HAYNES BOONE

FINANCIAL SERVICES

REGULATORY ROUNDUP | MARCH 2025

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"The FDIC withdrew four proposed rules and rescinded its 2024 Bank Merger Policy Statement."

FDIC Withdraws 4 Proposed Rules, Rescinds 2024 Bank Merger Policy, and Delays Compliance Date for Sign and Advertising Rule Provisions – Leel Sinai, Alex Jackson

On March 3, 2025, the Federal Deposit Insurance Corporation's (FDIC) Board of Directors withdrew four proposed rules (including its controversial brokered deposits and Change in Bank Control Act proposals), rescinded its 2024 Bank Merger Policy Statement, and announced a delay of the compliance date for certain provisions of the FDIC's Sign and Advertising Rule.

- Unsafe and Unsound Banking Practices: Brokered Deposits Restrictions: On Aug. 23, 2024, the FDIC released a proposed rule to revise brokered deposit regulations, with potential implications for several areas of the deposit market. The proposal aimed to narrow the interpretation of the primary purpose exception, which the FDIC now contends conflicted with the plain meaning of the law and introduced an expansive provision concerning fees and compensation. However, as the FDIC notes, the proposal did not consider the evolution of deposit arrangements over time. For more details on the proposed rule, refer to our August issue of the Financial Regulatory Roundup **here**.

- Guidelines Establishing Standards for Corporate Governance and Risk Management for Covered Institutions With Total Consolidated Assets of $10 Billion or More: The FDIC published a proposed rule on Oct. 11, 2023, concerning corporate governance for FDIC-supervised institutions with $10 billion or more in total consolidated assets. The proposal aimed to introduce "new, enforceable safety and soundness standards" for corporate governance at these FDIC-supervised institutions. However, the FDIC approved the withdrawal of the proposal, citing concerns that it imposed "overly prescriptive, process-driven" requirements rather than addressing core safety and soundness risks. Furthermore, the FDIC believes the rule blurred the distinction between the roles of management and the board of directors, creating unrealistic expectations and conflicting with relevant state law.

- Regulations Implementing the Change in Bank Control Act: On Aug. 19, 2024, the FDIC issued a proposed rule to amend its regulations under the Change in Bank Control Act. The proposed changes would have removed the exemption that currently allows certain acquisitions of voting securities in depository institution holding companies to bypass the requirement of submitting a notice to the FDIC for an acquisition of voting securities of a depository institution holding company for which the Federal Reserve reviews a Change in Bank Control Act notice. However, the FDIC notes this would have required many bank investors to submit separate notices to the FDIC and the Federal Reserve, which could have deterred capital investment in FDIC-supervised banks. As a result, the FDIC decided to withdraw the proposed rule. For more details on the proposed rule, refer to the summary in our September issue of the Financial Regulatory Roundup **here**.

> **“The FDIC withdrew a proposed rule under the Change in Bank Control Act, noting that it could have deterred capital investment in FDIC-supervised banks.”**

- Incentive-Based Compensation Arrangements Proposal: The FDIC also withdrew the authority previously granted to publish a proposed rule in the Federal Register to implement Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which relates to incentive-based compensation arrangements. The FDIC Board approved moving forward with the proposal's publication in the Federal Register, contingent on approval from all six agencies required by law to issue the rule. However, the proposal has not been fully adopted by all the agencies and remains unpublished in the Federal Register.

- The 2024 Bank Merger Policy Statement: The FDIC rescinded its 2024 Statement of Policy on Bank Merger Transactions, which we discussed in our October issue of the Financial Regulatory Roundup **here**. The decision was based on concerns that the statement introduced "considerable uncertainty" into the bank merger application process. For example, the 2024 Statement raised numerous questions about when merger applications are necessary, and it has contributed to a more opaque and uncertain FDIC bank merger review process, causing prospective applicants to be unclear about their likelihood of approval and the time and resources needed for the application process. While the FDIC reviews the merger review process, the agency plans to temporarily reinstate the previous Merger Policy Statement, which is more widely understood by the market. The FDIC is seeking public comment on the proposal to rescind the 2024 Statement for a period of 30 days following its publication in the Federal Register.

- FDIC Approves Delay of Compliance Date For Certain Provisions in Sign and Advertising Rule: On Dec. 20, 2023, the FDIC issued a rule amending the requirements for the sign and advertisement of membership for insured depository institutions (IDIs), originally set to take effect on April 1, 2024. The deadline for full compliance was first extended to Jan. 1, 2025, then further to May 1, 2025. On March 3, 2025, the FDIC announced another delay, pushing back the compliance date for displaying the FDIC official digital sign on IDI digital channels, as well as on IDI automated teller machines (ATMs) and similar devices, to March 1, 2026. The FDIC intends to use this delay to further assess the feedback received regarding implementation challenges and potential consumer confusion related to the digital sign display requirements. Following this review, the FDIC plans to propose regulatory changes to address these concerns and clarify any areas of confusion.

Read about the FDIC releases **here**, **here** and **here**.

President Trump Issues Executive Orders or Federal Agency Accountability – Leel Sinai

On Feb. 18, 2025, President Donald Trump signed an executive order (EO) on "Ensuring Accountability for All Agencies," asserting comprehensive presidential oversight over all executive branch officials, including those within traditionally independent regulatory agencies. This directive emphasizes the President's constitutional authority to supervise the executive branch, aiming to align all agencies' actions with the administration's policies.

The EO specifically targets "so-called independent regulatory agencies," such as the Federal Reserve (excluding its monetary policy functions), Office of the Comptroller of the Currency (OCC), FDIC, Consumer Financial Protection Bureau (CFPB), Securities and Exchange Commission (SEC), Commodity Futures Trading Commission (CFTC) and Federal Housing Finance Agency (FHFA). These agencies are now required to submit draft regulations, strategic plans and budget proposals for White House review. Additionally, their legal interpretations must align with those of the President and the Attorney General. The Office of Management and Budget (OMB) will set performance standards for agency heads and adjust resource allocations to ensure consistency with presidential priorities.

President Trump also issued additional EOs on Feb. 19, 2025, mandating a comprehensive review of existing regulations to identify those that are unconstitutional, unlawfully expand federal power, misinterpret statutes, impose significant costs, or hinder economic growth and innovation. Agency leaders are instructed to collaborate with the Department of Government Efficiency (DOGE) and the OMB Director to compile a list of such regulations. The Office of Information and Regulatory Affairs (OIRA) will then work with agencies to develop a "Unified Regulatory Agenda" aimed at rescinding or modifying these regulations as appropriate.

Furthermore, the EOs direct agencies to deprioritize enforcement of regulations that extend beyond federal authority or are based on questionable statutory interpretations. The OMB Director will oversee compliance, and agencies may terminate enforcement actions conflicting with constitutional or administrative policies.

To streamline government operations, the EOs call for the CFPB to terminate its Academic Research Council and Credit Union Advisory Council, and for the FDIC to dissolve its Community Bank Advisory Council. Agency leaders have been given a 60-day timeframe to review and prioritize significant regulatory actions, ensuring alignment with the new directives and submitting them to OIRA as stipulated in a 1993 EO.

This series of executive actions represents a significant shift in the governance of independent agencies, centralizing authority within the executive branch and potentially redefining the landscape of federal regulation and enforcement.

Read the Executive Orders **here**, **here** and **here**.

Stablecoin Legislation Gains Momentum – Leel Sinai, Khalil Bryant

In Feb. 2025, lawmakers introduced three major legislative proposals aimed at regulating payment stablecoins—digital assets pegged to a fixed monetary value used for payments and settlements.

The first, the GENIUS Act (Guiding and Establishing National Innovation in U.S. Stablecoins), was a bipartisan effort largely based on previous proposals. It was introduced in the Senate on Feb. 4 by Senator Bill Hagerty (R-TN), with co-sponsorship from Senate Banking Committee Chairman Tim Scott (R-SC), Cynthia Lummis (R-WY) and Kirsten Gillibrand (D-NY).

Two days later, on Feb. 6, House Financial Services Committee Chairman French Hill (R-AR) and Digital Assets, Financial Technology and Artificial Intelligence Subcommittee Chairman Bryan Steil (R-WI) released a discussion draft of the STABLE Act of 2025 (Stablecoin Transparency and Accountability for a Better Ledger Act of 2025).

“Both bills seek to strengthen U.S. dollar dominance and foster economic competition by promoting international collaboration.”

Representative Maxine Walters (D-CA), the highest-ranking Democrat in the House Financial Services Committee, separately introduced a draft of her long-awaited payment stablecoin bill (the Waters Bill), a product of extensive bipartisan discussion, to the House of Representatives on Feb. 10.

The GENIUS Act, the STABLE Act of 2025 and the Waters Bill each propose different approaches to balancing consumer protection, financial stability and innovation in the payment stablecoin market.

The GENIUS Act and The Stable Act of 2025

The GENIUS Act and the STABLE Act represent bipartisan efforts to create a federal regulatory framework for payment stablecoins while preserving opportunities for state-level oversight.

Both bills define payment stablecoins as digital assets:

1. That are used as means of payment or settlement;
2. Where the issuer is obligated to convert, redeem or repurchase for a fixed price, and/or (as applicable under the GENIUS Act and the STABLE Act, respectively) the issuer maintains or creates a reasonable expectation that the asset will maintain a stable value tied to a fixed amount of monetary value; and
3. That are neither a national currency nor a security issued by an investment company under section 8(a) of the Investment Company Act of 1940.

Notably, the bills exclude endogenously collateralized stablecoins (which, in the marketplace, typically take the form of algorithmic stablecoins) from the definition of payment stablecoins. While the STABLE Act imposes a two-year moratorium on their issuance, the GENIUS Act mandates a federal study but does explicitly prohibit their issuance.

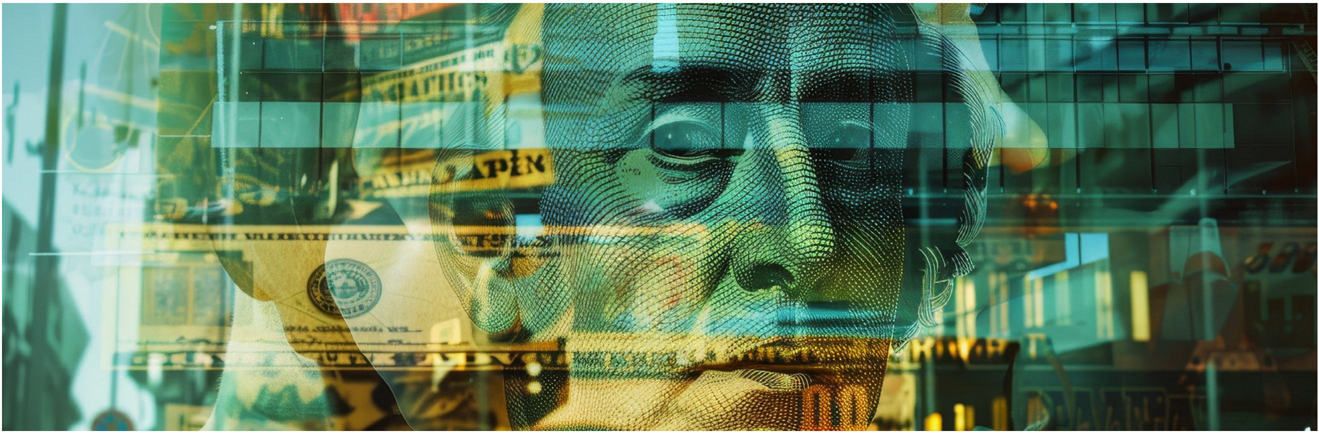
Both bills establish state and federal licensing processes for payment stablecoin issuers, albeit through differing approaches.

The GENIUS Act creates a dual regulatory regime for permitted payment stablecoin issuers that distinguishes between federal and state authority based on an issuer’s market size. Issuers with a total market capitalization under $10 billion can choose state oversight if the regulatory regime is certified annually by the Treasury Secretary as “substantially similar” to federal standards. Issuers exceeding the $10 billion threshold are automatically subject to federal oversight. If an issuer’s market capitalization surpasses the threshold, it has 360 days to transition to federal regulation unless the Federal Reserve or OCC (as applicable) grants permission to remain under state oversight. In addition, the GENIUS Act includes a dedicated provision for insolvency treatment, clarifying that claims of payment stablecoin holders have priority over other creditors if the issuer becomes insolvent.

The STABLE Act offers a more stringent, uniform regulatory approach. It does not impose a market capitalization threshold or “substantially similar” standard, instead enabling all issuers to choose between federal or state oversight. State-chartered issuers are required to comply with federal standards, resulting in a uniform regulatory environment. Rather than having a standalone insolvency provision, it requires that issuers take appropriate steps to protect customer property against claims of creditors.

Both bills mandate stringent regulatory requirements on payment stablecoin issuers to promote consumer protection and financial stability. Issuers must maintain at least one-to-one reserve backing with eligible reserve assets (such as U.S. coins and currency, treasuries, insured demand deposits, central bank reserve deposits and repurchase agreements) and are prohibited from rehypothecating such assets. Issuers must also undergo monthly reserve attestations by a registered public accounting firm and certify the accuracy of those reports to the appropriate regulatory authority. These requirements are in addition to compliance with U.S. anti-money laundering, counterterrorism and sanctions regulation.

Both bills seek to strengthen U.S. dollar dominance and foster economic competition by promoting international collaboration. They offer reciprocity agreements with jurisdictions that have similar payment stablecoin regulations to facilitate cross border transactions and improve interoperability between U.S. dollar-denominated stablecoins issued overseas.



The Waters Bill

The Waters Bill is a bipartisan effort that prioritizes federal oversight, placing the Federal Reserve at the center of regulating registered payment stablecoin issuers. It grants other federal agencies—including the CFPB, the CFTC, the SEC and Federal anti-trust enforcement authorities—jurisdiction over specific activities involving stablecoin market participants such as issuers, wallet providers, broker-dealers, exchanges, market makers and other intermediaries.

Unlike the GENIUS Act and STABLE Act, which explicitly exclude payment stablecoins from SEC regulation, the Waters Bill clarifies that the SEC has jurisdiction over certain activities related to payment stablecoin issuances.

The Waters Bill follows a dual-banking system model, where depository institution stablecoin issuers are regulated by their primary federal banking regulator, while nonbank stablecoin issuers must be licensed by either the Federal Reserve or a state regulator under Federal Reserve oversight.

The Waters Bill defines payment stablecoin issuers similarly to the other proposals, covering both depository institutions and nonbank issuers. It requires issuers to maintain at least a one-to-one reserve backing with eligible reserve assets while prohibiting rehypothecation of such assets. It also imposes a two-year moratorium on algorithmic stablecoins and encourages international economic competition by offering reciprocity agreements with jurisdictions that have similar regulatory regimes. Like the GENIUS Act, the bill clarifies that customers' property takes priority over other claims if an issuer becomes insolvent.

The Waters Bill places a strong emphasis on consumer protection. For instance, it applies anti-money laundering, counterterrorism, and sanctions regulation to payment stablecoins; emphasizes protection for consumer wallets; limits mergers and acquisitions involving stablecoin issuers; requires criminal background checks for key personnel of issuers; and prohibits non-financial commercial entities (such as Big Tech firms) from owning a stablecoin issuer. Additionally, it introduces stricter rules for offshore issuers, including major players like Tether.

Public Reaction to the Proposals

Each bill has faced criticism from various stakeholders.

Consumer advocacy groups, such as Consumer Reports, argue that the STABLE Act weakens existing safeguards by making it easier for large technology companies to enter the banking sector without adhering to traditional banking regulations.

Moreover, some experts argue that the bills could impose undue regulatory burden on existing issuers.

Former CFTC Chair Timothy Massad has criticized both the GENIUS Act and the STABLE Act, stating they fail to fully address the regulatory measures needed to ensure financial stability and consumer protection.

Other experts warn that a federal payment stablecoin framework could lead to market saturation if large technology companies rush to enter the market without restrictions on commercial entity participation.

Conversely, the Waters Bill has been criticized for prioritizing consumer protection over financial innovation by limiting state participation and restricting access to the payment stablecoin market.

Takeaways

The GENIUS Act, STABLE Act and Waters Bill represent the most comprehensive federal efforts to regulate payment stablecoins to date. While the GENIUS and STABLE Act favor innovation-friendly, light-touch regulatory frameworks, the Waters Bill prioritizes consumer protection and centralized oversight. Each proposal would significantly reshape the stablecoin market and introduce new compliance obligations for issuers, intermediaries and technology companies.

No significant changes are expected for at least 18 months, but market participants should closely monitor legislative developments to assess how the final regulatory framework could impact their current operations, product offerings and strategies.

Read the GENIUS Act **here**. Read the STABLE Act of 2025 **here**. Read the Waters Bill **here**.

The CFPB Gets a Shake-Up – Leel Sinai, Livingstone Harriott

On Jan. 20, 2025, President Trump issued an executive branch regulatory freeze pending review of all rulemaking efforts. Executive departments and agencies were directed to not propose or issue any rules, to withdraw any unpublished rules that were sent to the Office of the Federal Register (OFR), to postpone the effective date for any published or issued rules and to comply with any applicable executive orders concerning regulatory management. The CFPB was directly ordered by Treasury Secretary Scott Bessent on Feb. 3 and, subsequently, Office of Management and Budget (OMB) Director Russell Vought on Feb. 7 to halt all rulemaking, implementation and enforcement activities, including litigation.

The CFPB freeze will delay the effective dates of final rules that are already published in OFR, including an amendment to Regulation V that prohibits the inclusion of medical bills on credit reports and the usage of medical information in lending decisions, and amendments to Regulations E and Z that cap overdraft fees for consumers at financial institutions with more than $10 billion in assets. The freeze will also delay the effective date of amendments to Regulation Z, which prescribe ability-to-repay requirements for residential PACE financing and recognize PACE financing as within the definition of “credit” under the Truth in Lending Act. In addition to an effective date freeze, published final rules are susceptible to action by the U.S. Congress to overturn recently finalized rules pursuant to its power under Title 5, Sections 801 – 808 of the Congressional Review Act (CRA). The CRA provides Congress with a “lookback” mechanism to review final rules submitted fewer than 61 days before *sine die* adjournment of Congress.

Similarly, a final rule that is already effective can also be subject to CRA's lookback mechanism if it falls within the lookback period. This includes the final rule effective on Jan. 9, Defining Larger Participants of a Market for General-Use Digital Consumer Payment Applications, which subjected larger participants—nonbank covered persons that facilitate an annual covered consumer payment transaction volume of at least 50 million transactions, and are not a small business concern—to CFPB supervision (read more about this final rule **here**). Also within the lookback period for possible CRA review are the July 11, 2024 Industry Standard-Setting final rule, which established the attributes a standard-setting body must demonstrate in order to be recognized by CFPB, and the Jan. 17, 2025 Personal Financial Data Rights final rule, which requires data providers to make data regarding covered financial products available to consumers and authorized third parties in an electronic form.

Neither the freeze nor the CRA will have an effect on published final rules with an effective date outside the lookback period, including the CFPB's amendments to Regulation Z, which adopted a late fee safe harbor threshold of $8 for credit card issuers, amendments to Regulation B, which extended the compliance dates set forth in the 2023 Small Business Lending rule, and the issuance of the public Registry of Nonbank Covered Persons who are subject to agency or court orders.

Proposed rules may be withdrawn, or no further action may be taken by the CFPB (at the direction of the OMB). This includes the proposed rules that prohibit terms and conditions in agreements for consumer financial products and services, amend Regulation V to treat data brokers as credit reporting agencies subjected to Fair Credit Reporting Act requirements, interpret regulation Z to treat paycheck advance products as consumer loans subject to the Truth in Lending Act, and expand the Electronic Fund Transfer Act (EFTA) and Regulation E to cover stablecoins, crypto, virtual currencies and other emerging payment mechanisms. Read more about the proposed rule to expand the EFTA and Regulation E and the proposed rule to prohibit terms and conditions in consumer financial products agreements **here**.

> **"While the Trump administration appears to be scaling down the agency's operations to a significant extent, it is yet unclear as to whether certain of the CFPB's rulemaking, supervision and enforcement will be shut down completely or reinvigorated in some new form."**

> **“Financial institutions... should continue to maintain their associated compliance programs.”**

Several of these CFPB rules are also the substance of litigation in federal court; the defense of each will be reviewed and reevaluated in accordance with OMB Director Vought and President Trump priorities:

- Prohibition on Creditors and Consumer Reporting Agencies Concerning Medical Information: *Cornerstone Credit Union League, et al. v. CFPB, et al.*, U.S. District Court for the Eastern District of Texas, No. 4:25-cv-00016.
- Overdraft Lending: Very Large Financial Institutions: *Mississippi Bankers Association, et al v. CFPB*, U.S. District Court for the Southern District of Mississippi, No. 3:24-cv-00792 (Read more about this lawsuit **here**).
- Defining Larger Participants of a Market for General-Use Digital Consumer Payment Applications: *Technet and Netchoice, LLC v. CFPB*, U.S. District Court for the District of Columbia, No. 1:25-cv-00118 (Read more about this lawsuit **here**).
- Credit Card Penalty Fees Cap: *U.S.A. Chamber of Commerce et al v. CFPB et al*, U.S. District Court for the Northern District of Texas, No. 4:24-cv-00213
- Final Rule for Required Rulemaking on Personal Financial Data Rights: *Forcht Bank, NA et al v. CFPB, et al.*, U.S. District Court for the Eastern District of Kentucky, No. 5:24-cv-00304 (on February 25, 2025, the court ordered a 30-day stay on this challenge at CFPB request, which also tolls compliance deadlines for covered entities).
- Use of Digital User Accounts to Access Buy Now, Pay Later Loans: *Financial Technology Association v. CFPB et al.*, U.S. District Court for the District of Columbia, No 1:24-cv-02966 (Read more about this lawsuit **here**).

After dropping a lawsuit on Feb. 21 against SoLo Funds, Inc. in the U.S. District Court Central District of California, the CFPB filed notices of voluntary dismissals with prejudice in a handful of other active lawsuits previously pursued by former CFPB director Rohit Chopra:

- *CFPB v. Capital One Financial Corporation*, U.S. District Court for the Eastern District of Virginia, No. 1:25-cv-61-DJN.
- *CFPB v. Rocket Homes Real Estate LLC, et al.*, U.S. District Court for Eastern District of Michigan, No. 2:24-cv-13442.
- *CFPB v. Vanderbilt Mortgage and Finance Inc.*, U.S. District Court for the Eastern District of Tennessee, No. 3:25-cv-00004-CEA-JEM.
- *CFPB v. Pennsylvania Higher Education Assistance Agency*, U.S. District Court for the Middle District of Pennsylvania, No. 1:24-cv-00896-JFS.
- *CFPB v. Heights Finance Holding Co. et al.*, U.S. District Court for the District of South Carolina, No. 6:23-cv-4177.
- *CFPB v. Early Warning Services, LLC, et al.*, U.S. District Court for the District of Arizona, No. 2:24-cv-03652-SMB.

Lastly, on Feb. 28, the CFPB informed New York federal Judge John Cronan that it intends to continue pursuing its lawsuit against MoneyLion Technologies Inc.

As news concerning the CFPB and the scope of its work continues to unfold, financial institutions and other entities subject to its regulation and supervision should continue to maintain their associated compliance programs. While the Trump administration appears to be scaling down the agency’s operations to a significant extent, it is yet unclear as to whether certain of the CFPB’s rulemaking, supervision and enforcement will be shut down completely or reinvigorated in some new form.

Summary of Federal Reserve Vice Chair Barr and Governor Bowman's Speeches on Bank Regulation and Supervision – Leel Sinai

Federal Reserve Vice Chair for Supervision Michael Barr and Federal Reserve Governor Michelle Bowman recently addressed key regulatory and supervisory challenges in the banking sector. Vice Chair Barr, speaking at Georgetown University Law Center, discussed the ongoing work needed following the Spring 2023 bank failures, emphasizing the need to enhance financial stability through stronger regulations. Governor Bowman, at the ABA's 2025 Conference for Community Bankers, focused on concerns over the supervisory process, arguing for increased transparency and more efficient regulatory decision-making.

Regulatory Challenges and Proposed Reforms

In his remarks on Feb. 20, 2025, at the Georgetown University Law Center, Vice Chair Barr stressed that while banks have improved their ability to borrow from the Fed's Discount Window and financial system readiness has improved overall, vulnerabilities remain. He outlined several areas where regulatory agencies must act. First, he proposed requiring banks to maintain a minimum level of readiness at the xDiscount Window to ensure liquidity during crises. He also supported finalizing the requirement for large banks to account for unrealized losses on available-for-sale securities in their capital calculations. Furthermore, he suggested updating assumptions about deposit outflows in liquidity requirements to better reflect real-world stress events.

Barr also highlighted risks associated with reciprocal deposit arrangements, which allow banks to circumvent regulatory limits on deposits. He called for closer monitoring of these arrangements to ensure banks can manage them effectively during market stress. He also urged regulators to finalize long-term debt rules, incorporating adjustments based on industry feedback.

Regarding stress testing, Barr warned against regulatory changes that could inadvertently reduce capital requirements. He encouraged the Federal Reserve to maintain a dynamic stress-testing process, updating models regularly to reflect shifts in the financial environment and bank behavior. He also suggested that the Federal Reserve adopt an approach similar to the Basel "Pillar 2" framework, which would allow regulators to set capital requirements based on supervisory judgment, a practice used in other jurisdictions.

Another concern Barr raised was the Treasury cash-futures basis trade, a financial strategy that helps provide market liquidity but involves high levels of leverage. He warned that in times of stress, rapid unwinding of these positions could amplify market disruptions. He advocated for regulatory oversight, including requiring minimum margin collection across trading venues to prevent loopholes and risks. Additionally, he emphasized the importance of monitoring banks' credit risk management practices with hedge fund counterparties.

Barr also pointed to risks in the private credit sector, which he described as opaque with limited information compared to similarly sized asset classes. He noted that banks are increasingly interconnected with private credit, and the rise of retail investor exposure through mutual and exchange-traded funds introduces potential consumer and financial stability concerns. He also flagged growing risks in the insurance industry, particularly as life insurers expand their holdings of assets originated by private equity firms and as private equity firms acquire life insurers directly. He warned that insurers relying on nontraditional liabilities could face liquidity risks during downturns, potentially leading to broader financial stress.

“Bowman cautioned that an excessive focus on non-financial risks, such as operational controls, might be diverting attention from core financial stability issues.”

Concerns Over Bank Supervision and Regulatory Processes

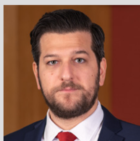
In her remarks on Feb. 17, 2025, at the ABA 2025 Conference for Community Bankers, Federal Reserve Governor Bowman addressed concerns about the fairness and effectiveness of the bank supervisory process. She noted that while most large financial institutions met expectations for capital and liquidity, only one-third maintained satisfactory ratings across all relevant supervisory components. She questioned whether subjective examiner judgment was influencing these ratings, leading to inconsistencies. She cautioned that an excessive focus on non-financial risks, such as operational controls, might be diverting attention from core financial stability issues. While acknowledging that non-financial risks take longer to remediate, she urged regulators to ensure that their focus remains on fundamental safety and soundness concerns.

Bowman also called for reforms to the bank merger approval process. She criticized the delays caused by public comments that often rely on past supervisory records rather than the merits of a proposed merger. While acknowledging the importance of public feedback, she warned that vague or unsupported comments should not unduly delay decisions. She emphasized that regulators should establish fixed timelines for reviewing applications and streamline the process to address unnecessary bottlenecks.

Additionally, Bowman argued that many existing regulations require modernization. She pointed to rules governing loans to insiders, transactions with affiliates, state member bank activities and holding company requirements as areas needing review. She also raised concerns about unintended consequences of Bank Secrecy Act (BSA) and anti-money laundering (AML) requirements, particularly their impact on bank ratings. She argued that excessive weighting of BSA/AML compliance in supervisory evaluations could contribute to banks discontinuing services to certain customers (de-banking). She urged the Federal Reserve to reassess how these regulations influence supervisory assessments to ensure fair treatment of banks.

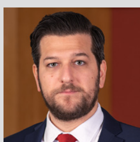
Read the remarks here and here.

EDITOR



Leel Sinai
Leel.Sinai@haynesboone.com
T +1 212.835.4898

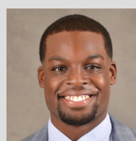
ISSUE CONTRIBUTORS



Leel Sinai
Leel.Sinai@haynesboone.com
T +1 212.835.4898

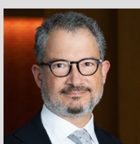
Khalil Bryant
Khalil.Bryant@haynesboone.com
T +1 713.547.2619

Alex Jackson
Alex.Jackson@haynesboone.com
T +1 212.659.4981



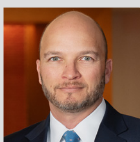
Livingstone Harriott - Law Clerk
Livingstone.Harriott@haynesboone.com
T +1 212.659.4995

FINANCIAL REGULATORY CONTACTS

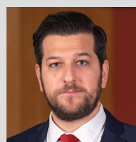


Giorgio Bovenzi
Giorgio.Bovenzi@haynesboone.com
T +1 212.918.8998

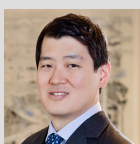
Matthew Frankle
Matthew.Frankle@haynesboone.com
T +1 212.918.8950



Alex Grishman
Alexander.Grishman@haynesboone.com
T +1 212.918.8965



Leel Sinai
Leel.Sinai@haynesboone.com
T +1 212.835.4898



Brian Sung
Brian.Sung@haynesboone.com
T +1 212.659.4964

Craig Unterberg
Craig.Unterberg@haynesboone.com
T +1 212.659.4987

haynesboone.com

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