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US banking regulators issue revised model risk management supervisory guidance

Initial perspectives on model risk management governance and controls under the revised interagency guidance

Center *for* Regulatory Strategy US

On April 17, 2026, the Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and Federal Reserve Board of Governors (collectively, "Agencies") issued revised interagency guidance, SR 26-2: Supervisory Guidance on Model Risk Management, that supersedes and replaces prior guidance on model risk management (MRM), such as SR 11-7: Guidance on Model Risk Management.[1] The revised guidance represents a shift from prescriptive requirements to a principles-based framework, establishing core MRM principles while explicitly endorsing a risk-based approach tailored to each institution's model risk profile and the size and complexity of its operations. *Please note that generative AI and agentic AI models are not within the scope of this guidance.*

5 insights you should know

1 **The new guidance shifts from the prescriptive approach of the prior guidance to a higher-level, principles-based model risk framework:** Prior guidance explicitly described a range of practices that many banks came to view as standard MRM procedures, including benchmarking, sensitivity analysis, implementation processes, detailed inventories, annual review cycles, and formal validation documentation. Many of these practices are no longer deliberately referenced. The practical implication is clear: supervisory expectations now leave more room for flexibility, while maintaining emphasis on effective challenge with a backdrop to the size and complexity of operations and the context of broader business risks that models support or influence.

2 **Supervisory action may still be issued for unsafe or unsound practices stemming from insufficient management of model risk:** While the revised guidance states that it "does not set forth enforceable standards or prescriptive requirements" and that "non-compliance with this guidance will not result in supervisory criticism against a banking organization," this should be understood as consistent with the April 2021 interagency clarification on supervisory guidance.[2] As noted, supervisory guidance does not have the force and effect of law and does not, by itself, serve as the basis for enforcement action; rather, it communicates supervisory expectations and the agency's views on appropriate practices. Accordingly, deficiencies in MRM may still draw supervisory attention.

3 **The revised interagency guidance draws a deliberate boundary, not a governance exemption, for generative and agentic artificial intelligence (AI):** Generative AI and agentic AI are excluded from the guidance because they are "novel and rapidly evolving", but banks are still expected to use their existing risk management and governance frameworks to determine appropriate controls for those tools, processes or systems. At the same time, the guidance squarely confirms the term "model" and applies to traditional statistical and quantitative models, as well as non-generative, non-agentic AI, reinforcing that institutions should act now to govern emerging AI use cases based on risk rather than wait for AI-specific supervisory rules.

4 **Materiality is a key organizing principle for a risk-based approach to MRM:** The guidance formalizes model materiality to calibrate oversight intensity, which is defined around exposure (the significance of model output to business decisions) and purpose (the nature and importance of the models to the organization). Higher-materiality models warrant more comprehensive and rigorous oversight, while the oversight of "immaterial" models can simply comprise monitoring of performance and changes to conditions that may impact materiality.

5 **The size and complexity of the banking organization's operations may influence the range of model risk management:** This guidance raises the threshold of applicability from $1 billion to $30 billion in total assets, though smaller institutions with significant exposure to model risk may also be expected to align. In addition, a degree of flexibility is provided to banking organizations to tailor portions of its model risk management practices with a level of rigor commensurate with the risk of its models and operations, scaling efforts based on model materiality.

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5 considerations to evaluate

1 **Do not treat omission as a directive to weaken core controls:** The 2026 interagency guidance is more principles-based than the rescinded guidance on MRM and gives firms more discretion in how they operationalize MRM. That does not mean long-standing practices such as benchmarking, back-testing, annual review, implementation testing, and structured validation can be retired simply because they are less explicitly enumerated. The safer interpretation is to preserve risk-appropriate control depth internally, even where the guidance is less prescriptive externally. Boards, internal audit functions, and risk organizations will need to calibrate and justify their approaches to model risk management to be fit for purpose to business, product and complexity.

2 **MRM frameworks should be sufficiently robust to prevent weaknesses from rising to the level of unsafe or unsound practices:** Although supervisory guidance is not itself enforceable, deficiencies in governance, model inventory, validation, performance monitoring, data quality, vendor oversight, and issue remediation may still attract supervisory attention if they materially affect credit decisions, financial reporting, capital or liquidity risk assessments, compliance, or customer outcomes. The key question is not simply whether the bank aligns to guidance, but whether management can demonstrate that model-related risks are identified, managed and monitored, governed, and controlled in a manner commensurate with the bank's risk profile and the potential business impact of model failure.

3 **Emerging AI should be governed with discipline commensurate with their potential impact, as supervisory expectations develop:** While the Agencies prepare a separate RFI targeting banks' use of generative and agentic AI, MRM practices can continue to serve as an effective framework for managing the evolving risks arising from Generative and agentic AI, such as bias, hallucination, and agency, which can impact customers, decisions, and operations.[3] Management should be able to demonstrate that emerging AI tools are subject to appropriate enterprise risk controls, while traditional models and non-generative AI remain fully governed under the bank's formal MRM framework.

4 **Leveraging materiality as the lever for risk-based governance is common practice at leading institutions:** This may be an opportunity for banks to align, emphasizing focus of effort on higher materiality models while also reducing expectations and rigor around "immaterial" models. The approach to computing a model's materiality should therefore be objective and consistently applied, to prevent the classification of material models as immaterial to circumvent governance. As always, boards will challenge the three lines of defense in providing a risk-based approach with transparency and monitoring.

5 **Asset size establishes a baseline for applicability, reducing regulatory load for smaller institutions:** However, banks below $30 billion in assets should not treat the threshold as an exemption if they have significant exposure to model risk due to the complexity of their models or engage in activities outside the scope of traditional community banking. For institutions above $30 billion, the flexibility to tailor practices should be driven by the materiality and risk of individual models, not by organizational size or resource constraints. Model governance is reinforced to be commensurate with the business impact of potential model failure, regardless of the institution's asset size, including changes in product and business mix.

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Endnotes

1. Federal Deposit Insurance Corporation (FDIC), "Agencies Issue Revised Model Risk Guidance," press release, April 17, 2026.
2. Title 12 CFR Part 4, Subpart F, Appendix A (OCC); 12 CFR Part 262, Appendix A (Board); 12 CFR Part 302, Appendix A (FDIC), dated April 1, 2021.
3. Deloitte, "Managing the new wave of risks from AI agents in banking", March 2026.

For further readings, please see:

- Deloitte, "Back to basics: From strong foundations to innovation and growth," February 2026.
- Deloitte, "FRB issues memo on supervisory priorities and operating principles," November 2025.

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