FRB issues memo on supervisory priorities and operating principles

Initial perspectives on Division of Supervision and Regulation's memo to supervisory staff

Center *for* **Regulatory Strategy US**

On November 18, 2025, the Division of Supervision and Regulation of the Federal Reserve Board of Governors (FRB) released an internal memo regarding enhancements to the conduct of bank supervision, including changes to supervisory priorities and incorporating new operating principles.[1] The memo notes the "significant shift in direction" which is a reminder that firms should invest in their regulatory change management capabilities to monitor changing prudential standards and timely communicate with key stakeholders.

5 insights you should know

Prioritizing material financial risk: The memo directs supervisory staff to prioritize attention on a firm's material financial risks. The memo further calls for greater use of nonbinding supervisory observations for issues that do not rise to the level of an MRA/MRIA.[2] The memo also notes supervisory ratings should reflect an institution's financial condition and material financial risks (i.e., management components of CAMELS and RFI/C(D)[3] ratings (i.e., M and R) should not be given more weight than the other components in determining the composite rating).

Closing supervisory findings and enforcement actions: Going forth, examiners should not perform their own duplicative validations of whether a firm has fully remediated an MRA/MRIA/enforcement action. Instead, they should rely on an institution's internal audit (IA) for validation, if the function is not rated unsatisfactory by regulators. Additionally, examiners should not delay the termination of a fully remediated MRA/MRIA/enforcement action in order to test over a period of time to demonstrate sustainability.

Less horizontal exams: Going forward, the LISCC and LFBO portfolios[4] will no longer conduct horizontal reviews, unless the Deputy Director of Supervision determines that the benefits of such reviews outweigh the associated costs. For horizontal exams which are conducted, the FRB plans to confidentially share the results to the banks that are reviewed, including comparisons across the in-scope institutions.

Changes to liquidity risk assessments: In assessing a firm's liquidity risk management, examiners are not to (i) discourage/prohibit firms from taking into account liquidity available from Federal Home Loan Banks (FHLBs) in managing their liquidity or performing their internal liquidity stress tests; or (ii) require firms to pre-position assets at the discount window as a condition to future discount window secured borrowings.

Greater reliance and coordination with other supervisors: FRB examiners will rely, to the maximum extent possible, on the examinations and other supervisory work by the primary state or federal banking supervisor for depository institution subsidiaries and are to look for opportunities to work more jointly with the state banking agencies.

5 considerations to evaluate

1 **Continue to assess governance issues**: Although the memo suggests fewer governance and controls related supervisory matters may be issued over the near-term, firms should continue to assess whether any such matters underpinned or contributed to financial-related supervisory matters to ensure the root cause of issues are addressed. Nonbinding supervisory observations can provide valuable insights into emerging concerns and a proactive consideration of them could support the long-term effectiveness of overall risk management.

2 **Importance of IA elevated**: Increased reliance on IA for issue remediation validation and removal of sustainability considerations should reduce the time that supervisory issues remain open. However, FRB reliance on IA is dependent on a "satisfactory" IA function, and the principles note that supervisors "should hold the firm accountable if deficiencies reappear." Therefore, firms should continue to invest resources (i.e., number and skills) into IA and guard against pressures to issue hastened validation conclusions and focus on validation at the cost of conducting routine audits, particularly of emerging technologies and risks.

3 **Seek peer perspective through other forums**: The curtailment of horizontal exams may reduce information available from supervisors on peer practices. This decline in cross-firm insights can be particularly challenging when addressing new or evolving areas of risk, where standardized approaches are still developing. In response, organizations should proactively seek out peer perspectives through other channels, such as participating in industry forums, working groups, or associations.

4 **Continue implementing leading liquidity risk management practices:** While the memo allows for favorable consideration of FHLB advances in banks' liquidity risk management, banks should avoid overreliance on a single contingency funding source to ensure sufficient funds availability in an industry-wide liquidity stress. Moreover, proactively managing and pre-positioning collateral remains critical for discount window and FHLB advances available for day-to-day and contingency borrowing needs.

5 **Coordination among regulators is key**: Increased reliance on primary state and/or federal banking supervisors heightens the importance of proactively and regularly coordinating with various regulators to ensure sufficient understanding of issues that cross regulatory jurisdictions and span legal entities. The holding company supervisory assessment will be more accurate when examiners from all regulatory bodies and the firm itself have equal understanding of strategy, issues, and remediation.

Endnotes

[1] Federal Reserve Board of Governors (FRB), "Federal Reserve Board releases information regarding enhancements to bank supervision," November 18, 2025.

[2] MRA = Matter Requiring Attention; MRIA = Matter Requiring Immediate Attention. *See* FRB, "SR 13-13 / CA 13-10: Supervisory Considerations for the Communication of Supervisory Findings," June 17, 2013.

[3] FRB, "Overall Conclusions Regarding Condition of the Bank: Uniform Financial Institutions Rating System," May 1997; FRB, "SR 19-4 / CA 19-3: Supervisory Rating System for Holding Companies with Total Consolidated Assets Less Than $100 billion," February 26, 2019.

[4] LISCC = Large Institution Supervision Coordinating Committee; LFBO = Large and Foreign Banking Organization. *See* FRB, "Large Financial Institutions," updated December 18, 2020.

Connect with us

Jennifer Burns
Managing Director
Deloitte & Touche LLP
jennburns@deloitte.com

David Wright
Independent Senior Advisor to
Deloitte & Touche LLP
davidmwright@deloitteretired.com

Patrick Loncar
Independent Senior Advisor to
Deloitte & Touche LLP
ploncar@deloitte.com

Richard Naylor
Independent Senior Advisor to
Deloitte & Touche LLP
rnaylor@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

Aaron Salerno
Manager
Deloitte Services LP
asalerno@deloitte.com

Kyle Cooke
Manager
Deloitte Services LP
kycooke@deloitte.com