

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
DIVISION OF SUPERVISION AND REGULATION

Date: ~~October 29~~ [April 21, 2025](#) ~~2025~~ [2026](#)
From: ~~Mary Aiken (Acting~~ [Randall D. Guynn](#) (Director) and Julie Williams
(Acting Deputy Director) Subject: [Updated](#) Statement of Supervisory
Operating Principles

[This Updated Statement of Supervisory Operating Principles supplements and supersedes the Statement of Supervisory Operating Principles dated October 29, 2025, from Acting Director Mary Aiken and Acting Deputy Director Julie Williams. It provides guidance on additional issues that were not addressed in the original Statement and clarifies some of the original guidance in response to staff feedback.](#)

On August 6, 2025, Acting Director Mary Aiken shared Vice Chair for Supervision (VCS) Miki Bowman's priorities and operating principles. The Vice Chair's priorities and principles provide an outline of broad changes to the conduct of supervision, including both what we do and how we do it. The goal of these changes is to strengthen supervision by focusing it on identifying and taking timely proportionate action as early as possible to eliminate the most important risks threatening the safety and soundness of banking organizations. These changes represent a significant shift from past operating practices.

This memo provides directional guidance on the changes the Vice Chair expects us to undertake. Board S&R and Reserve Bank staff should take note of the significant shift in direction and implement the changes necessary to align our supervisory work and messaging with this new approach. As a guiding principle, staff should not assume that our current or past operating practices should continue going forward. Staff should continually consider whether their work, conclusions, messaging, and other actions are aligned with the specific changes outlined in this [updated](#) statement of supervisory operating principles and, more broadly, with the overall shift in direction and posture.

[The primary objectives of supervision are the following:](#)

- [Identify as early as possible significant threats to the safety and soundness of a Board-supervised banking organization and to U.S. financial stability and any violation of law or regulation.](#)
 - [Encourage or direct each Board-supervised banking organization to take appropriate, proportionate action to eliminate or mitigate those threats and violations as promptly as possible.](#)
- Examiners and other supervisory staff should be focused on the responsibility of the Board to promote the safe and sound operation of banks and the stability of the U.S. financial system. In furtherance of this mission, examiners are encouraged and expected to use their reasoned judgment.
 - If an issue arises that may present a material financial risk to a regulated firm's safe and sound operation, but this issue is not sufficiently addressed by existing supervisory tools, those issues should be escalated up the management chain for review.
 - Examiners and other supervisory staff should prioritize their attention on a firm's material financial risks.
 - They should not become distracted from this priority by devoting excessive attention to processes, procedures, and documentation that do not pose a material risk to a firm's safety and

soundness.

- Examiners and other supervisory staff can address shortcomings that do not rise to the level of MRAs or MRAs by making nonbinding supervisory observations. We will be amending SR 13-13 to reverse its directive to eliminate supervisory observations.
- This will make supervision more effective by allowing examiners and other supervisory staff to prioritize their attention on a firm's material financial risks.
- When evaluating and rating bank holding companies, savings and loan holding companies, and the U.S. operations of foreign banks, the Gramm-Leach-Bliley Act of 1999 requires examiners to rely to the ~~maximum~~ fullest extent possible on the examinations and other supervisory work by the primary state or federal banking supervisor for their depository institution subsidiaries other than state member banks.
 - Federal Reserve supervisory staff should not conduct their own examination of ~~such~~ the depository institution subsidiaries unless it is ~~impossible~~ not reasonably possible for the Federal Reserve to rely on the examination of ~~such a~~ the depository institution's primary state or federal supervisor.
 - This ~~impossibility~~ not reasonably possible standard ~~might~~ could be met if ~~such a~~ the depository institution's primary state or federal supervisor does not ~~share sufficient information about the depository institution for the Federal Reserve to rely on their examinations or other supervisory work.~~ provide the Board with timely access to all supervisory information that is in the possession of the primary federal or state supervisor.
 - It would not be met simply because we might do examinations differently.
 - Board S&R and Reserve Bank staff should tailor their supervision based on the size, complexity and systemic importance of a particular banking organization, using relatively more resources on large, complex, and more systemic organizations and relatively less resources on smaller, less complex and less systemic organizations.
- When evaluating and rating state member banks for which the Federal Reserve is the primary federal supervisor, examiners should work jointly with the state banking agency.
 - For state member banks eligible for an alternate-year examination program (AEP), which allows every other examination to be conducted by the state banking agency along with Federal Reserve examiner presence, examiners should rely to the extent possible on the state banking agency's examination work and conclusions in the alternating years.
 - See above about information sharing.
- Examiners and other supervisory staff need to change the way they decide whether an MRA, MRIA or requirement in an enforcement action can be terminated because the underlying deficiency has been fully remediated.
 - They should not perform their own duplicative validations of whether a firm has fully remediated an MRA or MRIA or requirement in an enforcement action unless Board or Reserve Bank supervisory staff has determined that the firm's internal audit ~~is rated~~ function (including an internal auditor) is ineffective or unsatisfactory, ~~the firm does not have an internal audit function, or the firm's internal audit function has not validated the remediation.~~ the firm does not have an internal audit function, or the firm's internal audit function has not validated the remediation.
 - Instead, they should assess internal audit's validation and, if satisfactory, rely on an institution's internal audit for validations ~~when that function is rated~~ satisfactory unless one of the conditions above has been satisfied.
 - They should not delay the termination of an MRA, MRIA or requirement in an enforcement action if the underlying deficiency has been fully remediated ~~in order to.~~ Nor should they test ~~over a period of time~~ whether the remediation is sustainable over a period of time.
 - Instead, they should ~~monitor sustainability after termination and hold the firm accountable if~~

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~~the deficiency reappears:~~

- terminate the MRA, MRIA or requirement in an enforcement action as promptly as possible after each deficiency underlying the MRA, MRIA or requirement has been fully remediated; and
 - issue a new MRA or MRIA, or take more forceful action, if the remediation turns out not to be sustainable.
 - Examiners and other supervisory staff should not conduct additional reviews or “capstones” on issues not directly related to any of the deficiencies identified in an enforcement action or on risks that are not a material threat to a firm’s safety and soundness before terminating an enforcement action.
- The [LISCCGSIB](#) and LFBO portfolios should no longer conduct horizontal reviews unless the Deputy Director of Supervision determines that the benefits of a particular horizontal review to the safety and soundness of the banking organizations being reviewed or the stability of the U.S. financial system outweigh the associated costs.
 - Assessments based on horizontal reviews should be measured against supervisory expectations, not against whatever practice within the peer group is considered to be the best.
 - The results of the horizontal reviews should be confidentially disclosed to the banks that are reviewed, including comparisons across the in-scope institutions.
- Examiners and other supervisory staff should not discourage or prohibit firms from taking into account liquidity available from the Federal Home Loan Banks (FHLBs) in managing their liquidity or performing their internal liquidity stress tests unless required by law or regulation.
 - Similarly, they should not require firms to reposition assets at the discount window as a condition to future discount window secured borrowings.
- There should not be any material differences between the supervisory criticisms communicated in the final exit meeting for an examination and those contained in the written examination report.
- Supervisory ratings should accurately reflect an institution’s financial condition and material financial risks.
 - The management and risk management components of CAMELS and RFI/C (D) ratings should not be given more weight than the other components in determining a firm’s composite rating.
 - All component ratings should be considered and weighed based on their materiality to the institution.
- ~~• The standard for issuing MRAs and MRIAs based on threats to safety and soundness will be changing (work is underway to provide more specific guidance). Generally speaking, MRAs and MRIAs should:
 - Prioritize deficiencies that could have a material impact on a firm’s financial condition, rather than focusing on procedural or documentation shortcomings that do not materially threaten the firm’s safety and soundness.~~
- Examiners and other supervisory staff will no longer be permitted to communicate MRAs and MRIAs in vague or overbroad language.
 - Instead, they will be required to communicate MRAs and MRIAs in plain language, describing any deficiency underlying an MRA or MRIA with sufficient specificity so that a ~~person of ordinary intelligence~~ typical bank employee can readily know what ~~the~~ such deficiency is ~~underlying an MRA or MRIA~~ and what a non-deficient state would be.
 - They should encourage meaningful dialogue and discussion between examiners and bank representatives. Examiners and other supervisory staff should:
 - Promptly respond to each institution’s questions to provide clarity when requested.
 - Listen and invite feedback from an institution as to whether a particular MRA or MRIA is

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justified, around any lack of clarity of the issue, our expectations, or the path to remediation.

- ~~Our interpretation of the statutory standard for issuing enforcement actions based on an unsafe or unsound practice will also be changing (work is underway to clarify this standard).~~

- MRAs, MRIs and Enforcement Actions

- Generally speaking, MRAs, and MRIs should prioritize deficiencies that could have a material impact on a firm's financial condition, rather than focusing on procedural or documentation shortcomings that do not materially threaten the firm's safety and soundness.
 - Board or Reserve Bank supervisory staff may issue an MRA or MRI based on a threat to the safety and soundness of a Board-supervised banking organization only if they determine in good faith that a deficiency exists that, if not remediated in a timely manner, would create a significant probability of significant harm to the financial condition of the banking organization or has resulted in significant actual harm to the financial condition of the banking organization.
 - Board or Reserve Bank supervisory staff may issue an enforcement action based on an unsafe or unsound practice by a Board-supervised banking organization only if they determine that an act or failure to act by the banking organization would, if not remediated in a timely manner, create an abnormal probability of abnormal harm to the financial condition of the banking organization or has resulted in abnormal actual harm to the financial condition of the banking organization.
 - Abnormal means substantially higher than normal or significant.
 - The Vice Chair for Supervision or the Vice Chair's delegate may grant exceptions to the probability and severity standards set forth above to the extent permitted by law.
 - Board and Reserve Bank supervisory staff should use currently available tools to estimate the probability and severity of a particular deficiency to the financial condition of Board-supervised banking organizations in good faith.
 - The good faith standard will be satisfied only if the supervisory staff has sufficient evidence that a particular estimate of probability and severity is plausible.
 - We are in the process of developing various quantitative tests to determine whether a realized or unrealized loss would constitute significant harm to the financial condition of a Board-supervised banking organization as a matter of supervisory policy. Two tests that would clearly be sufficient as a matter of supervisory policy to establish significant harm to a banking organization's financial condition would be if the estimated loss would cause or has caused the banking organization to:
 - be less than well capitalized as determined on a historical cost or fair-value basis; or
 - suffer an outflow of a significant amount of cash or other liquid assets within a short period of time.
- A Board-supervised banking organization is encouraged to report a failure to comply with any of the supervisory operating principles contained in this statement by contacting the Head of Supervision of the relevant Reserve Bank or the Board's Deputy Director for Supervision.
 - Board and Reserve Bank supervisory staff should facilitate the early resolution of troubled insured depository institutions to minimize the long-term cost to the Deposit Insurance Fund as contemplated by 12 U.S.C. 1823 note.
 - If a Board-supervised banking organization self-identifies a deficiency that would otherwise satisfy the standard for an MRA or MRI based on a threat to safety and soundness and promptly starts remediating that deficiency in a manner determined to be reasonable by Board or Reserve Bank supervisory staff, the deficiency will presumptively be treated as giving rise to a supervisory observation

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~~rather than an MRA or MRIA.~~

- Board and Reserve Bank supervisory staff should work together to maintain, develop, and continuously improve forward-looking tools to identify significant threats to the safety and soundness of Board-supervised banking organizations and to U.S. financial stability.