

Michelle W Bowman: Modernizing financial regulation

Speech by Ms Michelle W Bowman, Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, at the Bank Policy Institute London Conference, London, 13 July 2026.

* * *

Good morning. It is a pleasure to join you this morning.¹ Today, I would like to discuss the work that is currently under way in the Financial Stability Board's Standing Committee on Supervisory and Regulatory Cooperation (or "SRC") on modernizing financial regulation and supervision. Our efforts in the United States have been progressing swiftly over the past year, and most jurisdictions around the world have undertaken similar reviews of their respective regulatory and supervisory financial system frameworks.

Nearly a year ago, I assumed the chairmanship of the FSB's SRC. One of the SRC's workstreams under my leadership is the FSB's efforts to establish principles to guide regulatory and supervisory modernization around the world.

Today, I will outline these principles, and I will share our approach to applying them in the United States.

The Purpose of Modernization and Guiding Principles

I will begin by describing modernization in this context. The financial system is constantly evolving, and our regulatory and supervisory framework must keep pace. We must ensure that our framework functions effectively and efficiently, preserves financial stability and bank safety and soundness, and promotes sustainable economic growth. Four principles should guide these efforts.

First, we must prioritize material financial risks-these are the risks that can impair an institution's viability and financial stability more broadly. Recent experience illustrates the danger of drifting from this principle. In the United States, we experienced the direct consequences of supervisors losing focus on material financial risks. While we continue to understand the root causes that led to the failure of Silicon Valley Bank, evidence suggests that supervisors failed to sufficiently identify, understand, and act upon the material risks that ultimately contributed to the bank's failure. At the time it failed, there were dozens of outstanding supervisory matters. But the sheer number of these findings clearly did not translate to supervisory effectiveness. The lesson is that more findings do not equal better supervision.

To implement effective modernization, we must move decisively away from a "more is better" approach toward targeted, risk-based oversight. Therefore, we must become more disciplined in our approach to focus supervisory resources on what actually matters to an institution's safety and soundness.

Second, we must tailor regulation and supervision to be commensurate with each institution's risk profile. Banks differ dramatically in size, systemic impact, complexity,

and risk profile. A community bank offering only traditional lending products does not present the same risks as a multi-trillion-dollar institution with global operations and complex trading activities. When we design standards for the most complex institutions and apply them to simple, non-complex institutions, we create inefficiency and burden without corresponding benefits or improved outcomes.

Third, we must prioritize transparency and accountability in our regulatory and supervisory processes. Regulatory and supervisory expectations should not come as a surprise. Public disclosure of our supervisory practices and expectations for regulated firms enables supervised institutions to understand what supervisors expect and how supervision is conducted. This allows both firms and supervisors to better manage risks and allocate resources more effectively. Transparency also strengthens accountability and ensures that all parties-supervisors, regulated institutions, boards of directors, and the public-share a common understanding of supervisory objectives and methodologies. This clarity ensures that prudential oversight is effective and efficient.

And fourth, modernization must be forward-looking so that it considers emerging risks and promotes responsible innovation. Rapidly evolving technologies offer significant benefits and present complex challenges for the financial sector. To maintain a robust banking system, supervisors must support responsible innovation while continuing to address material risks. That requires regulatory and supervisory frameworks that are not overly prescriptive, and which draw upon real-world experience to establish principles that can encompass specific circumstances and use cases.

Modernization in Practice

The FSB has taken stock of modernization activities across its membership, including in standard-setting bodies. These modernization efforts are widespread and emphasize similar objectives, including keeping frameworks forward-looking and adapting to current and emerging material risks, enhancing tailoring and proportionality, reducing unnecessary burden, enabling responsible innovation, using data and technology-enabled supervision, and supporting economic growth.

The next stage of this work is a report for public consultation that will be published in the fall. It will include principles to help guide the implementation of FSB member modernization activities. The report will then be delivered to the G20 as an important milestone in our shared commitment to modernization.

Over the past year, the United States has made significant progress on our work to modernize both the U.S. regulatory and supervisory frameworks. These efforts demonstrate how the principles work in practice.

Capital Framework Reforms

One of the primary U.S. modernization priorities includes reforming the capital framework. The Federal Reserve's 2026 Basel III proposal demonstrates how modernization principles translate into concrete regulatory improvements that balance sound prudential standards with economic efficiency. In March, we published comprehensive proposals to reform the U.S. capital framework for public comment. Rather than working backward from a predetermined aggregate capital target, we

evaluated each requirement on its merits, examining whether it is appropriately calibrated to risk, achieves its intended purpose, and minimizes unintended consequences.

The proposed capital framework will simplify requirements in several ways: by moving large banks to a single stack of risk-based capital requirements, adopting a true risk-based capital approach; recalibrating the global systemically important banks (G-SIB) surcharge to better reflect systemic risk; reducing overlaps between stress testing and risk-based requirements; and right-sizing requirements to reduce incentives for traditional banking activities to migrate outside of the regulated banking sector. The proposal also commits to indexing the G-SIB surcharge to nominal economic growth going forward. This will fulfill a decade-old commitment to prevent unintentionally increasing requirements.^{[2](#)}

The comment period recently closed, and we are now evaluating public feedback and working to finalize these rules. The goal is to maintain robust capital levels while reducing regulatory barriers that constrain credit availability without providing corresponding benefits. This bottom-up, risk-based approach illustrates how modernization can enhance both effectiveness and economic efficiency.

Statement of Supervisory Operating Principles

We recently enhanced our supervisory framework, starting with increased transparency and accountability by publishing Supervisory Operating Principles to guide the activities and priorities of our supervision. This is the first time the Federal Reserve has disclosed the principles that form the foundation of our supervisory approach. The focus on early detection and mitigation of material risks provides clarity for supervised institutions and the public about how we conduct supervision. As we refine our practical implementation, we will continue to evaluate and enhance these Principles.

Updating Asset Thresholds

As with any aged infrastructure, many of the requirements contained within our regulations and supervision are not aligned with the growth of our economy. Therefore, we are working to address long outdated fixed asset thresholds that ignore economic growth and inflation. A bank with \$10 billion in assets today is not the same as a bank with \$10 billion in assets a decade ago, and banks with unchanged risk profiles face increasing regulatory burden over time, simply due to economic growth and stagnant thresholds. In addressing this issue, we are working to craft solutions that will grow over time by indexing fixed dollar thresholds.

Refining Material Financial Risk Assessment

Implementing the operating principles to prioritize financial risk management requires refining our approach to assessing material financial risks. In doing so, we expect our supervisors to exercise reasoned judgment throughout the examination process, from pre-exam planning through the exam exit process. Our supervisory programs continue to require comprehensive supervision, but our findings should focus on those issues that impact an institution's safety and soundness. In practice, this means revised

standards for our examination findings that incorporate objective, measurable factors to evaluate material financial risks. Those matters that raise concern, but do not reach the severity level of a violation can be cited as "supervisory observations" for notable, but less significant issues.

Emerging Technology

Given the rapidly evolving state of technology, the U.S. has expanded modernization efforts to include allowing banks to safely adopt emerging technologies. Last month, under a second FSB SRC workstream, we published a consultation report on sound practices for financial institutions as they consider adopting and using artificial intelligence (AI).³ The adoption and integration of AI in the financial system offers significant benefits, but its rapid evolution presents unique challenges.

The report draws on real-world examples of how banks and other financial institutions are already using AI successfully and responsibly. Rather than prescribing one-size-fits-all requirements, it offers practical guidance that institutions can adapt to their specific circumstances and use cases. The FSB is seeking public comment on the report through July 22, and your feedback will ensure this work is useful for the industry. Public feedback will also assist our efforts to apply the same principles of flexibility, risk-focus, and practicality that guide all of our modernization efforts.

Additional U.S. modernization work has improved supervisory guidance, simplified small bank capital frameworks, and enhanced supervisory stress testing.

Going Forward

The FSB has a role in fostering international cooperation and sharing best practices. To ensure the effectiveness of our work together, the FSB should recognize the principles I have outlined today as each jurisdiction implements ongoing modernization efforts. At the same time, the FSB should encourage flexibility among approaches to ensure that modernization efforts are appropriate for individual jurisdictions. Efforts to prescribe and enforce strict rules that are not suitable for the diversity of institutions and authorities within individual jurisdictions ultimately erodes the FSB's effectiveness.

In the United States, we are committed to enacting these modernization principles and welcome similar efforts. We stand ready to share our experiences, learn from others, and work together toward common goals of financial stability, innovation, and economic growth.

Modernization is an evergreen approach to ensuring financial stability-starting with the banking sector. It is an ongoing commitment to improve, to learn, and to adapt our approach as markets, technology, and risks evolve. By following the principles and examples outlined in my remarks, the FSB can establish a strong foundation for regulatory and supervisory frameworks that learn from the past, address the present, and prepare for the future.

Thank you for the invitation to join you today.

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 Board of Governors of the Federal Reserve System, "Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies," 80 FR 49082 (August 14, 2015) ("To ensure changes in economic growth do not unduly affect firms' systemic risk scores, the Board will periodically review the coefficients and make adjustments as appropriate").

³ The report is available on the FSB's website at <https://www.fsb.org/2026/06/sound-practices-for-responsible-adoption-of-artificial-intelligence-ai-consultation-report>.