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Opening Remarks

by

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(via pre-recorded video)

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2026 Banking Outlook Conference: The Next Horizon in Banking

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Thank you, President Bostic for inviting me to join you today.¹ Before turning to my remarks, I would like to take a moment to recognize your service to the Federal Reserve and to the Sixth District. I have heard from many bankers about your active engagement in the District, and your efforts to foster an economy that works for everyone. On a personal note, I have enjoyed the opportunity to work with you over the years, and I am grateful for your insights and perspectives as a member of the FOMC. We have navigated extraordinary challenges together, and your contributions have been invaluable. I wish you every success in your next chapter.

Unfortunately, while I am not able to be with you in person today, I am pleased to be able to join you virtually.

As many of you know, since June of last year, I have been serving as the Vice Chair for Supervision with responsibility for directing the supervision and regulation of our state member banks and holding companies. I am also the first governor to serve in the role designated for someone with community banking experience, having previously served as both a community banker and as a state banking commissioner.

So, in the theme of this conference ... I will begin by describing “what’s next on the horizon.” Let me start with our progress, and then the path forward. An important principle guiding our work is regulatory and supervisory tailoring. This requires adjusting our approach to the risk that banks of different size and complexity pose to the financial system, in addition to the institution’s risk profile.

This risk-based approach must be articulated clearly, particularly in its application to community banks. In some cases, community banks face less stringent standards than

¹ The views expressed here are my own and are not necessarily those of my colleagues on the Federal Reserve Board or the Federal Open Market Committee.

large banks, but there is more that we can do to ensure that our regulatory and supervisory approaches are appropriate for the limited risk these banks present to the banking and financial system.

Our current work includes reviewing the merger and acquisition and de novo chartering processes for community banks, including streamlining applications and updating our competitive analysis framework to better assess competition among small banks. As we are considering changes to the broader framework, we have the opportunity to shape our regulations and supervision in ways that recognize their important role in meeting the financial needs of the U.S. economy including in the most remote and rural places.

We are also in the process of reviewing comments on proposed changes to the community bank leverage ratio that would provide greater flexibility while maintaining strict capital standards nearly double the minimum capital requirements. These changes will help to enable community banks to focus on what they do best: supporting local communities and lending to households and businesses. We will also soon revisit the mutual bank capital framework to ensure that it provides flexibility while ensuring safety and soundness.

In addition, we are well underway with work to modernize regulations for large banks, revising the four pillars of our capital framework: stress testing, the supplementary leverage ratio (SLR), Basel III, and the G-SIB surcharge.

Stress Testing. Our recent proposal provides transparency by disclosing stress test models, the scenario design framework, and 2026 scenarios. Our goal is to reduce

volatility, balance model robustness with transparency, and ensure that significant future changes receive public input. We published the final 2026 scenarios earlier this month.

SLR. Last fall, together with the OCC and FDIC, we finalized changes to the eSLR for U.S. G-SIBs. These changes ensure that leverage requirements serve as a backstop to risk-based requirements as was originally intended. It will also prevent the leverage ratio being an impediment to banks engaging in low-risk activities like holding Treasury securities due to this binding constraint.

Basel III. Also, together with the FDIC and OCC, we are in the process of advancing U.S. Basel III implementation. Finalizing Basel III reduces uncertainty and provides clarity for bank capital standards, enabling banks to make better business decisions. Our approach includes a bottom-up rather than reverse engineered predetermined outcome. We have been faithful to the goals of supporting market liquidity, affordable homeownership, and bank safety and soundness. One way we have addressed this is through adjustments to the capital treatment of mortgages and mortgage servicing. The existing approach has reduced bank participation in mortgage lending and has limited access to credit from banks. These changes will benefit institutions of all sizes.

G-SIB Surcharge. In coordination with the Basel proposal and other capital reforms, we are also refining the G-SIB surcharge framework. The surcharge must balance safety and soundness with economic growth, ensuring that banks can continue to support the businesses and consumers, thereby supporting the broader economy.

Supervision. I will turn now to our supervisory priorities and what's on the horizon. Last October, and for the first time, the Federal Reserve published supervisory

operating principles. These principles provide direction to our examiners to prioritize core and material financial risks to safety and soundness. We will continue to conduct all of our examination programs, but when we are identifying and prioritizing risks, we will focus on those that can lead to a deterioration in financial condition or a bank's failure, rather than paying excessive attention to processes, procedures, and documentation.

This is not a fundamental shift in our supervisory approach: it's moving from siloed compliance exercises to unified, forward-looking risk assessments. Our examiners must engage in ways that ask "What vulnerabilities would lead to the failure of this institution?" rather than simply "Are the policies properly documented?"

Consider how this works in practice. Too many Matters Requiring Attention today cite policy documentation gaps, committee attendance issues, or immaterial limit exceedances. While these may technically violate a standard, they rarely predict institutional failure. We are now asking our examiners to shift their focus from "Is this documented?" to "What scenarios could cause your strategy to fail, and are you prepared for them?" This approach demands more sophisticated analysis and reasoned judgment from our examination teams, but it will produce more meaningful supervision that truly protects safety and soundness.

If you have recently experienced a Federal Reserve safety and soundness exam, you should be able to plainly see that we are putting these principles into action. We recently notified all state member banks and holding companies that we have begun a comprehensive review of all outstanding safety and soundness MRAs.

This review provides the necessary context to identify what truly matters for institutional safety and soundness, determine what does not, and course-correct where

supervision has drifted into procedural compliance over material risk assessment. Where MRAs do not meet standards, we will downgrade them to nonbinding supervisory observations. We expect to complete this review by the end of June.

Let me be clear: emphasizing core and material financial risks to safety and soundness does not mean neglecting nonfinancial risk. Cybersecurity, for example, remains a top priority. Strong risk management remains essential to the safety and soundness of the institutions we supervise, and we will continue to issue findings and examine for it where appropriate.

Thank you again for the invitation to join you today. I hope you enjoy the conference.