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2025 banking regulatory outlook

Center *for* **Regulatory Strategy** **US**

Message from the Deloitte Center for Regulatory Strategy

In 2025, the banking industry and related institutions[1] should expect to face a stable supervisory environment with some important changes to the direction of regulatory policy. Last year, the industry faced a significant regulatory agenda set out by financial regulators. At the same time, many institutions are facing increased pressure to address their outstanding supervisory issues and demonstrate sustainable remediation—a trend not expected to appreciably change even with a shift in administrations. As firms contend with these changes, it will be important for boards and senior management to prioritize sustainability of sound governance, risk management, and compliance programs. This will be more challenging while striving to remain competitive against bank and nonbank competitors and supporting innovation to meet changing customer expectations. Failure to execute strong remediation and ongoing regulatory compliance could result in placement into the regulatory "penalty box" with potentially higher remediation costs and the prospect of taking years to get out of.

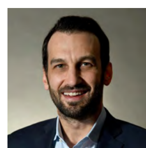
For our *2025 banking regulatory outlook*, we've identified four key topics affecting the industry:

- Navigating an uncertain regulatory environment
- Evolving supervisory focus on issue remediation
- Financial resilience remains top of mind
- Keeping an eye on non-financial risks and internal controls

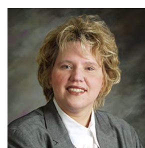
Throughout this report, we provide our assessment of the regulatory and supervisory changes—and pressures—that we expect may have the greatest impact on banking institutions in the coming year, the importance of each area, and practical considerations to help address vulnerabilities to better position your institution for the challenges ahead.

We hope you find our outlook to be a helpful guide that will allow you to better understand how these regulatory changes and challenges in 2025 might affect your institution. As always, we are here to help you chart the course.

Sincerely,

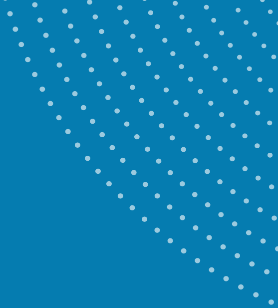


Richard Rosenthal
Principal
Deloitte & Touche LLP



Irena Gecas-McCarthy
Principal
Deloitte & Touche LLP

Jim Eckenrode
Managing Director
Deloitte Services LP



Contents

US elections and consequences for personnel and policy

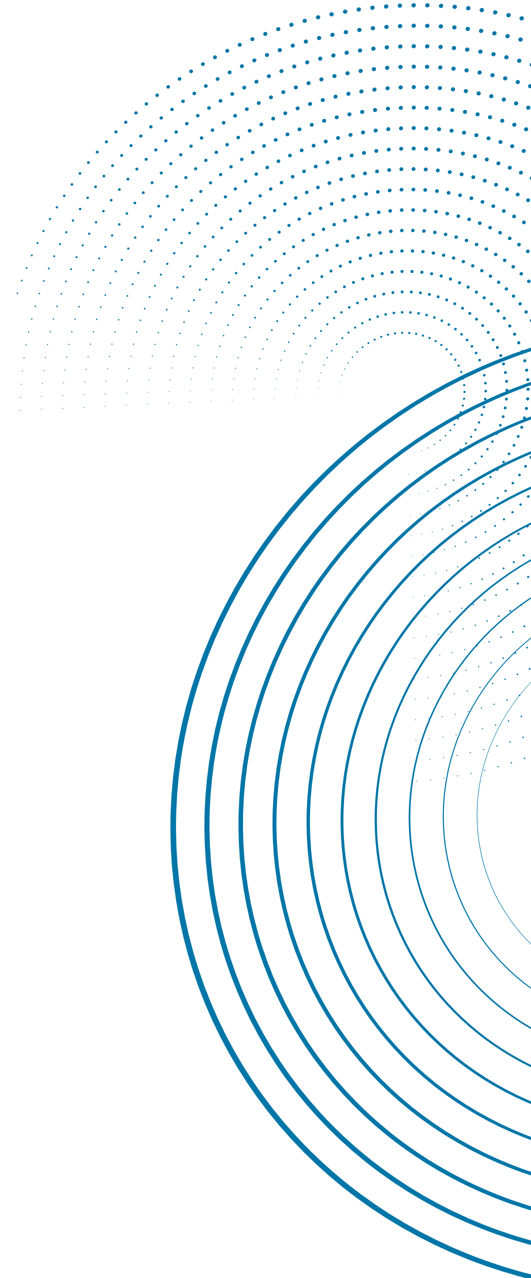
A new presidential administration and changes in party control across both chambers of Congress are expected to affect the regulatory environment for banks and other financial institutions in 2025. A second Trump administration will introduce new regulatory leaders and is likely to focus on deregulatory efforts, including rolling back of—or even potentially overturning—several of the previous administration's regulatory initiatives. While a more permissive regulatory environment is expected, changes to financial supervision typically come more slowly. Banks will still need to address their existing supervisory findings and should continue to prioritize improving their risk management and controls.

Agency leadership

To effectuate regulatory changes, President Trump will need to appoint his cabinet and senior regulatory leaders. With Republicans in control of the Senate, that process is not expected to be delayed or involve contested appointments. The Office of the Comptroller of the Currency (OCC) and Consumer Financial Protection Bureau (CFPB) leadership serves at the pleasure of the president. As *ex officio* members of the Federal Deposit Insurance Corporation (FDIC) Board of Directors, any new Comptroller of the Currency and CFPB director will have an impact on that agency's direction. With FDIC Chairman Martin Gruenberg's resignation, Travis Hill was recently elevated to the role of Acting Chairman.[2]

Leadership at the Board of Governors of the Federal Reserve System (FRB) is expected to remain more stable with one noteworthy change: Vice Chair for Supervision. Governors are appointed for a term of 14-years and are only removable for cause, while the leadership positions of Chair, Vice Chair, and Vice Chair for Supervision have terms of four years.[3] However, Governor Michal Barr has announced his intention to resign as Vice Chair for Supervision by February 28, 2025, while remaining on as Governor.[4] While notable, it is not without precedent for a governor to resign early in a new administration.[5] Therefore, the new administration will be able to further influence the direction of banking regulatory policy.

During these leadership transitions, federal banking agencies' interagency regulatory action (e.g., rulemaking and issuing supervisory guidance) is likely to appreciably slow down over the year and perhaps modestly rise in late 2025. On the supervisory side, although agency leadership can help set the regulatory and supervisory agendas, the permanent supervisory staff are not expected to be affected; therefore, financial institutions' primary supervisory contacts and relationships should remain consistent. Even with the shift in tone from leadership, experience has shown judgments and approaches by boots-on-the-ground supervisors only gradually change over time.



Policy direction in 2025

A second Trump administration, with both chambers of Congress controlled by Republicans, is likely to resemble the first two years of his initial term, when financial regulations were rolled back[6] and the Congressional Review Act (CRA)[7] was used to overturn some of the prior administration's rulemaking.[8] The regulatory rollback of the previous administration's efforts may have operational impacts equivalent to new rulemaking.

Under the CRA, Congress can pass, by a simple majority, a joint resolution of disapproval of certain agency rules or guidance that have been submitted within the prior 60 legislative days.[9] If disapproved, the rule subject to the joint resolution goes out of effect immediately and may not be reissued in "substantially the same" form.[10] Among the rules and guidance, the newly inaugurated 119th Congress could potentially, though not necessarily will, overturn include those submitted after the beginning of August 2024.[11] These rules include the FDIC's and OCC's merger review rules,[12] CFPB's open banking rule,[13] and OCC's recovery planning guidelines, among others.[14]

Several outstanding proposals are likely to be either significantly revised or withdrawn by the banking agencies. For example, the Basel III Endgame proposal, which would have materially increased capital requirements and risk-weighted assets (RWA) for the largest banks,[15] received widespread criticism from Republicans.[16] If reproposed, it is likely to be issued in a more limited manner that would lessen the impacts on capital and the current US tailored regulatory approach based on asset size.[17] Other proposals—such as those relating to industrial loan companies,[18] brokered deposits,[19] and corporate governance[20]—may be withdrawn or otherwise left unfinalized. For those proposals that are tied up in litigation, such as the CFPB's credit card late fee rule,[21] incoming agency leaders may choose to settle rather than continue defending the agency's prior rulemaking in court.

Beyond existing rules, the new administration will look to set out its own agenda. President Trump has begun to rescind a number of prior executive orders issued by President Biden, including those on artificial intelligence and digital assets.[22] President Trump has also issued an executive order requiring agencies to identify at least 10 existing rules, regulations, or guidance to be repealed when promulgating any new regulatory actions.[23] Under a new administration, banks may face a more permissive regulatory environment for approving bank mergers, which have been in a slump since 2021.[24] Changes in agency leadership may also open pathways for *de novo* bank charters in the form of more permissive supervisory approval of novel business activities (such as engaging with digital assets) and more nonbanks entering the banking system.

Navigating the year ahead

After several active years of regulatory change under the previous administration, banks could potentially experience a period of relative calm in the spring while the Senate confirms the president's political appointees, and the administration arranges for staff to take their offices. However, the new administration may move quickly thereafter in implementing their regulatory agenda and potential shifts in supervisory priorities. Given the considerable difference in direction, banks should closely monitor regulatory developments and be prepared to invest in their regulatory change management capabilities. Although the financial industry may see some regulatory relief over the coming year, banks should stay focused on addressing their outstanding supervisory issues as experience has shown these are likely to see little to no impact from the change in administration. There are several areas of risk management and controls that are likely to remain top of mind for supervisors which, as discussed below, institutions should prioritize in the year ahead.

Navigating an uncertain regulatory environment

In 2025, financial institutions may need to prepare for a possibly more uncertain and complex regulatory future, which could require heightened vigilance and adaptability for strategic planning and compliance.

Regulatory and supervisory expectations

The Supreme Court's recent term has introduced pivotal changes in administrative power, notably reining in judicial deference to the agencies in interpreting federal statutes when promulgating regulations. This shift, coupled with new rulings on the timing of litigation claims, is expected to complicate the regulatory agenda for banking authorities. At the same time, the banking industry is increasingly resorting to litigation to challenge recent rulemakings, adding further unpredictability to rule finality. The risk of regulatory fragmentation is elevated as interagency coordination appears to have receded in some areas, including mergers and acquisitions, leading to potential inconsistencies in regulatory expectations. How the new administration confronts these challenges will be important to watch.

Recent Supreme Court decisions

The most recent full term of the Supreme Court has led to major shifts in administrative law, potentially presenting new challenges to banking authorities' regulatory agenda. Among the most notable decisions was the Court's overturning of the *Chevron* doctrine, which set out judicial deference to "reasonable" agency interpretations of ambiguous federal statutes in adopting regulations.[25] Though not cited by the Court since 2016, *Chevron* had remained a widely used precedent by other federal courts, providing agencies with some advantage in dealing with legal challenges.[26] Going forward, agencies will receive less deference in interpreting statutory ambiguities, potentially providing for more successful plaintiff challenges to financial services regulations.

The volume of challenges to agency rulemakings may also increase due to another case dealing with the period of time over which a lawsuit may be brought, with the Court having found the timing of certain claims accrue from the time of injury, as opposed to agency action.[27] As a result, regulators may face legal challenges to long-dated rulemaking from newly established legal entities.[28] Coupled with the overturning of *Chevron* deference, these decisions could introduce significant uncertainty for banks as regulation finality may become less assured.

Growing trend of industry legal challenges

In addition to the high court's recent term, banking and consumer finance agencies are facing obstacles to their regulatory agendas from a range of legal challenges to many of their recent rulemakings. The CFPB, in particular, has been subject to numerous industry legal challenges over the agency's rulemaking agenda, including those related to credit card late fees;[29] buy now, pay later (BNPL);[30] and open banking.[31]

These types of challenges are not just limited to the banking and consumer finance industries—we're observing similar trends across other sectors, particularly with other market regulators.[32] While the new administration may be less prone to issue regulations that cause major industry backlash, the frequent legal challenges seen in recent years have established themselves as a method for constraining rulemaking and will likely loom over new agency leaders as they pursue their own regulatory goals.

Risk of regulatory fragmentation

Compounding these difficulties is the growing risk of regulatory fragmentation as interagency coordination has seemingly stalled in many areas, risking potential delayed rulemaking or regulatory drift among and within the banking agencies. For example, the FRB, OCC, and FDIC appear to have had difficulties reaching agreement on revisions to the Basel III Endgame proposal, which have led to delays in the rule's quantitative impact study (QIS) release and re-proposal (for a fuller analysis of capital rules, see *Financial resilience remains top of mind* below).[33]

Perhaps, even more starkly, this trend may be seen in the divergent paths agencies have taken with respect to their merger review processes.[34] While historically an interagency effort, the FDIC and OCC decided to finalize separate proposals to amend their procedures and analysis of bank combinations, while the FRB declined to update its merger analysis.[35] As one example of divergence among the federal banking agencies, under the FDIC's new policy statement the agency goes further than other banking regulators in requiring an affirmative obligation on applicants to demonstrate how the transaction will *better* meet the convenience and needs of the community to be served.[36] As a result, similar banks with different chartering authorities could face the prospect of inconsistent or varying regulatory expectations across the agencies, potentially resulting in similar transactions being reviewed under differing standards.

Basel III Endgame and bank mergers are areas where the new administration is likely to focus their attention early. Although it may be tempting to assume that a new administration would bring regulatory leaders into alignment, it is important to remember that the previous administration experienced delays in coordinating interagency actions due to differing views among its own appointees.[37] How the new agency leaders work together on interagency rulemaking, both among themselves and with appointees from the prior administration (e.g., FRB governors), will be important for the future direction of financial services regulations.

Why banks should take notice

These issues can complicate regulatory change management processes and operations, make rule finality less certain, and introduce complications to firms' long-term planning and compliance strategies.

For example, increased litigation may create unexpected delays in the implementation of new rules with injunctions providing stays for indeterminate periods of time. This may create a stop-and-start dynamic for firms as institutions may be forced to repeatedly adjust their compliance preparation efforts, potentially leading to inefficiencies and increased uncertainty.

A weakening of interagency coordination could exacerbate these challenges by leading to potentially different regulatory standards across similar organizations and activities. Consequently, firms may need to allocate greater resources to monitoring a wider array of regulatory standards and incorporate differing regulatory requirements across different legal entities based on their chartering or licensing authority. Additionally, differing standards across similar regulatory bodies may create unanticipated competitive implications.

How the new agency leaders work together on interagency rulemaking, both among themselves and with appointees from the prior administration, will be important for the future direction of financial services regulations.

For example, potential variations in how different banking agencies may evaluate similar merger transactions could lead some banking organizations to be able to scale at faster rates, while other firms may be delayed in longer or more stringent review processes.

Together, these forces may increase firms' operational complexities and costs, as firms direct more resources toward greater vigilance, compliance preparation, and strategic flexibility for regulatory planning.

How might banks respond?

Enhance regulatory change management capabilities

- Monitor emerging regulatory developments across a wide range of sources, including legislation, rulemaking, guidance, regulatory agency head speeches, and litigation.
- Develop processes for analyzing the likelihood of regulatory developments taking effect and incorporating probability into regulatory change management frameworks.
- Implement processes for documenting, tracking, and updating emerging issues and informing relevant business lines and functions.
- Design and monitor key risk indicators (KRIs) across regulatory change processes, including to analyze the potential impacts of key regulatory changes.

Prioritize regulatory engagement activities

- Consider creating a centralized function to coordinate regulatory engagement activities, including developing a communication plan with supervisors and mapping points of contact across the organization.
- Consider recruiting senior leaders—particularly with experience as former regulators, risk and control managers, or compliance or legal professionals—to help manage the firm's engagement activities.
- Proactively engage supervisors early, and collectively, when considering launching new products or services and where novel business lines or partnerships are being contemplated.
- Review regulatory proposals that may affect your institution and consider engaging in the public comment process to provide feedback for agency consideration.

Related content: Navigating an uncertain regulatory environment

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- Regulatory management as strategy
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Evolving supervisory focus on issue remediation

Bank supervision in 2025 will likely entail a continued emphasis on issue remediation from supervisors. Despite the new administration, firms will continue to have examinations with regular interaction and ongoing monitoring with their supervisors; banks will still be expected to close outstanding issues and enforcement actions and improve/sustain their risk management and controls. In recent years, supervisors have adopted a more assertive stance in identifying and escalating supervisory concerns.[38] This change is evident in the trends of supervisory ratings and enforcement actions,[39] prompting many banks to refocus their efforts on remediating outstanding findings and "clearing their deck" as they position themselves for their next examination cycle. A new administration does not automatically close existing supervisory findings or enforcement actions; there are internal procedures and protocols that must be followed.[40] In addition, supervisors will continue to emphasize institutions to be "well-managed" and their objective to maintain financial stability is a bipartisan concern. While the "tone at the top" from new leadership at some agencies may change, past experience has shown these tonal shifts take extended times to change career supervisors' behaviors, especially in areas of core safety and soundness concerns.

Regulatory and supervisory expectations

Many banks, in our experience, continue to feel the effects of the spring 2023 bank failures and related market turmoil in their supervisory relationships.[41] Regulators have been active in implementing changes to their supervisory framework to improve "the speed, force, and agility of supervision."[42] Banks are likely to be under growing pressure in 2025 to quickly remediate their outstanding supervisory findings (e.g., Matters Requiring Attention [MRAs] or Matters Requiring Immediate Attention [MRIAs]) and to demonstrate sustainable improvements in their governance and control environments.

Spring 2023 continues to shape a more assertive supervisory approach

While the factors leading up to the failure of several regional banks in 2023 were to some extent unique, a common theme present was little or no progress on remediation of supervisory findings in the months and years preceding their failings.[43]

In response, regulators have identified several lessons, including the need to identify issues more quickly and reevaluate escalation processes, particularly for repeat findings and incomplete remediation.[44] This message has since been reemphasized by FRB Vice Chair for Supervision Michael Barr and, based on our experience advising clients, has resulted in a meaningful shift in the relationship between banks and their supervisors.[45]

Examiners are now more assertive in identifying supervisory concerns, setting more ambitious remediation dates, more actively validating progress of plans, and have been empowered to escalate supervisory findings and act more quickly.[46] At the same time, we've observed supervisors being more cautious in upgrading supervisory ratings, potentially increasing the period of time over which banks must demonstrate the sustainability of their remediation actions.

Trends in supervisory ratings and enforcement

Many banks continue to struggle with meeting supervisory expectations, with about two-thirds of large financial institutions being rated "less-than-satisfactory" by the FRB—a trend that has continued year over year since 2019.[47] While most banks have healthy capital and liquidity positions, several institutions have continued to show weaknesses in governance and controls related to operational resilience, cybersecurity, and Bank Secrecy Act (BSA)/anti-money laundering (AML).[48]

Indeed, since 2021, there has been a continued rise in outstanding supervisory findings across large, regional, and community banks with most relating to governance and controls issues, such as technology and operational risk.[49] During the same period, there has been a noticeable rise in the number of FDIC-insured institutions on the "Problem Bank" list.[50] Our experience suggests supervisors have been increasingly intent on escalating these supervisory concerns, which we've seen play out in public enforcement actions.

Evolving supervisory focus on issue remediation

In the aftermath of the spring 2023 bank failures, the FRB, OCC, and FDIC dramatically increased the number of public enforcement actions, rising from 20 in the first half of 2023 to 54 in the second half of 2023.[51] In the first half of 2024, the number of enforcement actions has remained elevated at 49—mostly relating to unsafe or unsound banking practices and failures in internal controls and procedures.[52] On average, approximately 30% of enforcement actions brought by the federal banking agencies result in monetary fines, the amounts for which can vary significantly.[53] As supervisors have demonstrated their willingness to escalate findings more quickly into public enforcement actions, banks should prioritize their own issue remediation efforts and incorporate these supervisory environment changes into their strategic planning.

Why banks should take notice

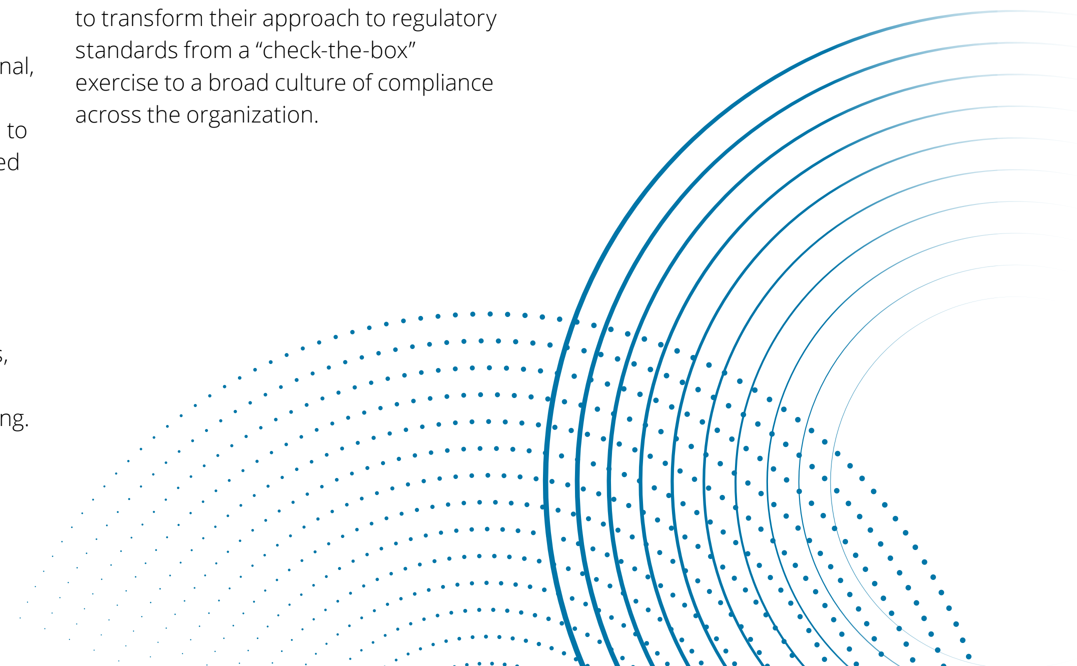
Going forward, examiners may be less likely to extend remediation timelines and more willing to escalate findings into enforcement actions where remediation has dragged on, even under the new administration.[54] Banks should be highly attentive to supervisory escalation patterns and the recent rise in enforcement actions. These may have significant implications on firms' operational, financial, and reputational standing. Enforcement actions may potentially lead to substantial fines, legal costs, and increased scrutiny from regulators, which could, in turn, strain banks' financial resources and operational efficiency. Additionally, the increased regulatory oversight that often follows enforcement actions may impose stricter compliance requirements, leading to even greater investments in compliance infrastructure and staff training.

Proactively addressing compliance issues and prioritizing issue remediation before they turn into enforcement actions should be a top consideration for banks.

For many institutions, this increased supervisory attention will likely compound existing challenges of balancing regulatory demands with resource constraints. For example, struggles with staffing shortages and turnover, particularly in second- and third-line functions, may delay remediation efforts and potentially put the institution at heightened risk of regulatory sanctions. Banks may need to be prepared to divert greater resources toward compliance and conduct individual analyses on how heightened remediation efforts may affect the firm's operations in 2025.

Banks should also incorporate supervisors' priorities into their risk management prioritization. Our experience shows examiners are likely to place a greater emphasis on self-identification of issues and the sustainability of firms' control environments; supervisors are also looking for firms to address the underlying root causes. Some firms, therefore, may need to transform their approach to regulatory standards from a "check-the-box" exercise to a broad culture of compliance across the organization.

In our experience, transforming to a proactive approach can help enhance a regulator's confidence in management and correspondingly may provide greater latitude when seeking to undertake new initiatives. It's important to remember that demonstrating the sustainability of a compliance program takes time. Therefore, institutions should respond quickly, rather than delaying. Some entities with significant or complex remediation lifts may be hamstrung in 2025 as they have not yet been able to demonstrate that improvements have taken hold and are functioning as intended. For those entities that have remediated and shown sustainability through multiple exam cycles, 2025 could be a turning point that provides a potential competitive advantage when it comes to growth and developing new products and services.



How might banks respond?

Prioritize outstanding supervisory issues

- Establish a centralized tracking system to monitor outstanding supervisory issues, allowing for timely follow-up and resolution.
- Conduct regular meetings with key stakeholders to review the status of outstanding issues and prioritize actions based on risk and impact.
- Develop a standardized framework for analyzing the severity and urgency of supervisory issues to prioritize issues consistently across the organization.
- Implement an escalation process for unresolved issues, informing and involving senior management and the board, as necessary.
- Direct resources, including augmented staffing, toward second- and third-line functions to sufficiently clear outstanding supervisory issues and absorb new findings.

Improve oversight and accountability of supervisory findings

- Clearly define ownership and responsibilities for addressing supervisory findings across the three lines model, along with clear paths for monitoring and reporting remediation progress and escalation, as necessary.
- Consider establishing a centralized project management office led by a senior leadership team with experience in financial services regulations, risk and control management, and compliance and legal obligations.
- Adequately resource independent risk management and internal audit functions, relative to the size and complexity of the institution, and endow both with the authority and stature to provide independent challenge and control on the business line.
- Align compensation practices to reflect long-term performance, management of nonfinancial risks, and the addressing of audit and supervisory issues.

Build a culture of compliance

- Promote a top-down commitment to compliance, with senior leadership visibly endorsing and participating in compliance initiatives.
- Integrate compliance objectives into the overall strategic goals of the organization, allowing for alignment and support at all levels.
- Develop and disseminate a clear code of conduct that outlines expected behaviors and the importance of compliance and prompt, transparent communication in daily operations.
- Implement regular training and awareness programs to keep employees informed about compliance requirements and the consequences of noncompliance.
- Establish a confidential reporting mechanism for employees to raise compliance concerns without fear of retaliation.
- Conduct periodic assessments of the compliance culture to identify areas for improvement and measure progress over time.
- Consider recognizing and rewarding employees who demonstrate a strong commitment to compliance, reinforcing the importance of ethical behavior and adherence to regulations.

Related content: Evolving supervisory focus on issue remediation

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Financial resilience remains top of mind

Our experience shows supervisors are closely examining banks' financial vulnerabilities and their ability to appropriately respond to changing financial conditions. The new administration is likely to focus on balancing core financial resilience within the banking system and promoting financial market growth. The impact of policy direction change will likely not be applied evenly to all regulations, with some proposals potentially being softened in regulatory approach and others delayed, significantly revised, or not finalized.

Regulatory and supervisory expectations

Not knowing the degree to which regulatory changes will be applied, banks are facing a challenging situation heading into 2025 as the direction of capital and liquidity related requirements looms large. The new administration is inheriting banking agencies in the middle of rulemaking and incoming leaders will need to decide what they want to push forward, revise, or abandon.

The future direction of capital requirements

Among the most impactful rulemakings is Basel III Endgame.[55] After the agencies issued the most significant proposed changes to the bank capital rules in more than a decade, they received over 350 public comment letters—the overwhelming majority of which were in opposition or otherwise raised significant concerns.[56] In response, the agencies began coordinating on revisions to the proposal. Difficulties in reaching agreement between the FRB, OCC, and FDIC resulted in a delay of the QIS and have pushed next steps of the proposal—originally released in 2023—out into 2025.[57] While noting the potential for the Basel III Endgame proposal to be left unfinalized entirely, the newly appointed agency leaders may repropose the rule with significant changes. FRB Vice Chair for Supervision Michael Barr, who has announced his intention to resign, has laid out his vision for a potentially revised proposal that would significantly reduce the applicability of the original proposal's requirements.[58] Specifically, he suggested that banks with total assets between $100 billion and $250 billion would not be subject to the changes included in Basel III Endgame, other than the requirement to recognize unrealized gains and losses of their securities in regulatory capital.[59] However, these changes may not go far enough for the new agency leads. Nevertheless, Basel III Endgame is expected to eventually arrive, likely in a more capital-neutral form, and banks would be prudent to leverage the additional time to focus on the foundational elements of capital-related infrastructure, remediate issues affecting their capital management, and continue with their rule-change preparation efforts as informed by their assessment for which areas are likely to require the most uplift and potential change.

In addition to Basel III Endgame, the agencies have also proposed new long-term debt (LTD) requirements for non-global systemically-important banks (GSIBs) with at least $100 billion in total consolidated assets (i.e., Category II–IV banking organizations[60]).[61] In addition to raising capital levels on many institutions, the rule would establish "clean holding company requirements" akin to those currently applicable to US GSIBs and US intermediate holding companies (IHCs) of foreign GSIBs.[62] Because the funding of many of these banks are heavily dependent on deposits, these capital changes would be expected to materially affect the funding costs of in-scope banking organizations and may lead to significant changes in bank funding models across institutions of different sizes and business models. The proposal was passed with bipartisan support among the regulators, though some of those who voted in favor released statements expressing reservations about the proposal's calibration and impact on risk-based tailoring.[63] If the proposal moves forward under new agency leadership, there would likely be some material changes to the minimum LTD requirements.

Regulators are closely evaluating liquidity

Previous liquidity stress events have raised federal banking regulators' attention, evidenced by recent commentary regarding the need to reevaluate the current liquidity risk frameworks.[64] These recent discussions by regulators have helped to shed light on potential future regulatory changes related to liquidity risk management in the banking system.[65] Public remarks to date have focused on reducing the stigma that comes with using the discount window,[66] the categorization and segmentation of deposits,[67] and the treatment of held-to-maturity (HTM) assets.[68] From our experience, supervisors are concentrating on banks' intraday liquidity risk capabilities, the operational readiness of banks' contingency funding plans (CFPs), and the requisite controls and risk management practices of each.

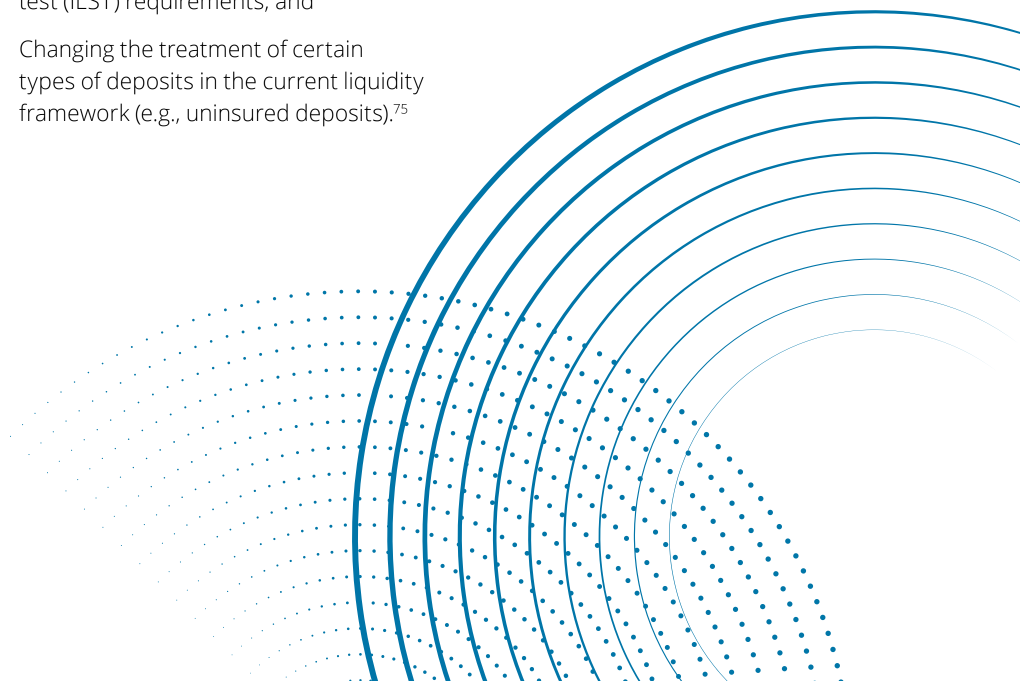
The FRB has launched a review of discount window operations, requesting feedback on—among other things—the process for pledging and withdrawing collateral, receiving discount window loans, extension of intraday credit, and Reserve Bank communications.[69] On the rulemaking front, last summer, the FDIC issued a proposal to broaden the types of deposits that would be categorized as brokered, largely bringing the deposit framework to a pre-2020 standard.[70] The proposal, if finalized, could have significant implications for certain banks' funding models and could lead to an upwards of 30% increase in the amount of deposits within the banking system to be recategorized as brokered.[71] The FDIC's two Republican board members, Vice Chair Travis Hill and Director Jonathan McKernan, opposed the proposal while leaving the door open for "certain refinements" of the 2020 brokered deposit rule.[72]

Concurrently with the brokered deposit proposal, the FDIC issued a request for information (RFI) regarding deposit data not currently captured in regulatory reports.[73] While the current proposal may not go forward, the FDIC could still consider changes to the current brokered deposit framework using findings from the RFI process.

The federal banking agencies also have been considering policy options that may significantly impact banks' liquidity requirements, including potentially:

1. Requiring large institutions to maintain a minimum amount of pre-positioned collateral at the discount window (under the prior administration, regulators were reportedly considering 40% of a banks' uninsured deposit base);[74]
2. Restricting banks' reliance on HTM assets in liquidity buffers, such as those held under the liquidity coverage ratio (LCR) and the internal liquidity stress test (ILST) requirements; and
3. Changing the treatment of certain types of deposits in the current liquidity framework (e.g., uninsured deposits).[75]

While the specifics of the potential reforms remain uncertain, statements by FDIC Vice Chair Travis Hill suggest there may be bipartisan appetite for establishing some incentives or requirements for banks to establish access to, preposition collateral at, and borrow from the discount window.[76] Additional liquidity reforms may come from legislative action, as the topic has received increased congressional attention over the past year.[77] For example, Senator Mark Warner of Virginia introduced a bill which would, among other things, mandate testing of banks' operational readiness to access the discount window and incorporate discount window readiness into banks' supervisory liquidity evaluations.[78] Reforms to the discount window are not strictly partisan issues, and similar legislation may be introduced in the newly inaugurated Congress as legislators are likely to remain focused on liquidity issues.



Why banks should take notice

New banking agency leadership and upcoming changes to financial standards may have significant implications for banks' cost of capital and liquidity. Many of the pending rule changes implicate prior rulemakings that were initially expensive for institutions to implement, potentially leading to increased operational costs and resource allocation. Banks should reassess and modify their compliance strategies to align with the potential impact of these new regulations even if the anticipated impact will be less than previously expected. While the state of Basel III Endgame remains in flux, it's still likely to have important ramifications for the industry.[79] It's possible that any re-proposal under the new administration, even if more capital-neutral, would still require firms to conduct individualized impact assessments and be prepared to adjust their strategic plans as necessary.

For example, changes to operational risk capital or the calibration of an internal loss multiplier under Basel III could raise costs on bank's non-interest business lines, impacting banks that have a heavier dependence on fee-based income. Meanwhile, regulatory changes to RWAs of residential real estate and credit card lines could materially impact retail banks with concentrations in these loan types. One area to watch, depending on where the new administration decides to modify the Basel III Endgame proposal, is how any changes may be felt differently across institutions. Divergences in Basel standards across jurisdictions may affect domestic banks' competitiveness with respect to foreign banking organizations, and this may also have notable downstream impacts to certain banks' business models and strategic planning.[80]

Depending on the degree of impact, some institutions may decide to respond by choosing to modify their strategic plans, potentially retreating from certain business lines or possibly exploring a merger and acquisition to achieve greater scale in the face of higher regulatory costs. There may also be more activity migrating out of the banking system and greater financial inter-relationships between banks and nonbanks, such as the use of credit risk transfers to achieve capital efficiency.[81] Capital standards can have a significant impact on the financial system and, therefore, it will be important for banks to monitor these developments in 2025.

Another example of an area to watch, given the impact, is the LTD proposal that was estimated to lead to a $70 billion shortfall in existing debt issuance for Category II–IV banking organizations.[82] While the final rule under the new administration may recalibrate this shortfall somewhat, as banks adjust their capital and funding structures accordingly, many institutions may need to consider the potential for higher funding costs. However, it is important to note that these rules, depending on the degree to which they are implemented, are likely to affect banks differently; for example, the LTD proposal—as originally proposed—is expected to raise annual funding costs for covered institutions—on average—by $1.5 billion, with banks that are largely deposit funded likely to have more significant impacts.[83]

Our experience shows there has been increasing investor awareness of banks' financial resiliency. Even if the banking agencies moderate the impact of some of these rules, they will still be in place. Banks that are proactive in understanding their vulnerabilities, anticipating regulatory change, and embedding upcoming supervisory expectations into their strategic planning and operations are likely to be more flexible in their adaptability to final rulemaking and supervisory focus and be more capable in responding to investor inquiries. It's important for banks to understand that proactive planning, as opposed to reactive approaches, may be significantly cheaper than being subjected to mandatory remediation efforts as well. Failure to adequately plan for changing standards may undermine regulators' trust and place institutions in the proverbial "penalty box," which may take years to get out of.

How might banks respond?

Analyze financial impact and strategic implications of rulemaking

- Conduct an individualized assessment of new rule requirements and develop a strategic roadmap with clear owners for each milestone to be ready on day one.
- Perform impact analysis of changes based on the new rule requirements, including business model and profitability impacts.
- Evaluate strategic plans to analyze how rulemaking may affect firm's direction, product, and service offerings and identify potential strategic alternatives.

Improve financial data monitoring, controls, and reporting

- Streamline and harmonize data and technology infrastructure across legal entities to improve data integrity and resilience, including providing data traceability and embedding data controls at point of capture.
- Implement risk-based data quality and control review procedures with attention prioritization for higher-risk uses, such as consumer lending models.
- Provide for a governance structure that enforces accountability and coordination across stakeholders, measures data quality, and allocates resources to remediate data and reporting challenges.
- Establish independent quality assurance and control functions for validating data quality and conformance to regulatory requirements.
- Prioritize identification and remediation of existing data quality, compliance, and control gaps to prevent significant data errors.
- Evaluate areas where data processes may be automated to reduce risk of manual mistakes and improve operational efficiency.
- Integrate the firm's data management programs with the regulatory data environment along with the firm's technology architecture.
- Establish strong governance over interpretations, implementation decisions, data defaults, and assumptions.

Prioritize operational readiness for potential shocks

- Periodically review business continuity plans to align contingency strategies, current operations, risks, and threats.
- Engage in tabletop exercises to test business continuity and recovery planning strategies and preparedness, including timely incorporation of lessons learned.
- On a regular cadence, test the bank's contingency funding plans and the stability and operational readiness to access borrowing lines, along with timely updates to incorporate changes in market conditions and strategic initiatives.
- Consider pre-positioning collateral at the discount window and periodically testing transactions to better prepare for potential borrowing on short notice.

Related content: Financial resilience remains top-of-mind

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- OCC finalizes revisions to its recovery planning guidelines
- Shifting tides: The future of bank liquidity regulation
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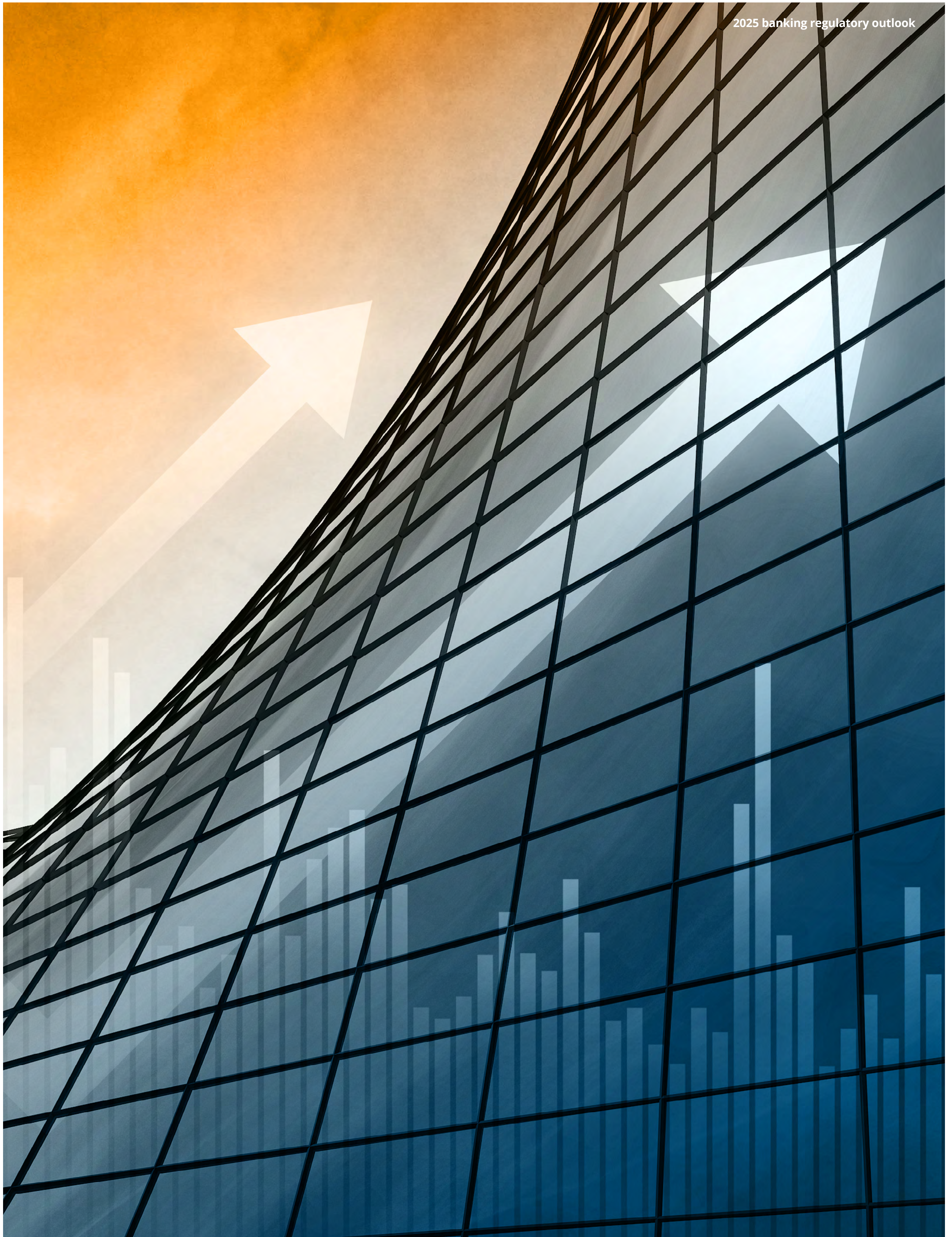
- FDIC approves final guidance to enhance resolution planning at large banks
- Federal Reserve Board proposes FR Y-14 changes, new data requirements, and reporting guidance
- 2024 Dodd-Frank Stress Test (DFAST) results
- Federal Reserve Board Climate Scenario Analysis pilot: Considerations for banks
- Acting Comptroller Hsu recommends new metrics to trigger FSOC review
- BCBS 239 Progress Report: Significant work still needs to be done for full compliance
- Understanding the US Basel III Endgame reporting changes
- Acting Comptroller Hsu recommends new liquidity requirements for large and midsize banks



Keeping an eye on non-financial risks and internal controls

While changes to any presidential administration may create some uncertainty about the direction and priorities of incoming leaders, there are some important areas we believe banks should focus on across administrations. These areas include strengthening operational resilience and cybersecurity, proactively addressing evolving financial crime and fraud typologies, and effectively managing third-party relationships. Additionally, banks should consider the emerging development of artificial intelligence (AI) and how it may fit within the institution's risk management framework.

Regulatory and supervisory expectations

Based on our experience, we believe there are some key risk stripes on which regulators will likely continue to focus and where the banking industry at-large may still need improvement.

Operational resilience and cybersecurity

Operational resilience should be at the forefront of financial institutions' efforts in 2025 as supervisors continue to emphasize the importance of clearly defining acceptable recovery times and demonstrating the ability to meet those recovery benchmarks.[84] For example, the OCC highlighted firmwide resilience criticality in its *Semiannual Risk Perspective*, noting the increased interconnectedness of the banking system and potential for disruptive events to simultaneously affect multiple risk categories.[85] Furthermore, the OCC is considering an advance notice of proposed rulemaking on operational resilience standards for critical operations, although its future remains uncertain under the new administration.[86]

Closely connected with firms' operational resilience are strong cybersecurity practices. Many firms maintain a patchwork of legacy systems and have deferred maintenance or under-invested in cyber and technology infrastructure for years.[87] Meanwhile, cyber threats to financial institutions continue to evolve, becoming more sophisticated and pervasive throughout the industry.[88] Geopolitical tensions are expected to remain elevated in 2025, heightening the risk of state-sponsored cyberattacks directed against financial institutions with the aim of disrupting critical infrastructure.[89] Regulators are likely to focus on evaluating banks' abilities to identify and recover from various types of disruptions and demonstrate effective operational resilience frameworks.

Financial crime and fraud

Banks are facing an increasingly challenging environment in guarding against financial crime and consumer fraud as criminal methods continue to evolve. Threat actors are deploying improved techniques to gain organizational credentials such as using targeted email phishing campaigns, embedding malicious quick response (QR) codes into messages, and intercepting one-time passwords.[90] Additionally, criminal organizations are becoming more sophisticated in their ransomware attacks including the continued popularity of "ransomware-as-a-service," which has allowed malicious actors to conduct attacks with less technical acumen at greater scale.[91] Regulators have reported increased consumer fraud as well.[92] The fraud risks have been heightened by the development of real-time payment systems (e.g., FedNow and Real-Time Payments network) and the growing popularity of peer-to-peer (P2P) payment platforms.

In 2025, the banking agencies are expected to finalize changes to AML/countering the financing of terrorism (CFT) regulations that would implement the AML Act of 2020 and codify some longstanding supervisory expectations.[93] The AML Act, a bipartisan piece of legislation, laid the foundation for a more risk-based, innovative, and outcomes-oriented approach to combat financial crime and safeguard national security in the United States,[94] allowing banks to potentially realize significant benefits in terms of effectiveness, efficiency, return on compliance spend, and providing more useful information to law enforcement.

Third-party risk management

Risks to banking organizations may be further exacerbated by outsourcing and third-party service provider (TPSP) dependencies. Banks often depend on the services of third parties to help deliver and monitor their core operations[95]—a trend that is expected to continue into 2025. As operations move outside the banking perimeter, regulators are focusing more on the connection points between banks and nonbank TPSPs, emphasizing the importance of banks' third-party risk management (TPRM) processes.[96]

Deposits have become an area of particular scrutiny. In July 2024, the FRB, OCC, and FDIC jointly issued a statement outlining the potential risks and governance considerations with respect to third-party arrangements to provide bank deposit products and services.[97] Concurrently, the banking agencies issued a RFI on bank-fintech arrangements suggesting this will likely be an area of future supervisory scrutiny and possible regulatory action.[98]

In September 2024, the FDIC unanimously issued a proposal that would require greater recordkeeping for bank deposits received from third-party nonbanks that accept those deposits on behalf of customers and businesses.[99] These actions follow the increased scrutiny of banking-as-a-service (BaaS) arrangements reflected in a number of far-reaching enforcement actions against BaaS partner banks related to inadequate TPRM oversight.[100] Looking ahead, banks will likely be under increased pressure to demonstrate strong and effective TPRM governance and controls.

Artificial intelligence

The direction of each of these risk areas will likely be closely interconnected with the rise of artificial intelligence, which has prompted significant attention from regulators.[101] While AI offers the potential to improve efficiency and reduce costs, it may also amplify traditional risks and require banks to incorporate new technology applications within their risk management frameworks.[102] For example, AI tools may lower the barrier for malicious actors to deploy cyberattacks or other operational disruptions to financial institutions. Meanwhile, AI tools have rapidly become more sophisticated in their ability to replicate individuals' voices which may pose significant challenges to banks in validating customers' identity and protecting against fraud.[103]

In response to these developments, in the summer of 2024, the Department of the Treasury issued a RFI to better understand how AI is being used within the financial services sector and the opportunities and risks it presents.[104] The Department received more than 100 comments, which may be informative in setting the future AI regulatory direction within financial services.[105] The Financial Stability Board has also given attention to the implications of AI, having released a report in November 2024 that called on financial authorities to enhance their monitoring of AI developments and assess whether policy frameworks are adequate to address AI's emerging implications.[106] Given the accelerating pace of AI's development and increasing regulatory attention, it is important for banks to proactively consider AI use in their risk management frameworks and keep AI at the top of the C-suite's priority list.

Why banks should take notice

It's critical for banks' processes to keep pace with the evolving risk environment and continuous technology advancement. The financial sector is dynamic, with new threats and opportunities emerging regularly. Banks should continuously adapt their risk management strategies to address these changes effectively. This proactive approach can not only better safeguard their operations but also may position them as industry leaders capable of navigating complex landscapes.

Materialized nonfinancial risks may have significant financial consequences for banks. For example, operational breakdowns or a successful cyberattack may lead to long-lasting reputational damage and loss of customer trust. Such incidents may make it more difficult for banks to retain and attract business, which can undermine market confidence that may become persistently difficult to overcome.

Moreover, regulators often scrutinize a bank's operations and risk management more carefully in the aftermath of these events, which may impose significant costs on firms, particularly where action is not taken in a timely manner. These costs may include monetary fines, mandated investments in compliance and internal controls, and even restrictions on growth and acquisitions, each of which may hinder a bank's strategic objectives and targeted financial performance.[107] By maintaining compliance and demonstrating a commitment to risk management, banks may limit punitive measures and focus on achieving their business goals.

Among the most rapidly developing areas is AI, about which regulators have increasingly discussed potential risks posed to the financial system.[108] The question of whether AI is a weapon or a tool for the financial industry has become significant recently.[109] As banks begin to experiment with integrating AI applications into their operations, products, and services, it is important to demonstrate sound risk management and controls are in place. Even for institutions that are not actively developing or deploying AI systems, the growing use of AI by third parties and cybercriminals increases the importance of incorporating these technologies into firms' control processes—for example, by proactively investing in technology that may better detect AI-enabled fraudulent activity.

How might banks respond?

Enhance operational resilience

- Inventory the firm's critical operations and core business lines and map the supporting people, processes, and technology at the material legal entity level.
- Analyze scenarios and conduct regular stress testing to evaluate the bank's ability to withstand various operational disruptions and constituency of the bank's contingency strategies with current operations and recovery priorities.
- Identify and manage the availability of personnel who are essential to the execution of the firm's critical operations and core business lines and provide for alternative sites with sufficient resourcing to continue critical operations in the event of a disruption.
- Foster a culture of resilience by providing regular training to employees on crisis management and response protocols.

Build up cybersecurity defenses

- Establish an integrated, enterprise-wide approach to cybersecurity risk management, including inputs across the three lines, to proactively identify, assess, monitor, and report on cyber vulnerabilities and solutions.
- Analyze the design and effectiveness of access and authentication controls and consider deploying additional and stronger multifactor authentication (MFA) for employees and customers.
- Implement an endpoint detection and response solution to monitor, report, and respond to anomalous activity.
- Regularly conduct incident response drills to improve firm readiness and incorporate lessons learned.

Improve third-party oversight and risk management

- Conduct in-depth review of TPSPs to analyze their ability to perform the designated activity as expected while complying with the bank's security and compliance standards.
- Establish clear roles and responsibilities between the firm and its TPSPs given the perceived tension between level of oversight and respective roles and provide for timely access to information necessary to monitor and evaluate performance on an ongoing basis.
- Periodically report risks and TPRM program performance to senior management and the board, as appropriate.
- Prepare business continuity plans that anticipate TPSP disruptions, and identify clear communication channels, quick disruptions notification, specific disconnection procedures, and paths for transitioning services in-house or to alternative TPSPs.

Invest in technology and controls to better protect against financial crime and fraud

- Leverage emerging technology to better identify suspicious activity, support authentication and authorization, and share flagged activity among teams responsible for mitigating fraud, cybersecurity, and money laundering risks.
- Evaluate the maturity and coverage of fraud prevention and detection controls across the customer life cycle—including onboarding, account maintenance, login, and transaction monitoring.
- Build upon trust through technology for consumers so they may accelerate their knowledge, financial goals, and awareness of financial crimes that new technology is mitigating on organizational applications and platforms.
- Educate customers on trending scams to provide awareness and build in customer "speed bumps" such as in-app messages warning of potential risk when engaging in atypical transactions (e.g., sending large amounts of funds to an unknown external account).

While AI offers the potential to improve efficiency and reduce costs, it may also amplify traditional risks and require banks to incorporate new technology applications within their risk management frameworks.

Incorporate artificial intelligence within the risk management program

- Evaluate AI implications across the firm's risk taxonomy, and update risk assessments as appropriate.
- Incorporate AI models within the firm's existing model risk framework standards, including up-to-date documentation of system inventory, data controls, model validation, and independent challenge from the second line.
- Consider leveraging AI systems to better provide for existing operations, such as identification of suspicious activity or automating existing manual processes.

Related content: Keeping an eye on governance and internal controls

- CFPB finalizes Personal Financial Data Rights Rule
- Regulation W: The wall remains
- FDIC proposes recordkeeping requirements for custodial accounts
- Basel Committee releases principles for third-party risk management
- FDIC proposes rules limiting integrated business models of industrial banks and their parent companies
- Acting Comptroller Hsu discusses financial fraud
- Agencies issue final rule on automated valuation models
- 'Weapon and tool' -systemic risk implications of AI in banking and finance
- Federal banking agencies release community bank guide on third-party risk management
- Federal Reserve proposes expanding operations of large-value payment services
- Data security as consumer protection

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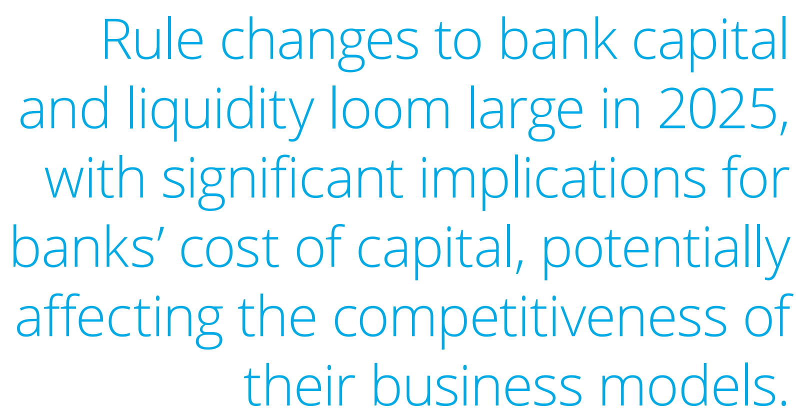
The road ahead

Banks are entering 2025 with many regulatory challenges as well as potential opportunities. A new administration offers a chance to redefine banking regulations and open new pathways for business opportunities.

The coming year will also involve navigating a great deal of complexity and uncertainty. Recent Supreme Court decisions and a shift in industry-led legal challenges have created what can be an unpredictable regulatory environment for banks, complicating their ability to anticipate the direction of rulemaking. Concurrently, the risk of regulatory fragmentation has emerged as an issue to monitor; breakdowns in interagency coordination could lead to potential inconsistencies in regulatory requirements and expectations across the federal banking agencies.

Meanwhile, bank supervision is expected to emphasize issue remediation over the coming year. Regulators have adopted a more assertive stance in identifying and escalating supervisory concerns, while also focusing their attention on financial resilience. Rule changes to bank capital and liquidity loom large in 2025, with significant implications for banks' cost of capital, potentially affecting the competitiveness of their business models. At the same time, regulators are doubling down on their focus for nonfinancial risks and internal controls, particularly operational resilience, cybersecurity, third-party risk management, financial crime, and evolving technologies such as artificial intelligence.

All of this underscores the critical importance of prioritizing regulatory engagement and maintaining strong governance frameworks. Institutions should be vigilant in monitoring regulatory developments and remain responsive to supervisory feedback, including addressing their existing supervisory findings. Banks will need to navigate this complex environment with agility and foresight, so they may be well-prepared to meet the demands of a fast-changing regulatory environment. In doing so, banks may position themselves to build trust with stakeholders and ultimately provide sustainable growth. This strategic approach may better provide institutions with the ability to mitigate risks effectively, capitalize on emerging opportunities, and maintain resilience in the face of regulatory changes.



Contacts

Michelle Gauchat
Principal | Deloitte Consulting LLP
mgauchat@deloitte.com

Richard Rosenthal
Principal | Deloitte & Touche LLP
rirosenthal@deloitte.com

Monica Lalani
Principal | Deloitte & Touche LLP
mlalani@deloitte.com

Courtney Davis
Principal | Deloitte & Touch LLP
coudavis@deloitte.com

Krisha Blanchard
Principal | Deloitte & Touche LLP
kblanchard@deloitte.com

Michele Crish
Managing Director | Deloitte & Touche LLP
mcrish@deloitte.com

Huup Kicken
Managing Director | Deloitte & Touche LLP
hkicken@deloitte.com

Ryan McDevitt
Managing Director | Deloitte & Touche LLP
rmcdevitt@deloitte.com

Ken Lamar
Independent Senior Advisor to Deloitte & Touche LLP
kelamar@deloitte.com

John Corston
Independent Senior Advisor to Deloitte & Touche LLP
jcorston@deloitte.com

Rich Mumford
Independent Senior Advisor to Deloitte & Touche LLP
rmumford@deloitte.com

Naresh Nagia
Independent Senior Advisor to Deloitte & Touche LLP
nnagia@deloitte.com

Paul Sanford
Independent Senior Advisor to Deloitte & Touche LLP
psanford@deloitte.com

Martin Henning
Independent Senior Advisor to Deloitte & Touche LLP
mahenning@deloitte.com

David Wright
Independent Senior Advisor to Deloitte & Touche LLP
davidmwright@deloitteretired.com

Joseph Rice
Independent Senior Advisor to Deloitte & Touche LLP
josrice@deloitte.com

Deloitte Center for Regulatory Strategy, US

Irena Gecas-McCarthy
FSI Director, Deloitte Center for Regulatory Strategy, US
Principal | Deloitte & Touche LLP
igecasmccarthy@deloitte.com

Jim Eckenrode
Co-Director, Deloitte Center for Financial Services/Deloitte Center for Regulatory Strategy, US
Managing Director | Deloitte Services LP
jeckenrode@deloitte.com

Kyle Cooke
Manager | Deloitte Services LP
kycooke@deloitte.com

Aaron Salerno
Manager | Deloitte Services LP
asalerno@deloitte.com

Mike Russo
Senior Consultant | Deloitte & Touche LLP
mikrusso@deloitte.com

Endnotes

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