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Modernizing the Regulatory and Supervisory Landscape

Remarks by

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at the

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and the Federal Deposit Insurance Corporation

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Good morning. It is good to be here with you this morning for the Community Banking Research Conference.¹ Today I will discuss the work we have under way to modernize the bank regulatory and supervision framework. These frameworks are the foundation for the long-term stability and success of the banking system, and for community banks around the country.

Targeted Reforms to Support Community Banks

At this conference two years ago, I described actionable approaches to support and enhance the role of community banks in the U.S. financial system.² Since that time, we have made progress in a number of areas. At the Federal Reserve, we have refocused supervision with our Statement of Supervisory Operating Principles. These principles focus supervision on risks that could lead to a material deterioration in a firm's financial condition. We are also improving our coordination with federal and state banking agency counterparts. Together with the OCC and FDIC, we updated the community bank leverage ratio—a material simplification of the capital framework for community banks—to the statutory level of 8 percent. We demonstrated our support for community bank innovation by eliminating the Novel Activities Supervision Program, which had operated as a barrier to innovation.

We are continuing our initiative to update and index outdated asset thresholds, including the thresholds defining the scope of community banks for supervisory purposes, and making supervisory ratings (like the “M” rating in “CAMELS”) more reflective of financial condition and financial risk. In issuing regulations or guidance that applies to community banks, we

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.

² See Michelle W. Bowman, “Building a Community Banking Framework for the Future,” speech delivered at the 2024 Community Banking Research Conference, sponsored by the Federal Reserve System, the Conference of State Bank Supervisors, and the Federal Deposit Insurance Corporation, St. Louis, MO, October 2, 2024, <https://www.federalreserve.gov/newsevents/speech/bowman20241002a.htm>.

include tools, additional guidance, and compliance guides to clarify new expectations, like the recent compliance guide for third-party risk-management guidelines.

More work remains.

First, mergers and acquisitions. The Federal Reserve's competitive analysis in bank mergers has a disproportionate effect on rural banks in small and underserved markets. This analysis systematically understates the competition banks in these markets face—downplaying or ignoring credit unions, nonbank lenders, farm credit institutions, and branchless banks that compete in local markets across the country. This analysis is antiquated and harmful to community banks that may face greater difficulties in merging, even when doing so may actually create a stronger and more competitive banking environment.

Second, de novo formation. In June, the FFIEC issued a statement reaffirming its support for de novo bank formation. While this was an important show of broad-based support for de novos, federal and state banking agencies can and should do more to promote new bank formation—including clarifying approval standards (like capital requirements), adhering to specific and reasonable processing timelines, and issuing conditional approvals where appropriate.

Third, rationalizing and streamlining the call report. The FFIEC issued a request for information on call report streamlining in December 2025, seeking public comment about excessive burden on banks that file the call report and requesting stakeholders to identify options for streamlining.

I also highlighted the necessity of community banking and state bank commission experience for those involved in regulatory and supervisory oversight processes. Understanding the business of banking and how supervision and regulation hinder or support this business is

fundamental to a safe and sound banking system. Since becoming the Vice Chair for Supervision, I have served as the Board's FFIEC member, and as its chairman. During this time, we have made progress on long-standing issues within the FFIEC's purview, including updating the CAMELS rating system, which I will discuss more in a moment.

Bank regulators rely on an effective and proportionate approach to bank regulation and supervision, based on size, complexity, business model, and risk profile. This includes updating asset-based thresholds to reflect changes over time and indexing them to economic growth to help ensure that they remain appropriately calibrated in the future.

Asset Thresholds and Regulatory Tailoring

Bank regulation and supervision must be appropriately tailored, calibrated, and updated over time. Asset thresholds that are established in regulation (like low, fixed-dollar thresholds that limit a bank's lending to directors and officers) or static standards are used to create different tiers of institutions for regulatory and supervisory purposes (like the definition of a community bank being generally set at \$10 billion in assets) become irrational over time.

These thresholds matter. They limit a bank's activities and impact the proportionality of supervisory oversight. Every standard reflects a policy decision at a particular point in time, but over time, without adjustment, policy judgment is replaced by a miscalibration.

The Board has taken steps to address these issues. In July, we proposed revisions to Regulation O, which governs the extension of credit by banks to bank "insiders," including bank executives, board members, and major shareholders.³ Regulation O has not been comprehensively updated since 1979. While the original transaction limits may have been

³ See Board of Governors of the Federal Reserve System, "Federal Reserve Board Requests Comment on a Proposal to Modernize Its Rule Governing the Extension of Credit to Bank 'Insiders'—Bank Executives, Board Members and Major Shareholders Who Could Potentially Influence a Bank's Lending Decisions," press release, July 31, 2026, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20260731b.htm>.

appropriate at that time, these limits create a significant administrative burden on community banks and go beyond what is appropriate or necessary for safety and soundness.

The Board's regulations include other thresholds that are similarly outdated. Later this year, the Board will consider updates to fixed-dollar asset thresholds in the Board's regulations to account for inflation and economic growth. The proposal will increase static thresholds, with a mechanism to update them every five years. This will preserve the policy intent at the time the threshold was implemented. This regulatory housekeeping should not require comprehensively and routinely revisiting our regulations to update thresholds so that they remain appropriate for future economic conditions, so we have included mechanisms that will allow this adjustment on a regular cadence.

Later this year, the Board will consider broader structural reforms to bank portfolios defined by asset size and updates to the large bank tailoring framework. For the past 15 years, a community bank has been defined as a bank with assets of less than \$10 billion.⁴ Fixed asset thresholds can push a smaller noncomplex bank into a higher supervisory tier with standards designed for more complex institutions and stronger supervisory scrutiny—like those based on the risk of their activities. This approach is not appropriate for firms with straightforward business models that should be subject to the risk tier appropriate for their risk profile. Both directions of change could be appropriate if based on an assessment of a bank's activities and risk profile. By expanding the range of institutions treated as community banks that operate

⁴ See, for example, Michelle W. Bowman, "Modernizing Supervision and Regulation: 2025 and the Path Ahead," speech delivered at the California Bankers Association Bank Presidents Seminar, Laguna Beach, CA, January 7, 2026, <https://www.federalreserve.gov/newsevents/speech/files/bowman20260107a.pdf>; Michelle W. Bowman, "Community Banking: Looking Toward the Future," speech delivered at the Community Bank Conference, hosted by the Board of Governors of the Federal Reserve System, Washington, D.C., October 9, 2025, <https://www.federalreserve.gov/newsevents/speech/files/bowman20251009b.pdf>; and Michelle W. Bowman, "Defining a Bank," speech delivered at the American Bankers Association 2024 Conference for Community Bankers, San Antonio, TX, February 12, 2024, <https://www.federalreserve.gov/newsevents/speech/files/bowman20240212a.pdf>.

using a traditional community bank business model and relationship banking and appropriately modifying the supervisory expectations and regulatory requirements for these firms, we will preserve safety and soundness while effectively applying appropriately tailored and risk-calibrated supervision and regulation.

Congress has given the federal banking agencies discretion to modify thresholds and to tailor requirements for institutions based on size and complexity. Our work will ensure that our requirements remain appropriate for this purpose.

Refocusing Supervision on the Risk of Material Financial Harm

Effective bank supervision requires an approach that prioritizes risk that can result in material financial harm. One year ago, the Federal Reserve implemented a risk-based supervisory program with the introduction of our Statement of Supervisory Operating Principles (SSOP). These principles outline our enhanced approach to supervision describing what supervisors do and how they do it for both examiners and for the broader public.⁵

Publishing the SSOP enabled us to begin the process to shift our culture to encourage and direct our supervisors to return our focus to the fundamental purpose of supervision. This emphasizes our mandate to preserve safety and soundness in the banking system and support U.S. financial stability. In recent years, our examinations had drifted to focus on process over substance, prioritizing checklists of requirements instead of applying judgment and expertise to evaluate safety and soundness. The SSOP begins by reiterating the core purpose of supervision—which is to identify material vulnerabilities as early as possible and take prompt, decisive, and proportionate action to encourage or require firms to mitigate them. It then

⁵ See “Statement of Supervisory Operating Principles,” press release, October 29, 2025, <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20251118a1.pdf>.

clarifies expectations for examiners to use reasoned judgment and escalate matters of concern, including where additional tools may be needed to identify or address risks.⁶

The SSOP marks a turning point that memorializes the beginning of our work to address the long-standing issues in our supervisory culture. Of course, we know that the SSOP is an initial step. It must be followed up with clear expectations and actions. Therefore, we have followed that formal document with targeted examiner trainings, outreach, and necessary structural reforms to ensure these messages have permeated throughout the entire supervisory system and enhance how we conduct supervision.

The Federal Reserve's supervisory approach should not be a mystery. Supervisory expectations should be transparent, clear, and consistent. A bank should not learn about and then be held accountable for changed expectations during an examination. In recent months, we published a number of LISCC examination manuals and provided targeted guidance to further this goal of transparency. One example is our new third-party risk-management guidance, which includes a guide that is tailored to community banks. These banks face unique challenges in managing third-party relationships, particularly where there is a mismatch in negotiating power between banks and service providers. These should clarify supervisory expectations and encourage effective third-party relationship due diligence and ongoing compliance.

While these examples demonstrate the commitment to updating and modernizing the bank regulatory and supervisory framework, there is much more to be addressed. Together, through the FFIEC, the agencies and states are working to finalize revisions to the CAMELS

⁶ Id. ("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.").

rating system.⁷ The CAMELS proposal revises the bank ratings framework to focus on material financial risks and provides clarity to each component and the weight of each element that comprises the components and leads to a composite rating. Importantly, the proposal also provides transparency and clarity to the assignment of a Management rating. The “M” rating will no longer singularly drive a composite rating.

Our revised supervisory approach adopts humility and openness, acknowledging that some elements should be periodically updated and refined over time to reflect changing economic conditions, evolving banking and financial system risks and practices, and the broader economy.

Updating the Structure of the Supervisory Function

To effectively implement a robust framework, we must also change our organizational structure and approach, our culture, and work to promote accountability and transparency. These reforms are not easy. We have to address long-standing issues embedded in our institutional culture, long-held assumptions and beliefs, and institutional inertia. But in the context of bank supervision and regulation, we must not be distracted from our core mission of safety and soundness while we achieve these goals.

We have identified a number of structural issues that hinder our ability to optimally perform the supervisory function. Starting with the role of committees in the operation of the supervisory function.

⁷ See Federal Financial Institutions Examination Council, “Uniform Financial Institutions Rating System,” 91 Fed. Reg. 29128, May 19, 2026, <https://www.govinfo.gov/content/pkg/FR-2026-05-19/pdf/2026-09944.pdf>; Bowman, “Modernizing Supervision and Regulation”; Michelle W. Bowman, “Welcome Remarks,” speech delivered at the 2025 Community Banking Research Conference, St. Louis, MO, October 7, 2025, <https://www.federalreserve.gov/newsevents/speech/files/bowman20251007a.pdf>; Michelle W. Bowman, “Taking a Fresh Look at Supervision and Regulation,” speech delivered at the Georgetown University McDonough School of Business Psaros Center for Financial Markets and Policy, Washington, D.C., June 6, 2025, <https://www.federalreserve.gov/newsevents/speech/files/bowman20250606a.pdf>.

For many years, Federal Reserve system supervision relied on a complex web of committees. These committees were well intentioned and appropriately deliberated issues but over time became a source of delay, created barriers to prompt action, and obfuscated decisionmaking responsibility and accountability.

While committees can be effective in breaking down information silos, delayed action results in fractured and inconsistent communication and supervisory approaches. The Federal Reserve's distributed supervisory system encompasses an extensive geographic area, including unique institutions across the country, with a wide range of bank sizes, business models, activities, and risk profiles. Lessons from our supervisory experiences inform examiner judgment. When a committee shields accountability or discourages examination teams from using informed judgment in a timely manner to defer to an unaccountable committee, safety and soundness can suffer as a result. In practice, these committees became a source for plausible deniability and a disincentive for examiners to take prompt and decisive action to address identified risks.

Improving the use of committees is an important first step, but broader changes are needed.

Last month, the Starling Advisory Group released its preliminary report on the failure of Silicon Valley Bank.⁸ This independent review marks an important milestone in public accountability and transparency for the supervision of banks. It serves as an opportunity identify and address challenges in the implementation of Federal Reserve supervision responsibilities. While we have already made progress in several areas, we must also modernize our

⁸ See Michelle W. Bowman, "Initial Findings from Independent Review of Silicon Valley Bank," speech delivered at the Luncheon of the Lord Mayor City of London at Mansion House, London, United Kingdom, September 18, 2026, <https://www.federalreserve.gov/newsevents/speech/bowman20260918b.htm>.

organizational structure so that our supervisory operations are well positioned to assess the current landscape and future of the U.S. economy and financial system. This requires a thorough examination of our systemwide operations, our existing footprint, and a recognition of the importance of our state supervisory structure. After all, our banks are “state member banks,” and each state conducts supervision jointly with us and, ultimately, holds the state bank charter.

The independent review highlighted a long-standing structural issue in the supervisory function—a mismatch between authority for decisionmaking and accountability for supervisory decisions. The execution of Federal Reserve supervision is the responsibility of the Vice Chair for Supervision, but it is conducted by the Reserve Banks. As the review noted, for decades that structure has disincentivized a critical link between responsibility and accountability and has been further complicated by a complex web of dozens of committees, resulting in dysfunction when critical decisions are most needed.

Today, we begin to restructure the Federal Reserve’s supervision function. Informed by the regional structure implemented by the Conference of State Bank Supervisors, the Federal Reserve supervisory function will be realigned to implement a culture of accountability and clear decisionmaking authority. This will initially take the shape of a realignment into five regions. Each of these regions will be led by a regional leader accountable for all supervisory activity in region, supported by the existing Reserve Bank footprints but aligned to recognize and reflect state boundaries.

This simplified regional structure will provide a number of benefits.

By following state lines rather than Reserve Bank District boundaries, we can coordinate more effectively and efficiently with our state and federal regulatory partners. The regional structure creates scale in our operations. It simplifies our leadership structure while preserving

local supervision by examiners. They will remain in the existing Reserve Bank locations across each region, continuing to oversee the banks they currently supervise. This approach clarifies accountability and decisionmaking and enables a consistent application of supervision. We look forward to realizing the benefits of this structure.

Closing Thoughts

In just over a year, we have made meaningful progress. But much lies ahead. As we continue to move forward, it is important to reiterate our commitment to risk-focused regulation and supervision, and a strong foundation of capital and liquidity. Our supervision prioritizes those matters that present or could lead to material financial impairment. These approaches allow us to empower examiner judgement and expertise, leading to more timely and effective supervisory outcomes. Our structure and organization will support our examination workforce by better aligning responsibility and accountability for decisionmaking.

I look forward to hearing your feedback as we implement these approaches, as we continue to enhance the regulatory framework, and as we improve our supervision. Thank you for your work to ensure the future of banking for communities across the United States. It is an honor and a privilege to work with you.