



FSOC issues proposed guidance on nonbank
financial company designations

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Table of contents

- 1 | Overview of 2026 FSOC proposed nonbank guidance
- 2 | Timeline of FSOC designation authority
- 3 | Updated framework for identifying, assessing and addressing potential risk
- 4 | Changes in 2026 proposed guidance
- 5 | Strategic considerations and implications for nonbank financial companies
- 6 | Contacts

Overview of 2026 FSOC proposed nonbank guidance

On March 25, 2026, the Financial Stability Oversight Council (FSOC or Council) voted unanimously to issue proposed interpretative guidance for nonbank financial company (NBFC) designations.¹ The proposed guidance would reinstitute several elements of FSOC's 2019 interpretive guidance² and prioritize an activities-based approach.



Prioritizing activities-based approach: The proposal reinforces FSOC's preference to address systemic risks at the activity or market-level rather than designating individual firms. Before considering a NBFC designation, FSOC would first evaluate whether existing regulators can mitigate risks through industry-wide rules or interventions. This reflects a shift toward horizontal regulation, aiming to reduce systemic vulnerabilities across sectors rather than singling out firms. Entity-specific designation would then become a secondary tool, used only when broader regulatory approaches are deemed insufficient.



Integration of economic growth and economic security considerations: The guidance would expand FSOC's analytical framework to explicitly account for potential impacts on economic growth and US economic security. FSOC would weigh whether a designation could constrain credit availability, innovation, or market efficiency. It also would introduce consideration of national and economic security implications, which may signal a potentially higher bar to firm designation.



Formal requirement for cost-benefit analysis: The proposed guidance would mandate that FSOC conduct a cost-benefit analysis prior to any designation decision, similar to the 2019 Interpretive Guidance. Designation would proceed only if expected financial stability benefits outweigh the anticipated costs, including compliance costs and market impacts. As part of the benefits analysis, the proposed guidance would align with the 2019 Interpretive Guidance, by requiring FSOC to assess the likelihood of a NBFC's material financial distress and the extent to which material financial distress at the NBFC could pose a threat to the financial stability of the United States.



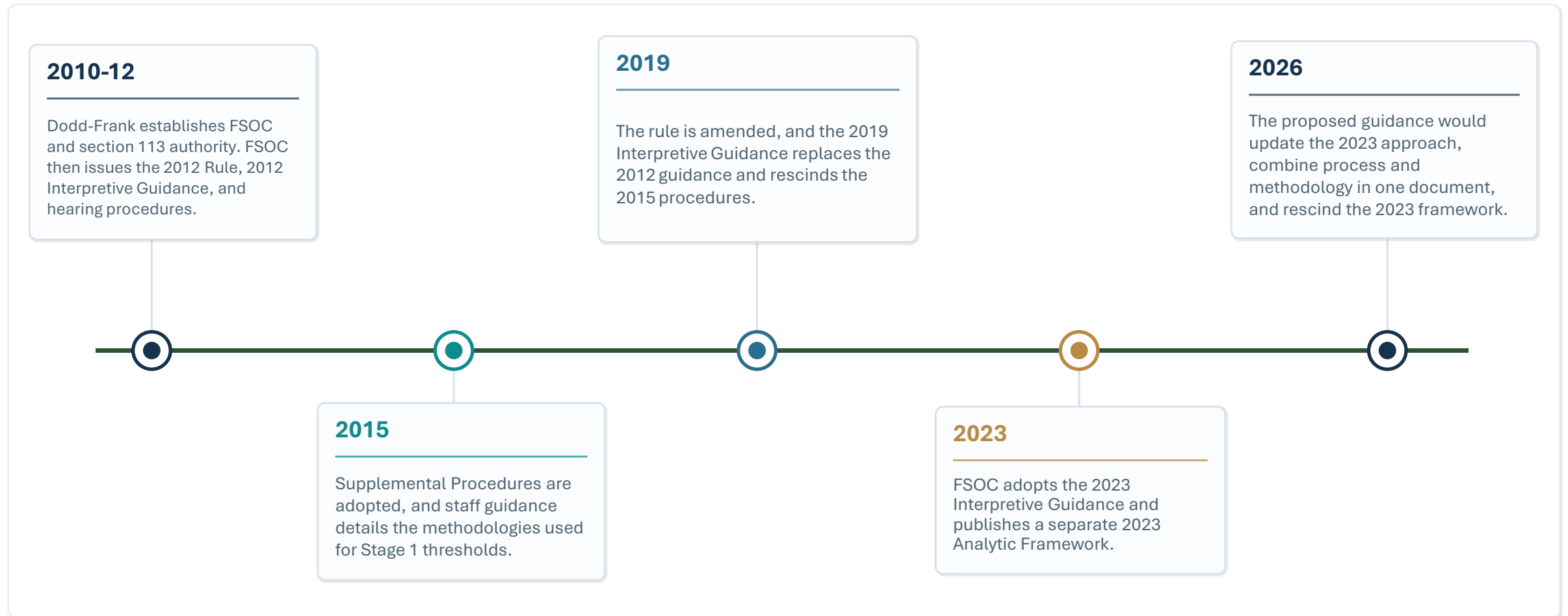
Redefining threat to financial stability: The proposal would modify its interpretation of the term "threat to the financial stability of the United States" to align with the 2019 Interpretive Guidance—which represents a higher threshold than the one set forth in 2023. Consistent with the 2019 Interpretive Guidance, such threat would mean "an impairment of financial intermediation or of financial market functioning to a degree that *would* be sufficient to inflict severe damage on the broader US economy," as opposed to the 2023 definition of "events or conditions that *could* 'substantially impair' the financial system's ability to support economic activity."



Introduction of a pre-designation "off-ramp" procedures: Under the proposed guidance, as part of the Council's designation process, FSOC would identify steps a NBFC or financial regulators could take to address a potential threat to US financial stability based on the Council's preliminary evaluation and allow time for the material risks to be addressed. Under such procedures, FSOC would generally expect material risks to US financial stability to be addressed within 180 days.

Timeline of FSOC designation authority

The Dodd-Frank Act gives FSOC broad discretion to determine how to respond to potential threats to US financial stability, including designating certain entities or payment, clearing, and settlement activities for additional regulation under section 113 of the Dodd-Frank Act.



Updated framework for identifying, assessing and addressing potential risk

Vulnerabilities



Leverage: Leverage can amplify risks by reducing market participants' ability to satisfy their obligations and by increasing potential for sudden liquidity and/or capital strains. Relevant metrics include ratios of assets, risk-weighted assets, debt, derivatives liabilities or exposures, and off-balance sheet obligations to equity.



Liquidity risk and maturity mismatch: Shortfall of sufficient liquidity or reliance on short-term liabilities for long-term assets can lead to rollover or refinancing risk. Relevant metrics include ratio of short-term debt to unencumbered short-term high-quality liquid assets and amounts of funding available to meet unexpected reductions in short-term funding.



Interconnections: Financial interconnections between creditors, counterparties, investors, and borrowers can increase the negative impact of disruptions or financial distress. Relevant metrics include total assets, off-balance-sheet assets or liabilities, total debt, derivatives exposures, values of securities financing transactions, and size of potential requirements to post margin or collateral.



Concentration: Risks are amplified when financial exposures or important services are highly concentrated in a small number of entities. Relevant metrics include market shares in segments of applicable financial markets.



Operational risks: Impairment or failure of financial market infrastructures, processes, or systems, including cybersecurity vulnerabilities, can pose risks. Relevant metrics include statistics on cybersecurity incidents or the scale of critical infrastructure.



Asset valuations: Sharp reductions in asset valuations can result in significant losses; risk exacerbated by concentrated portfolios, mitigated by hedging (**New in 2026**).



Impediments to economic growth and security: Circumstances or developments negatively impacting economic growth or economic security could undermine financial stability (**New in 2026**).



Complexity or opacity: Lack of transparency makes it more difficult for regulators and counterparties to assess potential risks; reduces effectiveness of market discipline (**De-prioritized to an Aggravating Factor**).



Inadequate risk management: Risk may be exacerbated if conducted without effective risk-management practices or appropriate regulatory authority (**De-prioritized to an Aggravating Factor**).

Transmission Channels

1

Exposure transmission channel: The direct and indirect exposures of market participants to creditors, counterparties, and investors can result in losses in the event of default or decreases in asset valuations. Larger exposures, less protection for counterparties in transaction terms, correlated or concentrated exposures etc. can increase the potential threat

2

Asset liquidation transmission channel: Rapid liquidation of financial assets can pose a threat when it leads to a significant fall in asset prices, disrupting trading or funding in key markets and causing losses or funding problems for market participants holding those assets.

3

Critical function or service transmission channel: A risk to financial stability can arise if a critical function or service, which is relied upon by market participants, faces disruption without ready substitutes available at a similar price and quantity.

4

Contagion transmission channel: Contagion can occur even without direct or indirect exposures when there is a perception of common vulnerabilities or exposures among market participants. Similar business models, correlated holdings, limited transparency into investment risks, correlated markets, and greater operational risks can contribute to contagion.

Strategic considerations and implications for nonbank financial companies

1 Monitor and engage in the comment process

- Prepare and submit public comments within the 45-day comment period, either individually or through industry trade associations

2 Conduct a self-assessment of designation risk

- Evaluate your firm against vulnerabilities: leverage, liquidity risk and maturity mismatch, interconnections, concentration, operational risk, asset valuations, impediments to economic growth, complexity or opacity, and risk management adequacy

3 Strengthen risk management and governance

- Review and enhance enterprise risk management frameworks for elevated vulnerabilities

4 Prepare for the pre-designation off-ramp

- Develop a playbook if the firm enters Stage 1 review

5 Align regulatory strategy with policy shifts

- Brief legal and compliance teams on the evolving framework

Potentially impacted companies

The guidance applies to any nonbank financial company whose material financial distress or activities could threaten U.S. financial stability. Example sectors include:

- Insurance companies (life, P&C, reinsurers)
- Asset managers and investment advisers
- Hedge funds and private equity firms
- Nonbank mortgage lenders & servicers
- Fintech companies and payment providers
- Private credit firms
- Crypto-asset / digital asset firms
- Money market and mutual fund complexes
- Specialty finance and consumer lending companies

Key characteristics triggering review:

- Large scale and systemic interconnectedness
- High leverage or liquidity risk
- Critical function in financial markets
- Inadequate existing regulatory oversight
- Concentration risk in key activities

Connect with us

Joshua Flyer

Senior Manager
Deloitte & Touche LLP
jflyerl@deloitte.com

Martin Prince

Specialist Leader
Deloitte & Touche LLP
maprince@deloitte.com

Elizabeth Valley

Senior Manager
Deloitte & Touche LLP
xxxxx@deloitte.com

Deloitte Center for Regulatory Strategy, US

Irena Gecas-McCarthy

FSI Director, Deloitte Center for Regulatory Strategy, US
Principal
Deloitte & Touche LLP
igecasmccarthy@deloitte.com

Jennifer Burns

Managing Director
Deloitte & Touche LLP
jennburns@deloitte.com

Aaron Salerno

Manager
Deloitte Services LP
asalerno@deloitte.com

Kyle Cooke

Manager
Deloitte Services LP
kycooke@deloitte.com

Endnotes

1. US Department of the Treasury, "[Financial Stability Oversight Council Issues Proposed Guidance on Nonbank Financial Company Designations](#)," press release, March 25, 2026.
2. Financial Stability Oversight Council (FSOC), "[Authority To Require Supervision and Regulation of Certain Nonbank Financial Companies](#)," *Federal Register*, December 30, 2019. Updated in 2023: FSOC, "[Guidance on Nonbank Financial Company Determinations](#)," *Federal Register*, November 17, 2023.



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