

Memorandum

Fed Issues New Principles to Significantly Shift Bank Supervisory Priorities

November 18, 2025

On November 18, 2025, the Federal Reserve released a Statement of Supervisory Operating Principles that sets out changes to how Federal Reserve examiners should supervise banking organizations. The Statement translates Vice Chair for Supervision Michelle Bowman's stated priorities into concrete operating expectations for supervisory staff at the Federal Reserve Board and Federal Reserve Banks.

The Statement follows an August 6, 2025, internal communication to Federal Reserve supervisory staff outlining Vice Chair Bowman's priorities and frames the new supervisory principles as a "significant shift from past operating practices." Federal Reserve staff are instructed not to assume that current or past operating practices should continue and instead to continually assess whether their work, conclusions and messaging align with the new principles.

By focusing on identifying the most important risks to bank safety and soundness and addressing those threats through proportionate supervisory responses, the Federal Reserve's new Statement of supervisory principles articulates the new Administration's "overall shift in direction and posture" of banking supervision, echoing the October 2025 proposal by the OCC and FDIC to revise agency frameworks for supervisory enforcement and communications.

Key Elements of the Fed's Supervisory Operating Principles

A. ANCHORING SUPERVISION IN MATERIAL FINANCIAL RISKS

The Statement instructs examiners and supervisory staff to focus on the Federal Reserve's core responsibility to promote safe and sound bank operations and broader financial stability, using "reasoned judgment" to prioritize a firm's material financial risks and "not become distracted" by devoting "excessive attention" to processes, procedures, and documentation that do not pose a material risk to safety and soundness.

The Statement re-introduces non-binding supervisory observations as the appropriate vehicle for addressing lesser shortcomings that do not pose material financial risk and notes that the Federal Reserve plans to formally reverse its earlier directive from 2013 which had eliminated supervisory observations. This change would complement the restrictions on issuances of MRAs and MRIs discussed below.

The Statement also instructs staff to reflect this focus on material financial risks in supervisory ratings. Under the new principles, all component ratings under the CAMELS and RFI/C (D) systems should be weighed based on their materiality to the institution, without giving the “management” and “risk” components disproportionately higher weightings.

B. MRA/MRIA ISSUANCE AND REMEDIATION STANDARDS

The Statement asserts that Federal Reserve staff “need to change” their approach to issuing and terminating MRAs and MRIsAs. Consistent with the Federal Reserve’s supervisory focus on material financial risks, staff are instructed to ensure that MRAs and MRIsAs prioritize deficiencies with a potential material impact on a firm’s financial condition, rather than procedural or documentation shortcomings. Staff will be prohibited from communicating MRAs and MRIsAs using “vague or overbroad language,” and instead must specify the underlying deficiencies (as well as the remediation “goal posts” to eliminate the deficiencies), including through “meaningful dialogue” with the institution.

If an institution’s internal audit function is satisfactory, Federal Reserve staff will be expected to rely on the validation assessments of that internal audit function (rather than conducting their own duplicative validations) to determine whether a firm has remediated an MRA or MRIA. Further, examiners will be expected not to delay termination of an MRA/MRIA or enforcement requirement to test the sustainability of remediation over time. Rather, they should terminate when the deficiency is fully remediated, then monitor sustainability afterwards and hold the firm accountable if the issue reappears. This procedural change alone should meaningfully accelerate the timing in many cases for banking organizations to close out supervisory criticisms.

The Federal Reserve notably did not join the OCC’s and FDIC’s joint rulemaking proposal in October 2025 regarding the framework for issuing MRAs and defining “unsafe and unsound practices.” However, the Statement indicates that the Federal Reserve plans to issue more detailed guidance on its standards for issuing MRAs and MRIsAs based on safety-and-soundness threats, as well as its interpretation of what constitutes an “unsafe or unsound practice,” which should likely align these standards for all three federal banking agencies.

C. TAILORED USE OF SUPERVISORY RESOURCES

The Statement reiterates the Gramm-Leach-Bliley Act requirement that the Federal Reserve rely to the maximum extent possible on the supervisory work of a bank subsidiary’s primary state or federal banking supervisor. Federal Reserve staff should not conduct their own exams of bank subsidiaries unless it is “impossible” to rely on the primary supervisor’s work—for example, due to insufficient information sharing—and not merely because the Federal Reserve might conduct exams differently.

The Statement also directs Federal Reserve staff to tailor supervision based on size, complexity, and systemic importance, with relatively more resources devoted to large, complex and systemic organizations and fewer resources to smaller, less complex firms.

For the LISCC and LFBO portfolios, horizontal reviews will no longer be conducted unless senior Federal Reserve supervisory officials determine that the benefits to safety and soundness or financial stability outweigh the costs of a particular horizontal review. Assessments from such reviews should be measured against supervisory expectations, not “best practices” within the peer group. Further, the results of these reviews, including comparisons across in-scope institutions, should be confidentially disclosed to participating institutions.

Common Themes Among Shifts in Banking Agency Supervisory Standards

The general themes of the Federal Reserve’s new supervisory principles parallel those in the October 2025 joint proposal by the OCC and FDIC to revise their frameworks for supervisory enforcement and communications. Taken together, the Federal Reserve’s operating principles and the OCC/FDIC proposed rule signal a coordinated effort by the federal banking agencies to:

- re-center supervision and enforcement on clear, articulable links to material financial risk (rather than peripheral process and documentation issues);
- reduce the volume and breadth of MRAs and other formal criticisms by tightening standards for when issues merit formal criticism and how that criticism must be articulated; and
- recalibrate the use of supervisory resources and enhance transparency around supervisory communications and the closure of outstanding issues.

The Federal Reserve’s Statement indicates that supervised institutions should expect additional clarity regarding the Federal Reserve’s approach to MRAs and MRIAs, as well as the Federal Reserve’s definitional standards for “unsafe and unsound practices,” which should likely further align the three federal banking agencies.

In certain respects, however, the Federal Reserve Statement is broader than the OCC’s and FDIC’s rulemaking. For example, the Statement addresses topics such as the structure and frequency of horizontal reviews, the use of internal audit in MRA validation, and ratings practices that are not addressed in the OCC’s and FDIC’s proposal. Given the very specific operational directions and supervisory mechanics set forth in the Federal Reserve’s Statement, supervised institutions should anticipate that changes to examination practices may be implemented rapidly through examiner training and oversight.

The foregoing changes to supervisory approach should also be considered in combination with the Fed’s recently adopted changes to the LFI ratings framework. As the staff has noted, at the end of last year 23 of the 36 covered banking organizations were rated as less than well-managed. At the end of the third quarter of 2025, staff noted that only 17 organizations were rated less than well-managed, and that after giving effect to those LFI ratings changes, staff estimated that only 10 organizations of the 36 would not be rated well-managed.

For further information regarding this memorandum, please contact any member of the Firm's Financial Institutions Group, including those listed below:

NEW YORK CITY

Louis H. Argentieri
+1-212-455-7803
louis.argentieri@stblaw.com

Timothy Gaffney
+1-212-455-7182
timothy.gaffney@stblaw.com

Lee A. Meyerson
+1-212-455-3675
lmeyerson@stblaw.com

Sven Mickisch
+1-212-455-2944
sven.mickisch@stblaw.com

Matthew Nemeroff
+1-212-455-3459
matthew.nemeroff@stblaw.com

Ravi Purushotham
+1-212-455-2627
rpurushotham@stblaw.com

WASHINGTON, D.C.

Amanda K. Allexon
+1-202-636-5977
amanda.allexon@stblaw.com

Brian D. Christiansen
+1-202-636-5940
brian.christiansen@stblaw.com

Spencer A. Sloan
+1-202-636-5870
spencer.sloan@stblaw.com

Collin Janus
+1-202-636-5999
collin.janus@stblaw.com

James Fine
+1-212-455-2395
james.fine@stblaw.com

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