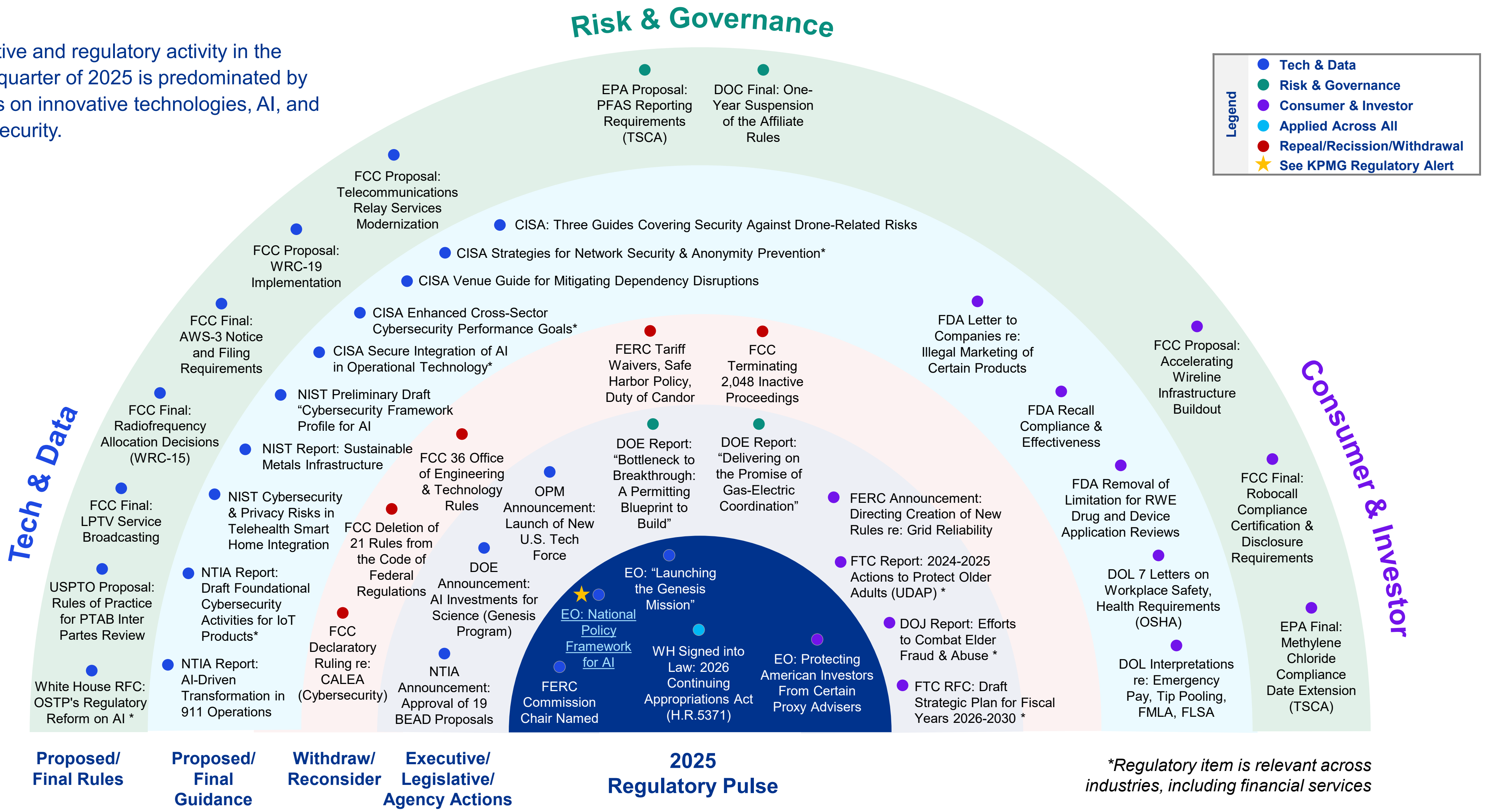
Regulatory Insights

Recap of 4th Quarter 2025

Q4 2025: Cross-Industry Regulatory Pulse

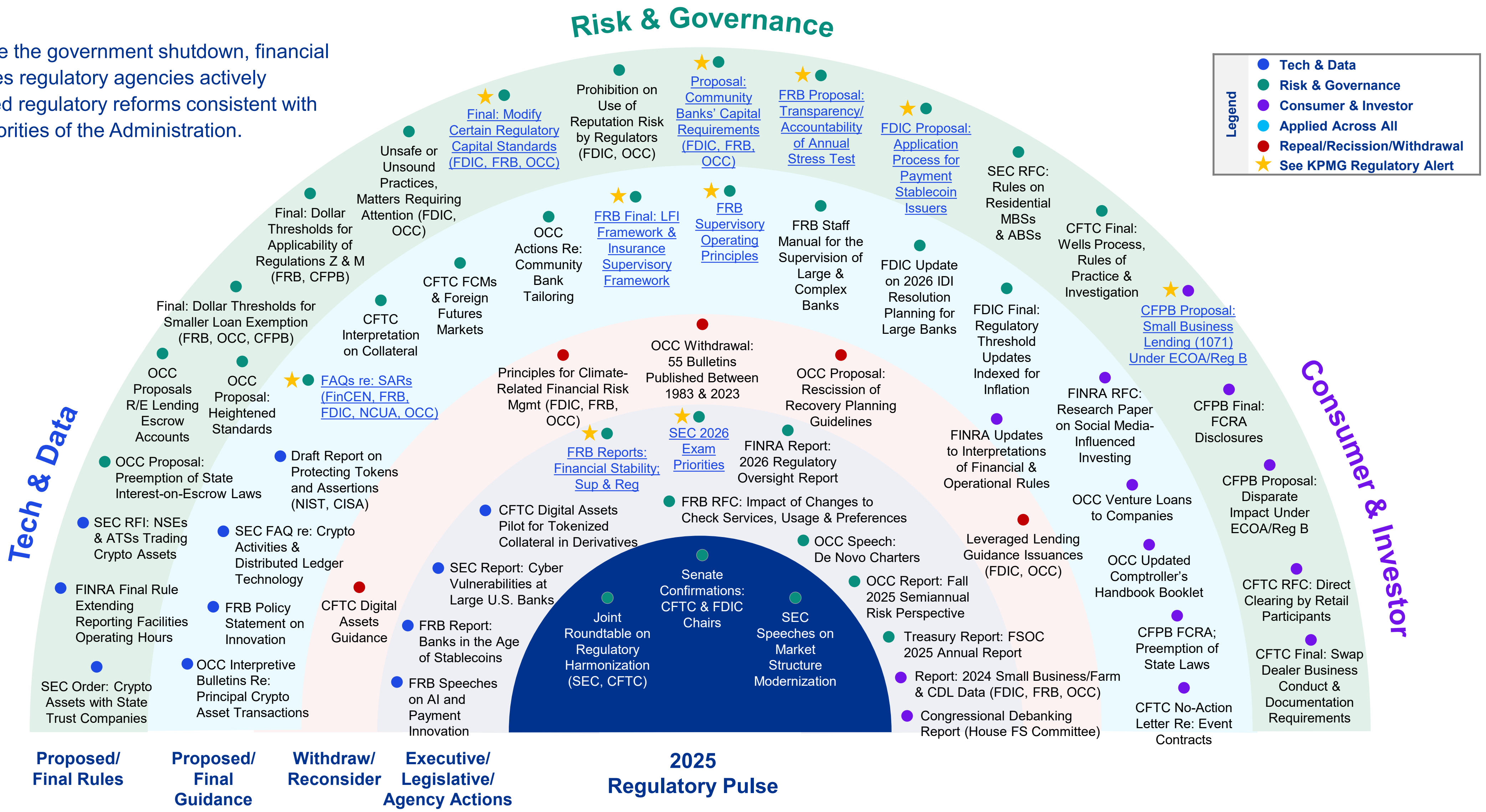
Executive and regulatory activity in the fourth quarter of 2025 is predominated by a focus on innovative technologies, AI, and cybersecurity.



Regulatory item is relevant across industries, including financial services

Q4 2025: Financial Services Regulatory Pulse

Despite the government shutdown, financial services regulatory agencies actively pursued regulatory reforms consistent with the priorities of the Administration.



Q4 2025: Regulatory Alerts

Topic	KPMG Insights	Regulatory Alerts/Articles
AI	• **National Standard:** Sets a national framework for AI policy that aims to replace multiple and divergent state approaches with a single federal approach. • **Litigation Focus:** Directs DOJ to establish an AI Litigation Task Force to challenge state AI laws that conflict with the framework or federal authorities. • **Funding Conditions:** Limits eligibility for specified broadband/discretionary grants to states without "onerous" state AI laws. • **Forward Look:** Expect legal battles as states and consumer advocacy groups push back on this order. • **More to Come:** Initiates consideration of a federal reporting/disclosure standard for AI models and potential preemption of conflicting state requirements.	Executive Order: National Policy Framework for AI
Digital Assets	• **Signals:** Continued regulatory efforts to promote digital currency innovations. • **Impact:** Intent is to minimize the regulatory burden for applicants by requesting only information necessary to evaluate the factors to be considered under the GENIUS Act and to utilize information already available to the FDIC as the primary regulator of the applicant. • **More to Come:** The FDIC's proposal is the first step of many from state and federal prudential banking regulators to implement the GENIUS Act.	FDIC Proposal: Application Process for Payment Stablecoin Issuers
AML/CFT	• **Recalibration:** Re-evaluate current policies and controls, and consider alternative approaches, including leveraging technology, to achieve a more risk-based, effective suspicious activity reporting. AML/CFT risks remain, and Treasury messaging is clear—institutions should risk-focus resources (including technology investment) but avoid reducing anti-financial crime efforts. • **Measured Steps:** When considering programmatic changes, ensure appropriate governance routines are followed, perform requisite analysis to corroborate, and collaborate with legal counsel; changes should not be abrupt but rather take a measured step-by-step approach to ensure internal and supervisory buy-in. • **Communication:** Socialize proposed changes early with internal audit and regulatory supervisors to ensure the program remains in good standing. • **More to Come**: These FAQs and recent Treasury leadership remarks signal strong momentum in broader AML/CFT "modernization" efforts. Continue to monitor regulatory updates and socialize with senior management.	FinCEN: FAQs on Suspicious Activity Reporting
Capital Stress Testing	• **Continuation:** Signals a continuation of broader efforts by the banking regulators to revise and refine the capital framework. • **Transparency:** Suggests more collaboration between banks and regulators through increased transparency and public engagement. • **Reporting Relief:** Targeted changes simplifying data submissions may reduce reporting requirements and lower compliance costs, improving efficiency. • **Impact:** May result in less volatility but more risk-sensitive capital requirements; not expected to materially change capital requirements for covered firms. • **More to Come:** One of several changes being considered for the bank capital framework (e.g., leverage ratios, GSIB surcharge, bank category thresholds, Basel III capital requirements).	Capital: FRB Proposed Rules on Stress Testing Transparency

Q4 2025: Regulatory Alerts

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Community Bank Tailoring	• **Ongoing Regulatory Adjustments:** Federal agencies continue to seek opportunities to amend regulations and guidance oriented toward community banks in an effort to ease regulatory burden and reflect the business models and risk profiles of community banks. • **Policy Agenda:** Changes in community bank supervision and regulation align with the Administration's policy to drive a "community bank comeback," including a renewed push for regulatory tailoring, a review of core platform providers, friendlier capital requirements, and revised requirements for BSA/AML/CFT programs.	Community Banking: Regulatory Tailoring Actions and Proposals
Enhanced Supplementary Leverage Ratio	• **Recalibrate:** Though recalibrated, the agencies estimate the overall capital requirements for GSIBs will remain similar to current levels and will not "materially alter" a GSIB's ability to distribute capital to shareholders. • **Modify:** Overall capital requirements for covered depository institutions are expected to decline, supported in part by the eSLR cap that is intended to limit impacts from its' affiliates' activities. • **"First Step:"** Continued public statements regarding tailoring and potential rule changes, including those related to stress testing, Basel III, and applicable thresholds, suggest the eSLR final rule is a "first step" to be followed by additional actions.	Enhanced Supplementary Leverage Ratio (eSLR): Final Amendments
Small Business Data Reporting	• **Regulatory Pullback:** Proposed amendments would narrow the regulators' focus to items specified in section 1071 and executive order directives. • **Regulatory Tailoring:** Increased origination threshold (from 100 to 1,000) is expected to reduce the number of smaller covered institutions but to continue to cover "well over 90 percent" of small business loan originations. • **Ongoing Legal Challenge:** Legal challenges to the 2023 final rule remain ongoing and compliance with the rule has been stayed for some market participants; it is uncertain whether the proposed rule addresses the plaintiffs' concerns. • **Regulatory Uncertainty:** A potential lapse in CFPB funding after December 31, 2025, may impact the agency's operations and rulemaking activity.	CFPB Proposal: Small Business Lending Data (Section 1071)
Supervision	• **Supervisory Findings:** Declines in the number of supervisory findings for all institutions – though outstanding supervisory findings reflect ongoing areas of concern, including governance and controls, risk management and internal controls, and IT and operational risk. • **Tailoring:** Efforts to tailor supervisory approaches based on an entity's risk and business profile will continue. • **Rulemaking:** Anticipated rulemakings to ease regulatory expectations are coming to life in issuances related to large bank capital requirements and community bank capital requirements and supervisory priorities (e.g., credit and liquidity risk).	FRB Reports: Supervision and Regulation; Financial Stability

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Supervision	• **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 MRIAs 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.	Federal Reserve: Supervisory Operating Principles
Supervision	• **Heightened Focus:** Prioritization of exams on cybersecurity policies and procedures, including incident response, along with areas of emerging technology risks; an evolving focus on areas of automated investment tools, AI, trading algorithms. • **Continued Focus:** Examinations will continue to focus on operational resiliency, third-party oversight, and all aspects of AML programs. • **Targeted Focus:** Assessing compliance programs, governance, investor protection, disclosures and adherence to regulatory standards will be a focus of examinations across all market participants.	SEC 2026 Priorities: Examinations and Perspectives
Supervision	• **Changes to Management Ratings:** Further changes to management ratings are possible as the FRB continues its review of supervisory frameworks, including potentially CAMELS. • **Modification of “Well Managed” Status:** Final rule directly ties “well managed” to financial risk; changes are expected to increase opportunities for new or expansionary activities for institutions meeting the new definition of “well managed.” • **“Targeted Proposal”:** Expect more targeted proposals as the FRB follows an incremental approach to regulatory reform.	FRB Rating Systems: Final Changes to the LFI Framework

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