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FRB heightens standards for supervisors on findings, enforcement actions

Initial perspectives on the Federal Reserve Board of Governors' (FRB) updated supervisory operating principles

On May 1, 2026, the Federal Reserve Board of Governors (FRB)'s Division of Supervision and Regulation raised its standards for supervisory notices in updated guidance to staff.[1] The Statement of Supervisory Operating Principles (SSOP) updates the first set of principles laid out by FRB Vice Chair for Supervision (VCS) Michelle Bowman on October 29, 2025.[2] It serves as a reminder that firms should invest in monitoring supervisory expectations, maturing regulatory change management capabilities, and building out regulatory engagement offices.[3]

5 insights you should know

1 **New "significant" standard for issuing MR(I)As**: The updated SSOP raises the standard for issuing matters requiring (immediate) attention (MR[I]As) by allowing supervisory staff to issue those findings only where, "in good faith," they find a deficiency that would cause a *significant probability* of *significant harm* to the financial condition of a bank if it is not fixed in a timely manner. While signaling that additional measures will be identified, the SSOP identifies two initial conditions that would be sufficient to meet the "significant harm" threshold: where an estimated loss would cause or has caused a banking organization to (i) fall below well-capitalized status on either a historical cost or fair-value basis, or (ii) experience a substantial outflow of cash or other liquid assets over a short period.

2 **New "abnormal" standard for issuing enforcement actions**: Among the principles is a new standard for enforcement actions applied to safety and soundness practices that could cause "abnormal" harm. Supervisory staff may issue an enforcement action based on an unsafe or unsound practice only if the institutions' acts (or failure to act) would create an *abnormal probability* of *abnormal harm* to a bank's financial condition if it is not remediated in a timely manner.

3 **Presumptive treatment of self-identified issues as observations**: When an FRB-supervised bank self-identifies and promptly starts remediating a deficiency, supervisors will presumptively treat such deficiency as giving rise to a supervisory observation as opposed to an MR(I)A. Issues will be conveyed as observations only if a bank's prompt remediation is done "in a manner determined to be reasonable" by the regulator.

4 **Additional clarification on sustainability**: The updated principles direct supervisors not to delay the termination of an MR(I)A or enforcement action by testing for sustainability over a period of time. While the original 2025 SSOP noted supervisory staff should "hold the firm accountable if the deficiency reappears," the revised statement appears to clarify this by stating that supervisory staff may issue a new MR(I)A or "take more forceful action" if remediation is later determined to have not been sustainable.

5 **Supervised banking organizations encouraged to report failures to comply with SSOP**: The updated principles encourage FRB-supervised institutions to contact the Head of Supervision of the relevant Reserve Bank or the FRB's Deputy Director for Supervision to report failures to comply with any of the principles. This formalizes a channel for escalation beyond the immediate supervisory team and sets forth a clear message of VCS Bowman's expectation that the SSOP will be carried out throughout the Federal Reserve System.

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5 considerations to evaluate

1	**Emerging quantitative assessment of MR(I)As**: The updated principles note the FRB is developing quantitative tests to determine what may constitute a "significant harm" as a matter of supervisory policy. This signals a meaningful shift toward more quantitatively grounded supervision, in which supervisory actions are increasingly tied to measurable financial impacts rather than qualitative judgment. Firms should anticipate greater scrutiny around capital and liquidity resilience and provide for internal tools and frameworks that can identify, quantify, and evidence potential losses. Institutions should also be prepared to engage with supervisors on the assumptions, methodologies, and interpretations underlying their analyses.
2	**Higher bar for issuing enforcement actions and MR(I)As should not diminish risk management capabilities**: The introduction of a "significant harm" and an "abnormal harm" threshold for MR(I)As and enforcement actions, respectively, is a meaningful elevation. But it should not be interpreted as a signal that rigorous risk management standards can be relaxed. The new standard suggests that enforcement actions will be reserved for the most severe situations, while placing even greater responsibility on firms to maintain strong, proactive risk management practices that prevent issues from escalating. Firms should continue to identify, escalate, and remediate risks promptly and invest in strong risk management frameworks and internal control capabilities to avoid problems escalating to an "abnormal" level.
3	**Invest in proactive self-identification and remediation of deficiencies**: The updated principles underscore the importance of robust self-identification and surveillance frameworks. They incentivize banks' management, boards, and risk managers to proactively identify, communicate, and remediate issues before they escalate into formal supervisory findings. The new standards place a premium on timely internal detection, root cause analysis, and transparent engagement with supervisory staff. Firms should review their self-identification practices, including tie-ins with performance and incentive programs. They should also enhance risk assessment, testing, remediation practices, and escalation protocols to ensure timely reporting to management and supervisors. Accountability will rest with institutions' ability to foster a culture that stresses transparency, early escalation, and rewards efforts to address issues as soon as identified, underpinned by investments in risk management to scale.
4	**Sustainability remains critical, with increased emphasis on internal audit**: The updated SSOP reinforces that sustainable, effective remediation remains a core supervisory expectation, while introducing greater flexibility for supervisors to rely on internal audit (IA) validation activities. Banks should note that the revised SSOP shifts from a reliance on IA "ratings" to a broader assessment of IA effectiveness, including independence, capability, and ability to perform credible validation. At the same time, supervisors may still conduct validation where IA has not performed validation or where an effective IA function is lacking. As a result, banks should make sure IA functions are well-resourced and demonstrably effective, with strong audit and testing plans that drive self-identification of issues, robust monitoring capabilities, and embedded sustainability testing, alongside proactive regulatory communication.
5	**Strengthen regulatory engagement capabilities**: The updated SSOP's encouragement for firms to report potential noncompliance elevates the importance of a well-defined regulatory engagement strategy and strong relationship management with supervisory staff. Firms should maintain open, constructive dialogue with front line examiners as the first step in addressing concerns, while at the same time, institutions should be prepared to escalate issues to senior supervisory leadership when appropriate. Striking this balance requires clear internal protocols, disciplined communication, and careful documentation of any disagreements, including the rationale and supporting evidence. *Read more on Deloitte's perspectives on regulatory change management*.

Endnotes

1. Federal Reserve Board of Governors (FRB), "Updated Statement of Supervisory Operating Principles," April 21, 2026.
2. FRB, "Statement of Supervisory Operating Principles," October 29, 2025.
3. Deloitte, "Back to basics: From strong foundations to innovation and growth," February 2026; Deloitte, "Strategic end-to-end regulatory management," accessed May 5, 2026.

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