Record of Meeting

Federal Advisory Council and Board of Governors

Thursday, September 3, 2026

Item #1: Economic Activity

How have Council members' outlooks changed since the May FAC meeting, in terms of consumer spending? What changes have you observed in business investment over the same time period, broadly and specifically as it relates to expansion plans and hiring? How have supply side policies contributed to your outlook? What are you seeing in investment in AI both broadly and specifically to your firms and clients? What are your expectations for investment in AI for businesses and for your own firms? What factors are driving any changes in AI-related capital allocation and strategic priorities?

Since the May FAC meeting, Council members have grown somewhat more cautious about the consumer outlook, although overall spending has remained remarkably resilient. Across Districts, higher-income households continue to support demand through spending on travel, services, entertainment, and other discretionary categories, while lower- and middle-income consumers are becoming increasingly price-sensitive and focused on essentials. Many contacts reported growing evidence of a bifurcated consumer environment, characterized by higher credit utilization, reduced discretionary purchases, and increased value-seeking behavior among financially constrained households. Despite these pressures, healthy labor markets, strong household wealth, steady tourism activity, and generally stable economic conditions continue to support overall consumer spending.

Business investment remains one of the stronger areas of the economy. Investment activity is concentrated in artificial intelligence (AI), technology, automation, cybersecurity, manufacturing modernization, supply-chain optimization, infrastructure, energy, logistics, and defense-related sectors. Expansion plans have strengthened among larger and better-capitalized firms, particularly in industries benefiting from AI development, energy demand, and infrastructure growth. Hiring remains active but increasingly targeted, with companies focusing on productivity improvements and specialized talent acquisition rather than broad workforce expansion. Persistent labor shortages across construction, manufacturing, healthcare, technology, engineering, and skilled trades continue to constrain growth and influence capital allocation decisions.

Supply-side policies have generally contributed positively to the business outlook by supporting investment through tax incentives, accelerated depreciation provisions, regulatory streamlining, and improved economics for certain energy and infrastructure projects. At the same time, tariffs, labor constraints, fuel costs, and input-cost pressures remain significant challenges. Notably, businesses appear to be adapting to these conditions rather than delaying decisions, pursuing strategies such as supplier diversification, reshoring, domestic sourcing, vertical integration, inventory flexibility, and increased automation. As a result, policy uncertainty is no longer viewed as a major barrier to investment for many firms, although one District noted that middle-market and smaller businesses are postponing large-scale expansion projects due to this uncertainty.

AI has emerged as the dominant investment theme across virtually every District and industry. Investment is occurring at both the infrastructure and enterprise levels, with substantial capital flowing into data centers, cloud infrastructure, power generation, electrical systems, semiconductors, and related construction activity. At the firm level, AI adoption is rapidly moving beyond experimentation into operational deployment. Larger organizations are developing more structured AI strategies and allocating capital toward automation, analytics, and technology platforms. Smaller businesses are increasingly adopting lower-cost AI solutions that generate near-term productivity gains. Organizations are using AI to improve productivity, automate workflows, enhance customer service, strengthen fraud detection and compliance,

improve forecasting and analytics, support software development, and optimize supply chains. Many firms report growing adoption among both employees and clients, while AI-related infrastructure projects are generating meaningful economic activity and hiring opportunities across sectors.

Looking ahead, Council members expect AI investment to remain one of the fastest-growing components of business spending through 2026 and 2027. Businesses increasingly view AI not as an optional technology initiative but as a strategic necessity for maintaining competitiveness, improving productivity, and addressing labor shortages. At the same time, firms are placing greater emphasis on measurable returns, governance, cybersecurity, data protection, intellectual property safeguards, and cost management. The discussion has shifted from experimentation to implementation, with capital allocation increasingly driven by organizational readiness, productivity gains, operational efficiency, competitive pressures, and demonstrable return on investment. Overall, Council members expect AI to continue serving as a major driver of economic growth, business investment, and strategic transformation across industries in the coming years.

Item #2: Labor Markets

What are you hearing about changes in labor force dynamics, including application volumes, job opening trends, and overall hiring activity? Please describe any shifts in labor availability, wage pressures, or difficulties in filling positions with you or your clients. The June labor force participation report noted a decline in participation for the 25-34 age cohort. Have Council members observed similar trends in their markets or among their borrowers and business contacts? Could you share current observations? What dynamics might account for this shift in workforce participation?

Council members reported that labor market conditions are generally becoming more balanced compared to the extreme tightness of recent years, although significant challenges remain. Most Council members reported stronger applicant volumes and a more cautious hiring environment, with employers increasingly selective about adding staff. While labor availability has improved for many roles, businesses across industries continue to struggle to find qualified candidates for positions in technical fields, healthcare, construction, manufacturing, engineering, skilled trades, and technology. Many organizations are focused as much on retaining experienced employees as on recruiting new talent, recognizing that reliability, skills, and experience remain scarce resources.

Wage pressures have moderated from post-pandemic highs, but compensation remains a critical factor in attracting and retaining talent. Employers continue to offer targeted pay increases, enhanced benefits, workplace flexibility, and retention incentives, particularly for hard-to-fill positions. Businesses also face mounting pressure from rising housing, insurance, and labor costs, creating tension between managing expenses and remaining competitive in the labor market. Several Council members noted that employees increasingly value flexibility, work-life balance, career development opportunities, and workplace culture in addition to compensation.

A recurring theme reported by Council members is the growing role of technology and AI in workforce planning. Many employers are investing in automation, productivity improvements, and AI-enabled tools to accomplish more without proportionate increases in headcount. While these technologies are helping organizations offset labor shortages and improve efficiency, some Council members noted that the technologies may be contributing to reduced demand for certain entry-level and junior professional roles, particularly in administrative, technology, and knowledge-based occupations. Employers increasingly appear focused on achieving productivity gains before pursuing additional hiring.

Regarding labor force participation among workers aged 25 to 34, Council members did not observe a dramatic decline but acknowledged several factors that may be affecting participation and employment outcomes for this group. These factors include housing affordability challenges, childcare costs, student debt burdens, delayed workforce entry due to additional education or training, growing expectations for

workplace flexibility, and increased selectivity in job choices. Several Council members also noted that entry-level hiring has become more competitive as employers slow hiring or prioritize experienced workers, making it more difficult for younger workers to enter the labor market. Some Council members pointed to the potential impact of AI and automation on traditional junior-level roles, while others observed that migration patterns and demographic shifts are affecting regional labor pools.

Overall, Council members agreed that the labor market remains stable and resilient but has become less fluid. Employers are hiring more selectively, turnover has generally slowed, and worker mobility has declined. The primary challenge is no longer a broad shortage of applicants but rather a mismatch between employers' needs in terms of skills and experience, the location of available jobs, and workforce availability. Businesses remain optimistic about growth opportunities, but many believe their ability to expand will increasingly depend on attracting, developing, and retaining specialized talent while leveraging technology to improve productivity.

Item #3: Inflation

How do Council members expect businesses to approach pricing decisions over the next year? Has your outlook for inflation changed, over both near-term and longer-term horizons?

Council members expect businesses to remain disciplined and highly selective in their pricing decisions over the next year. While inflation concerns have moderated somewhat, they continue to influence business and consumer behavior.

Consumers remain price sensitive. Consumer pushback in response to higher prices is forcing businesses to balance margin preservation against the risk of alienating customers. As a result, many businesses report that their ability to raise prices is increasingly constrained, leading them to evaluate price increases more carefully before passing them through to customers.

While most businesses continue to face higher labor, insurance, freight, energy, and material costs, Council members report that pricing power varies significantly by sector. Businesses serving energy, infrastructure, industrial, manufacturing, logistics, and commercial construction markets generally expect to continue passing through at least a portion of cost increases, supported by healthy demand, strong backlogs, and capacity constraints. Several companies reported that customers have largely accepted higher prices tied to fuel, energy, labor, raw materials, and tariffs, particularly where competitors are experiencing similar cost pressures.

Households and businesses continue to adapt to higher prices through various cost-management strategies, helping to somewhat mitigate broader inflationary pressures. Many consumers are responding by trading down, delaying purchases, seeking discounts, and shifting to substitutes. Low- and moderate-income consumers are also reducing discretionary spending, with many households cutting back on dining out, entertainment, apparel, and other nonessential purchases. Businesses are responding to higher input costs by focusing on cost controls, product adjustments, packaging changes, productivity improvements, and supply chain management to limit the need for price increases.

Some Council members believe that the rapid expansion of business investment in AI infrastructure is creating unique pricing pressures in some sectors of the economy. In particular, AI investment is driving sustained demand and cost increases in technology hardware, skilled labor, construction equipment, and energy. In the near term, this investment is putting upward pressure on prices. Over the longer term, however, some Council members believe that it has the potential to help businesses gain efficiencies that could offset some inflationary pressures as they implement AI, automation, and process improvements to reduce labor and operating costs and improve decision-making.

Council members generally reported that the near-term inflation outlook has tilted modestly to the upside, particularly if energy prices remain elevated for a sustained period. The ongoing conflict in the Middle East and continued oil price volatility were noted as important sources of concern and uncertainty. Other factors driving near-term concern include elevated cost pressures that businesses face from insurance, healthcare, transportation, labor, technology, and tariffs.

Longer term, most Council members continued to expect inflation to moderate gradually as productivity gains, technology adoption, domestic investment, and improvements in energy costs and supply chains take hold. However, inflationary pressure may increase if businesses and consumers no longer view elevated pricing as a short-term issue.

Item #4: Bank Lending

What is the current assessment of Council members regarding supply and demand conditions in bank lending? What noteworthy developments do Council members see in various lending categories such as commercial real estate, residential real estate, consumer, small-and-medium-size business, and corporate? Are there areas of strength or weakness in credit quality? Have you seen changes in the rate or composition of deposit inflows or outflows? Are you seeing evidence of economic uncertainty or financial market volatility influencing business or consumer activity?

Council members generally reported that credit availability remains favorable for qualified borrowers across commercial, corporate, small business, and consumer segments, with lender appetite remaining healthy despite aggressive pricing competition pressuring loan spreads. Competition among banks, private credit providers, and non-bank lenders continues to support ample availability. Council members also noted that private credit is becoming a growing competitive factor, with some borrowers—typically those with investment-grade corporate credit or project finance needs—increasingly able to consolidate financing through a single private-credit facility rather than maintaining multiple bank relationships.

Demand remains solid but selective, supported by working capital needs, refinancing activity, liquidity management, owner-occupied real estate, and targeted business and infrastructure investments. Borrowers and consumers continue to take a disciplined approach to capital deployment amid uncertainty surrounding interest rates, inflation, tariffs, and geopolitical developments, resulting in more measured investment decisions and longer decision-making cycles.

In terms of noteworthy developments, commercial real estate continues to be a significant driver of lending activity, with the strongest demand concentrated in industrial, multifamily, and infrastructure-related projects; owner-occupied real estate; and select data center-related opportunities. Demand for new construction remains mixed across property types. Office properties remain the weakest segment, while robust competition for high-quality commercial real estate (CRE) opportunities is driving more aggressive pricing and underwriting structures across the market.

Residential real estate activity has softened as elevated mortgage rates continue to weigh on demand. The market remains muted across many areas, reflecting limited housing inventory, high home values, and persistent affordability challenges. Buyers are increasingly reliant on incentives such as rate buy-downs, while demand for home equity lines of credit has strengthened. Consumer lending trends remain generally stable, supported by resilient household balance sheets, although lower-income consumers continue to face pressure from higher living costs and inflation.

Small and medium-sized business borrowers remain active but cautious, with demand centered on working capital, equipment purchases, expansion projects, and owner-occupied real estate. Businesses continue to evaluate investments selectively, balancing growth opportunities against uncertainty surrounding interest rates and operating costs. Corporate lending remains one of the strongest categories, supported by

infrastructure investment, AI and technology spending, refinancing activity, acquisitions, and business expansion initiatives.

Overall, credit quality remains stable and healthy, with favorable asset quality metrics and no evidence of systemic stress. Areas that continue to warrant monitoring include office and certain multifamily CRE segments; lower-income consumers facing affordability pressures; transportation and other energy-sensitive sectors; and borrowers facing refinancing risk, higher financing costs, or leverage challenges.

Deposit levels are generally stable, with modest growth in some markets. Customers, especially consumers, continue to shift balances toward higher-yielding products, including money market accounts, CDs, and other interest-bearing deposits. Competition for deposits remains elevated, driven in part by credit unions, fintechs, and online providers, contributing to ongoing pricing pressure.

Persistent reporting of economic uncertainty is influencing the timing of business and consumer decisions. Companies are taking a more deliberate approach to capital investment, hiring, acquisitions, and expansion plans, while consumers remain sensitive to affordability pressures, particularly in housing. Despite this caution, overall business activity and credit demand remain resilient.

Item #5: Federal Reserve Policy

What are Council members' views on the stance of monetary policy, including portfolio activities?

Council members generally view the current stance of monetary policy as appropriate, modestly restrictive, and reasonably balanced, given that inflation remains above the Federal Reserve's long-run objective and policy restrictiveness remains uneven across sectors. Council members were divided on whether to maintain the federal funds target range at 3.50–3.75 percent. However, all agreed that a data-dependent approach remains warranted, noting the ongoing need to balance persistent inflation risks against recent signs of cooling in the labor market and rate-sensitive sectors.

While inflation has moderated, core inflation remains above target, and renewed price pressures from energy, tariffs, transportation, or other supply factors require continued monitoring. Some Council members cautioned that premature easing could unsettle inflation expectations, while others encouraged decisive action if there is evidence of sustained reacceleration or signs that expectations are becoming unanchored.

Regarding portfolio activities, Council members support maintaining an ample-reserves framework and managing the balance sheet gradually, transparently, and predictably, with a clear separation between reserve management and monetary accommodation. They generally agree that runoff has largely met its objectives and that reserve-management purchases have supported liquidity and market functioning. The discount window and the standing repo and reverse repo facilities remain important liquidity backstops. Council members favor continued movement toward a Treasury-dominated steady-state balance sheet, including passive runoff of agency mortgage-backed securities and market-based clearing of mortgage-related exposures. The Federal Reserve's task forces on communications, balance sheet policy, data, productivity and jobs, and inflation frameworks are viewed as important for future policy implementation.

Item #6: Discount Window

If Council members could redesign the collateral and operational framework for discount window lending from the ground up, what would an optimal structure look like? What features would best serve both banks' liquidity needs and allow the smooth transition of pledged collateral from banks to

Federal Reserve Banks (for example, via the discount window), and from the Federal Home Loan Banks to Federal Reserve Banks?

Council members believe that the Federal Reserve's liquidity framework should be modernized to better reflect the realities of an increasingly digital, real-time financial system, building on progress already made. Further operational improvements will help ensure it serves as a timely source of liquidity during moments of stress, particularly for community banks. As a policy matter, Council members believe the discount window should evolve from an emergency-use facility into a more routine and operationally integrated source of contingent liquidity. To support that objective, the Federal Reserve should focus on improving collateral mobility, streamlining collateral pledging processes, expanding operational availability, providing greater regulatory recognition of pre-positioned borrowing capacity, and continuing efforts to reduce the stigma associated with discount window use. Council members have five main recommendations:

- **Enhance collateral interoperability.** Collateral management remains overly fragmented across the Federal Reserve Banks and Federal Home Loan Banks. Greater interoperability between these institutions would improve the speed and effectiveness of liquidity deployment during periods of stress. A more unified collateral framework—with standardized eligibility requirements, valuation methodologies, operational practices, and documentation—would help achieve this goal. Facilitating the rapid transfer of pre-positioned collateral between facilities, particularly during periods of market stress, would strengthen the resilience of the broader liquidity system.

- **Streamline loan collateral pledging.** While securities collateral can be pledged efficiently, loan collateral remains subject to operationally intensive processes that increase costs and slow access to liquidity. The Federal Reserve should consider adopting approaches that reduce manual reporting requirements, promote greater standardization of loan collateral administration, increase transparency regarding valuation and haircut methodologies, and provide institutions with more timely information on collateral values and available borrowing capacity. Greater coordination between the Federal Reserve Banks and Federal Home Loan Banks on governance documentation and authorization requirements would reduce operational burden and improve collateral portability.

- **Align liquidity facilities with real-time payment systems.** As instant payment networks expand, liquidity demands can emerge at any time, including outside traditional business hours. Expanding discount window availability to a 24/7 operating model and supporting near-real-time access to funding against pre-positioned collateral would better align Federal Reserve liquidity facilities with the needs of modern payment systems.

- **Promote discount window usage.** Banks that have pre-positioned collateral and demonstrated the ability to borrow from the discount window should receive consideration in regulatory liquidity assessments and internal stress-testing frameworks. The Federal Reserve should also evaluate the benefits of providing a broader range of term funding options and developing mechanisms that facilitate more automated access to pledged borrowing capacity during periods of operational or market disruption.

- **Reduce the stigma associated with discount window borrowing.** The facility should be regarded as a routine component of prudent liquidity risk management rather than solely as a lender-of-last-resort mechanism. Regular testing, ongoing operational readiness exercises, and appropriate confidentiality protections can help normalize usage and increase confidence that the facility will

function as intended during periods of stress. Integrating discount window capacity more fully into institutions' liquidity management and contingency funding practices would support this objective.

Item #7: Fraud

Consumer fraud has grown in frequency and sophistication in ways that increasingly negatively affect individual households, the payments system, and the broader financial system. What specific improvements could we make to our regulations that could assist banks in mitigating fraud losses (Reg CC, Reg E, others)? What legal safe harbors, standard data taxonomies, or interagency coordination mechanisms would most improve the timeliness and utility of fraud intelligence sharing? How should we consider the use of AI in combatting fraud? Are you aware of any techniques or tools that have been effective?

Consumer fraud has evolved from isolated criminal activity into a systemic risk affecting consumers, financial institutions, payment networks, and confidence in the broader financial system. While the industry continues to invest heavily in fraud prevention, there are several regulatory and policy enhancements that would materially strengthen our collective ability to prevent fraud. In particular, agencies should consider regulatory improvements to give banks clear authority to act on objective fraud indicators, support good-faith intelligence sharing, and address fraud at its source across telecommunications, technology, social media, and payments channels.

A foundational challenge to improving the regulatory framework for fraud mitigation is that several key consumer regulations were designed decades before today's fraud environment emerged. Regulation CC was adopted in the 1980s, and Regulation E's core error-resolution framework reflects a 1970s-era model focused on unauthorized electronic fund transfers and account errors. While these frameworks remain important consumer safeguards, they do not fully account for modern fraud types involving instant funds movement, remote deposit capture, and increasingly sophisticated schemes such as AI-enabled impersonation and social engineering.

- **Prioritize regulatory modernization.** Regulation CC's funds availability rules should be updated to reflect today's fraud environment. Banks need clear, risk-based authority to place extended holds when reliable fraud indicators exist—including for check deposits, Automated Clearing House and wire credits, instant payment credits, and other electronic deposits. That authority should apply where the facts indicate elevated risk, even where standard funds availability timeframes would otherwise require earlier availability.

- **Clarify authority for targeted fraud screening and transaction intervention.** Regulators should clarify that a bank's fraud prevention and anti-money laundering (AML) responsibilities are not in conflict with consumer protection expectations when the bank takes action supported by reasonable procedures, escalation, and customer communication. A bank should not face unfair or deceptive acts and practices (UDAP/UDAAP) criticism for delaying, limiting, or declining a transaction based on credible, objective fraud indicators—including circumstances where the customer appears to have authorized the payment. Consistent interagency guidance from the Consumer Financial Protection Bureau, Federal Reserve, Federal Trade Commission (FTC), and other relevant agencies would help avoid conflicting supervisory signals and support more timely intervention.

The following would improve the timeliness and utility of fraud intelligence sharing:

- **Develop a common taxonomy for fraud and scams.** Current classifications are inconsistent across agencies, payment rails, products, and institutions, and often fail to clearly distinguish unauthorized fraud from authorized scams, account takeover, mule activity, synthetic identity fraud, and other emerging typologies. A standardized taxonomy would improve fraud reporting, trend analysis, model training, recovery efforts, law enforcement referrals, and cross-sector intelligence sharing.

- **Create a good-faith fraud information sharing framework.** Banks and other payments ecosystem participants would benefit from a framework that enables institutions, payment networks, telecommunications providers, technology platforms, and law enforcement to securely share actionable fraud intelligence—including mule account information, suspicious beneficiary data, and emerging scam typologies. The framework should include a safe harbor that defines the categories of information that can be shared and explicitly protects participants acting in good faith from legal and regulatory liability. Treasury's recent Section 314(b) Fact Sheet promoting information sharing among financial institutions is helpful but does not provide the broader cross-sector framework needed for timely scam and fraud intelligence sharing.

- **Strengthen interagency coordination.** Because many fraud schemes originate outside the banking system—through telecommunications, technology, and social media channels—the banking agencies, Federal Communications Commission, FTC, and other relevant regulators should establish joint anti-fraud responsibilities to identify, disrupt, and remove fraudulent activity **before** consumers are induced to send payments.

AI has increased the sophistication and scalability of fraud tactics, and regulators should encourage banks to responsibly leverage advanced AI capabilities. The agencies should issue guidance assuring banks that good-faith use will not face criticism solely for false positives or temporary customer friction, provided appropriate governance and customer communications are in place.

Techniques that appear particularly useful in the current fraud environment include the following:

- **Machine-learning-based fraud detection:** Identifies suspicious patterns, account behaviors, and emerging typologies not captured by static rules. These tools can improve detection and prioritization when supported by appropriate governance and human oversight.

- **Behavioral analytics and device-based intelligence:** Evaluates how customers interact with devices and applications, such as typing cadence, touchscreen behavior, and navigation patterns.

These signals can help identify account takeover, bot activity, remote access scams, and impersonation risk.

- **Network and graph analytics:** Identifies relationships among accounts, devices, phone numbers, addresses, beneficiaries, and IP addresses, and can be particularly useful for identifying mule networks, organized fraud rings, and repeat scam infrastructure.

- **Real-time risk scoring and intervention**: Evaluates transaction, device, behavioral, velocity, and other signals in near real time to support targeted friction when objective risk indicators are present.

- **Advanced AI tools and cross-functional intelligence:** Connects intelligence across fraud, cybersecurity, AML, and customer service functions. These tools should be deployed with clear human oversight, access controls, testing, auditability, escalation protocols, and limits on autonomous customer-impacting actions.

Item #8: Cyber

What is the assessment of Council members on the current cyber threat landscape? What steps are Council members taking to address these threats? Are Council members hearing feedback that clients and business contacts are using frontier AI models to identify potential cyber risks?

Council members view the current cyber threat environment as increasingly complex, rapidly evolving, and more challenging to defend than in prior years. AI is fundamentally reshaping cybersecurity by accelerating both offensive and defensive capabilities. As a result, Council members have reassessed and calibrated risk tolerance levels while increasing cross-sector collaboration through industry organizations to strengthen coordinated responses. Several trends stand out:

- **Cyberattacks are becoming increasingly identity-centric rather than malware-centric.** Threat actors are relying less on malicious software and more on stolen credentials, compromised accounts, social engineering, cloud identity abuse, and exploitation of trusted relationships.
- **Artificial intelligence is materially increasing adversaries' capabilities, complexity, and scale.** AI allows sophisticated and amateur threat actors to generate more convincing phishing campaigns, automate reconnaissance and accelerate vulnerability discovery, develop synthetic voice impersonation, and support malware development.
- **Financial institutions continue to be attractive targets for cybercriminals, nation-state actors, fraud networks, and hacktivists.** Council members report that threat actors are also targeting cloud platforms, software supply chains, AI systems, service providers, healthcare, and critical infrastructure organizations. The use of Chinese models in the U.S. poses risks—for example, through open-source tools that alert bad actors to vulnerabilities. The Federal Reserve should consider having a crisis plan in place for the "tsunami" of patching, which will create service interruptions.
- **Ransomware remains a significant business risk, although attacker tactics continue to evolve**. Organizations increasingly face extortion schemes focused not only on encrypting data but also on public exposure of sensitive information, reputational damage, and operational disruption.
- **Concentration risk is growing**. There is a growing concentration risk due to a reliance on a few large third parties (for example, cloud, SaaS and middleware providers, and large security vendors) that can cascade threat effects across multiple institutions and sectors; the Federal Reserve should consider engagement with these critical industry vendors.

In response, Council members have continued the shift from a traditional “prevent and detect” approach toward a “resilience and recovery” model. There is growing recognition that prevention alone is insufficient and that institutions must assume compromises will occur and, therefore, emphasize rapid detection, containment, recovery, and resilience. Priorities noted by Council members, clients, and industry include perimeter hardening, enhanced internet-facing asset hygiene, deepfake voice and video detection, identity security, behavioral protections, detection capabilities, third- and fourth-party management, and operational readiness.

As attackers operate at increasingly high speed, organizational security teams are using AI-assisted detection, investigation, and response capabilities to improve visibility and reduce response times. Council members report that clients and industry peers are leveraging frontier AI models to improve cyber risk management, identify vulnerabilities and misconfigurations, enhance threat intelligence analysis and detection, and accelerate security investigations. Industry research indicates a marked increase in reported vulnerabilities from organizations deploying AI agents within security operations, particularly for threat hunting. Additionally, organizations are using AI to supplement, not replace, experienced cybersecurity professionals for investigation, response, and containment activities.

However, organizations are approaching these opportunities cautiously. Clients frequently express concerns regarding data privacy, governance, reliability, and third-party risk. As a result, most organizations appear to be pursuing a dual strategy that balances the defensive opportunities with the new category of risk that requires governance, oversight, and security controls. The emerging consensus is that future cyber resilience will depend less on traditional perimeter defenses and more on identity security, rapid detection capabilities, AI-enabled defense, cloud visibility, third-party risk management, and the ability to respond at machine speed to machine-speed adversaries.