



Regulatory Alert

Regulatory Insights for Financial Services

November 2025

Federal Reserve: Supervisory Operating Principles

KPMG Regulatory Insights:

- **Shift in Supervisory Focus:** Signals a shift toward prioritizing material financial risks; FRB anticipates “prompt” implementation of the new principles.
- **Supervisory Tailoring:** Based on the size, complexity, and systemic importance of banking organizations, with greater reliance on the work of primary state and federal supervisors.
- **Revised MRA/MRIA Practices:** Expectations for issuing and communicating MRAs and MRIs focus on material deficiencies, specific and clear communication, and streamlined remediation validation.
- **More Changes Ahead:** Including reinstatement of supervisory observations and clarification of the statutory standard for issuing enforcement actions based on unsafe or unsound practices.

The Board of Governors of the Federal Reserve System’s (FRB) Division of Supervision and Regulation has [issued](#) a statement outlining a new set of supervisory operating principles that align with priorities and principles previously outlined by the Vice Chair for Supervision. The stated goal is to strengthen supervision through a focus on timely and proportionate action on the “most important risks”

threatening the safety and soundness of banking organizations.

The FRB states the new principles represent a “significant shift in direction” and implement a new approach to supervisory work and messaging. Staff are directed to not assume current or past practices should continue.



The principles outlined in the statement include:

Supervisory Area	Principles
Supervisory Priorities	<ul style="list-style-type: none"> — Examiners must focus on promoting the safe and sound operation of banks and the stability of the financial system. — Priority is to be given to a firm's material financial risks and not to processes, procedures, and documentation that do not pose a material risk. — Supervision must be tailored based on the size, complexity, and systemic importance of the banking organization.
Reliance/Coordination	<ul style="list-style-type: none"> — When evaluating and rating BHCs, SLHCs, and U.S. operations of foreign banks, examiners must rely "to the maximum extent possible" on the work of the primary state and federal banking supervisor for their depository institution subsidiaries other than state member banks. — Examiners should not conduct their own examination of such depository institution subsidiaries unless it is impossible to rely on the examination of the primary state or federal supervisor (e.g., if the primary supervisor does not share sufficient information about the depository institution). — When evaluating and rating state member banks for which the FRB is the primary federal regulator, examiners are directed to work jointly with the state banking agency; for banks eligible for the Alternate-year Examination Program (AEP), examiners should rely "to the extent possible" on the state agency's examination work and conclusions in alternating years.
Horizontal Reviews	<ul style="list-style-type: none"> — Horizontal reviews of the LISCC (Large Institution Supervision Coordinating Committee) and LFBO (Large and Foreign Banking Organization) portfolios will be conducted only if the Deputy Director of Supervision determines that the benefits to the safety and soundness of the reviewed banks, or to the stability of the U.S. financial system, outweigh the associated costs. — Assessments from horizontal reviews must be measured against supervisory expectations rather than against best practices within the peer group. — The results of horizontal reviews, including comparisons across the in-scope institutions, must be confidentially disclosed to the banks that were reviewed.
Standards for Liquidity	<ul style="list-style-type: none"> — Firms should not be discouraged or prohibited from taking into account liquidity available from the Federal Home Loan Banks (FHLB) in managing liquidity or performing liquidity stress tests. — Examiners should not require firms to preposition assets at the discount window as a condition for future discount window secured borrowings.
Ratings	<ul style="list-style-type: none"> — Supervisory ratings must accurately reflect an institution's financial condition and material financial risks. — When determining a firm's composite rating, the management and risk management components of CAMELS and RFI/C (D) ratings should not be given more weight than other components.
MRAs and MRIAs	<ul style="list-style-type: none"> — MRAs and MRIAs should prioritize deficiencies with a material financial impact. — MRAs and MRIAs must be communicated with sufficient specificity that "a person of ordinary intelligence" can readily know what the deficiency is underlying an MRA or MRIA and what a non-deficient state would be. — Examiners must avoid vague or overbroad language and engage in meaningful dialogue with bank representatives to address issues such as justification, clarity, expectations, and remediation.

	<ul style="list-style-type: none"> — When evaluating whether an MRA, MRIA, or enforcement action may be terminated because the underlying deficiency has been remediated, examiners should: <ul style="list-style-type: none"> - Rely on the institution's internal audit for validations, provided that function is rated "satisfactory." - Not delay termination to test for sustainability over a period of time but monitor for sustainability after termination. - Not conduct additional reviews or 'capstones' on issues beyond the identified deficiencies in an enforcement action, or on non-material risks, as a prerequisite for terminating that action. — Shortcomings that do not rise to the level of an MRA or MRIA will be addressed through nonbinding supervisory observations.
Forthcoming Changes	<ul style="list-style-type: none"> — Amendments to SR 13-13 to reverse the directive that eliminated supervisory observations. — Updated guidance on the standards for issuing MRAs and MRIAs based on threats to safety and soundness. — Updated guidance on the standards for issuing enforcement actions based on unsafe or unsound practices.

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