasury is increasingly targeting the services and corporate structures that allow sanctioned activity to continue, creating exposure for financial institutions whose screening focuses primarily on immediate customers and counterparties.

The law firm designation illustrates how corporate formation services can conceal the individuals ultimately controlling sanctioned activity. By placing law firm employees in director and officer positions, these arrangements can make nominal representatives appear to control companies whose actual owners remain hidden. Financial institutions relying primarily on corporate registration records may therefore miss connections to sanctioned networks. Financial institutions with shipping, trade finance or correspondent banking exposure should consider extending due diligence to the professional intermediaries supporting their counterparties, including corporate formation agents, vessel managers and shipping agents. They should also review existing relationships for connections to newly designated entities and vessels, particularly where complex ownership structures may conceal an Iran nexus.



# On our radar

**Midterm elections could reshape financial services oversight.** The November 3rd elections will determine the composition of the next Congress, potentially affecting legislative priorities, oversight of financial regulators and agency confirmations. Find your polling place.

**FDIC proposes easing large-bank deposit insurance requirements.** On October 30th, the FDIC proposed rescinding its Part 370 rule, which requires banks with at least two million deposit accounts to maintain systems capable of calculating insured and uninsured deposits following failure. Instead, these banks would generally become subject to revised Part 360 requirements, including standardized depositor data and automated account holds, while the FDIC would perform the insurance calculations using its own systems. The agency estimates approximately $31 million in annualized industry savings. Comments are due 60 days after publication in the Federal Register.

**President signs EO on housing costs.** On October 22nd, the President signed an Executive Order (EO) that directs the FHFA to consider having Fannie Mae and Freddie Mac pilot a new program that uses automated valuation models to identify borrowers who qualify to have their mortgage insurance canceled, and expand their existing title acceptance pilot, which uses automated title review to replace the lender's title insurance policy on eligible refinances.

**Treasury proposes restrictions on institutional home purchases.** On October 22nd, Treasury proposed restrictions on purchases of single-family homes by large institutional investors, generally defined to include entities with investment control over at least 350 homes. The proposal would establish exceptions and safe harbors for certain activities, including build-to-rent, renovate-to-rent, and homeownership programs. Comments are due by November 23rd and the restrictions are scheduled to take effect January 7th, 2027.

**Court upholds ruling against Fed's debit interchange cap.** On October 26th, the US Court of Appeals for the Eighth Circuit affirmed a district court decision striking down the Fed's 21-cent debit interchange fee cap. The court found that the Fed improperly included fixed costs rather than limiting its calculations to the incremental costs of individual debit transactions, as required by the Durbin Amendment, and ordered the Fed to develop a fee structure consistent with the law.

**Treasury proposes expanded outbound investment restrictions.** On October 26th, the Treasury Department proposed a rule to codify the Outbound Investment Security Program, add high-performance computing and hypersonics as covered sectors, and expand the list of countries of concern. The proposal would also prohibit US persons from investing in the development of any super intelligence (SI) system and in certain biotechnology activities in countries of concern. Comments are due by December 7th.

**Warren urges Fed to restore bank examiners' supervisory authority.** On October 23rd, Senator Elizabeth Warren wrote to Fed Vice Chair for Supervision Michelle Bowman and urged her to rescind the Fed's September update to its supervisory operating principles, arguing that the revised standard

for identifying unsafe or unsound practices restricts examiners' ability to address cybersecurity vulnerabilities before they cause harm. Warren warned that the policy could weaken oversight as AI-enabled cyber threats increase.

**OCC asks California to exempt federally chartered banks from climate disclosure laws.** On October 29th, the OCC requested that the California Air Resources Board (CARB) exempt national banks and federal savings associations from the state's climate disclosure requirements under SB 253 and SB 261, citing federal preemption, supervisory authority and compliance burden concerns. Absent relief, companies doing business in California with at least $1 billion in annual revenue, including covered banks, must submit their first SB 253 reports covering Scope 1 and Scope 2 emissions by November 10th.

**SEC considers expanding alternative compliance for certain security-based swap dealers.** On October 28th, the SEC issued a notice considering raising the maximum outstanding security-based swap positions a dealer may hold while qualifying to follow CFTC rather than SEC capital, margin, segregation, recordkeeping and reporting requirements, from $50 billion to $100 billion. Comments are due by December 2nd.

**CFTC sues Utah to block state enforcement against registered markets.** On October 27th, the CFTC filed a lawsuit against Utah to stop the state from using state law to shut down CFTC-registered contract markets, arguing that Utah's actions obstruct federal preemption and the CFTC's exclusive jurisdiction. The CFTC has also initiated legal proceedings against nine other states.

**UK regulators propose streamlining senior manager requirements.** On October 23rd, the PRA and FCA proposed reducing regulatory pre-approvals for certain senior roles, eliminating annual certification requirements for approximately 139,000 individuals, and simplifying certain conduct reporting and training requirements. Pre-approval would remain for key senior roles, while firms would still be responsible for assessing fitness, propriety, and conduct. Comments are due by January 22nd, 2027.

# Additional information

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