The Model Has Changed — How Banking Organisations Should Respond

Navigating the Shift to the 2026 Interagency Guidance on Model Risk Management

by

Constantine Boyadjiev
Managing Director, Advanced Analytics & Data Science

Todd Pleune
Managing Director, Advanced Analytics & Data Science

Kevin Kong
Director, Advanced Analytics & Data Science

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Global Business Consulting

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Executive summary

On April 17, 2026, the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) jointly issued revised interagency guidance on model risk management (MRM), formally rescinding the original 2011 guidance, the interagency equivalents and other model risk-related guidance from the three agencies.[1] This represents a broader shift toward principles-based, risk-proportionate regulatory expectations across an increasingly diverse and evolving financial services industry. The industry is facing rapid proliferation of generative and agentic artificial intelligence (AI) models, which were intentionally excluded from scope, where regulators committed to issue a forthcoming Request for Information on AI models.

The new guidance provides a risk-based and proportionate framework that enables banking organisations to tailor model risk management practices and reduces situations where regulators will intervene.[2] As such, banking organisations are expected to tailor their MRM framework to their size, complexity and the nature of their model use, rather than applying a single prescriptive standard. The agencies have stated that non-compliance with the guidance alone will not trigger supervisory criticism, although supervisory action remains possible where deficiencies rise to the level of legal violations or unsafe or unsound MRM practices. For boards, CROs and CFOs, this shift represents more than a compliance milestone: Banking organisations that implement an effective, risk-based MRM framework will be better positioned to concentrate on the most material risks while navigating the growing complexity of advanced analytics, machine learning (ML) and AI.

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[1] The complete list of rescinded supervisory guidance references includes SR 11-7, SR 21-8, OCC 2011-12, OCC 2021-19, OCC 1997-24, Comptroller's Handbook on Model Risk Management, FIL 22-2017 and FIL 27-2021.

[2] "Banking organisations" refers collectively to national banks, federal savings associations, and federal branches and agencies of foreign banking organisations supervised by the OCC, FRB and FDIC.

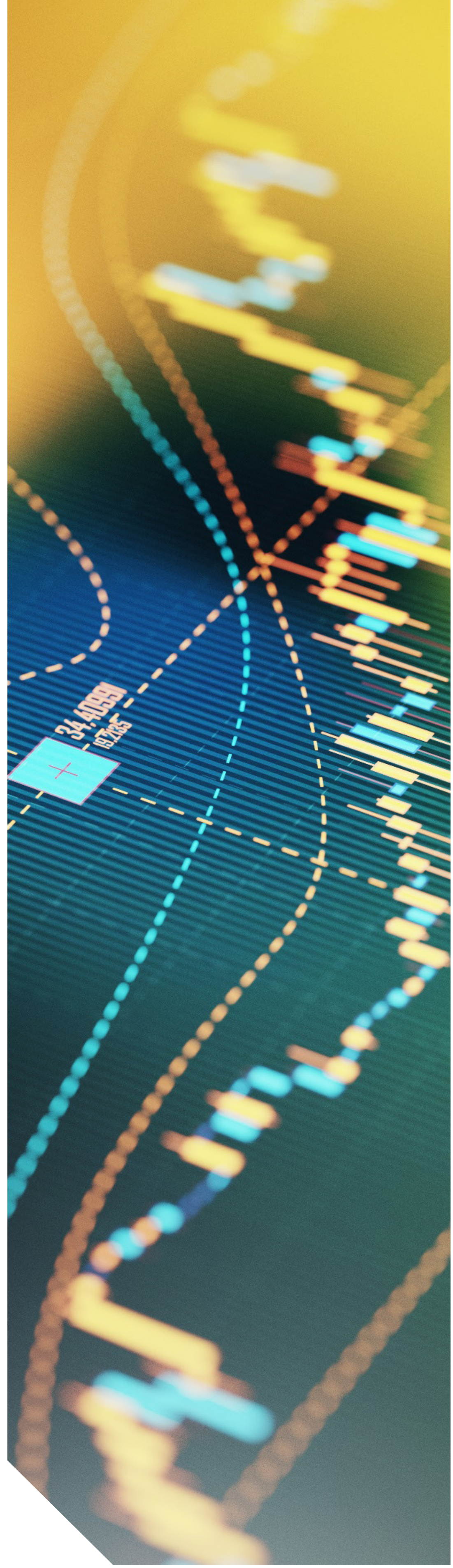
Why is the guidance changing now?

In the 15 years since the 2011 guidance was established, the model risk landscape within the industry has evolved significantly across multiple dimensions. These include regulatory posture, systemic stress events, increased use of models and the rapid emergence of AI. The revised guidance should be interpreted in the context of these developments.

The current regulatory environment has indicated a preference for principles-based oversight, reducing prescriptive requirements and allowing banking organisations to have greater flexibility and responsibility in how they want to manage risk. The 2026 MRM guidance is consistent with that direction and is just one of several recent updates signalling a measured shift in how federal banking regulators approach supervision across banking organisations of all sizes. Regulators identified weaknesses in interest rate risk and asset-liability management models as a key contributor to the liquidity stress events of 2023. The liquidity events reinforced the importance of model risk governance frameworks that are robust, actively overseen by the board, and proportionate to risk rather than compliance-driven, procedural exercises.

The increased adoption of vendor models, from credit scoring platforms and fraud detection engines to climate risk and stress testing tools, increases the need for risk-based coverage and transparency of vendor provided documentation and testing.

Finally, the rise of AI and ML has altered how models are built, deployed and monitored. Traditional statistical models (implicitly assumed in the original guidance) are generally transparent and interpretable. In contrast, AI and ML models introduce greater complexity and reduced transparency, warranting a risk management approach commensurate with model complexity. Moreover, the risks associated with generative and agentic AI extend beyond traditional model risk, highlighting limitations in both the original and revised guidance to address these emerging challenges. Regulators have acknowledged this gap, committing to issue a forthcoming Request for Information addressing generative AI and agentic AI in banking models. This signals that the regulatory agenda for computer-based tools will continue to evolve.



Key changes and updates

The table below summarises the material differences between the 2011 guidance and the 2026 revised guidance that are most likely to affect banking organisations' model risk governance, validation practices and supervisory interactions. Use of third-party and vendor-developed models continues to be a focus, but many other areas have changed to varying degrees.

Area	Original guidance (2011)	Revised guidance (2026)
Scope & applicability	Applied broadly; limited size differentiation.	Risk-based and tiered; most relevant to banking organisations >$30B in assets; proportional expectations for smaller banking organisations.
Model definition	*Model* refers to a quantitative method, system or approach that applies statistical, economic, financial, or mathematical theories, techniques and assumptions to process input data into quantitative estimates.	Inclusion of complex in the definition; exclusions of simple arithmetic calculations, such as those found within spreadsheets, as well as deterministic rule-based processes and software where there are no statistical, economic or financial theories underpinning their design or use.
Supervisory posture	Prescriptive; non-compliance subject to examination criticism.	Non-prescriptive; non-compliance does not automatically result in supervisory criticism; supervisory action remains possible where deficiencies rise to the level of legal violations or unsafe or unsound model risk management practices.
Risk-based approach	No guidance was provided on risk-based tiering methodology.	Risk-based approach endorsed; model risk management proportional to complexity, materiality and extent of model use.

Generative & agentic AI	Not specifically addressed; implicit coverage only.	Generative and agentic AI are considered out-of-scope, with regulatory commitment to a Request for Information addressing generative AI and agentic AI in banking models; this does not prevent banking organisations from establishing effective AI governance frameworks, with MRM involvement.
Validation components	Three core elements of model validation include conceptual soundness, ongoing monitoring and outcomes analysis; model annual reviews were required.	Components of model validation include conceptual soundness and outcomes analysis with ongoing monitoring highlighted as a separate activity; while not outlined, validation processes should still include risk-based coverage on data quality, model implementation and process verification; model annual reviews are not required.
Ongoing monitoring	Model performance, limitations, process verification, benchmarking, computer code implementation and system integration were outlined as ongoing monitoring considerations.	Model performance and regular assessment of model limitations are the only items outlined for ongoing monitoring.
Documentation	Comprehensive documentation required for all models.	Documentation expectations aligned to risk level of individual models; principles-based rather than prescriptive.
Governance & board oversight	Board/senior management accountability established.	Retained and reinforced; governance expected to be tailored to organisational complexity.

These changes reflect a meaningful evolution in regulatory philosophy: The agencies have moved away from the compliance-driven standard of the 2011 guidance toward a framework that acknowledges that model risk is not uniform across banking organisations or the models they adopt.

Next steps for banking organisations

The transition from prescriptive to principles-based regulation requires banking organisations to demonstrate, rather than simply document, sound model risk management. Banking organisations with more than $30 billion in assets should expect to fine-tune, rather than materially overhaul, their existing MRM practices in response to the revised guidance. Banking organisations below $30 billion in assets, as well as emerging players such as fintech firms, should not disregard the guidance but should instead apply it strategically, designing MRM practices that are proportionate to their scope of model use and overall model risk exposure.

The following next steps are recommended for model risk practitioners.

- Review the revised guidance to determine an MRM framework best suited to your institution. Conduct a thoughtful assessment of your MRM practices, determine whether any changes are necessary within your risk profile and make appropriate adjustments.
- Revisit your model inventory and risk-tiering approach. Consider the implications of the revised model definition and risk-tiering framework on your current model inventory, maintaining alignment with your risk profile.
- Re-evaluate and enhance third-party and vendor MRM requirements, with particular emphasis on contractual provisions that subject vendor models to appropriate validation and ensure the institution receives sufficient transparency and documentation to understand the model.
- Refocus model processes and controls to be risk-based. The revised guidance emphasises a risk-based approach, requiring banking organisations to reassess their existing MRM framework and tailor processes and controls to reflect differing levels of model materiality and complexity.

The revised interagency guidance does not lower supervisory expectations for sound model risk management; instead, it requires banking organisations to exercise greater judgment, discipline and transparency in how those expectations are met.

About the authors

Constantine Boyadjiev
Managing Director

With over three decades of experience in risk management, financial crime analytics and regulatory compliance, Constantine advises global clients on the strategic application of data science and advanced analytics to combat fraud, enhance regulatory reporting and improve operational resilience. He has designed and implemented enterprise-wide solutions leveraging AI and machine learning to detect and mitigate complex risk typologies. Constantine is also a three-time patent holder and plays a key role in driving innovation across Protiviti's analytics offerings.

Todd Pleune
Managing Director

Todd helps a wide range of financial institutions design, build, validate and govern models for credit, risk and financial decision-making. He is a recognised leader in model risk management, with deep experience designing enterprise MRM frameworks, setting governance and control standards, leading independent validations, and advising boards and senior management on model risk across interest rate risk and balance sheet management, allowance and capital estimation, stress testing, underwriting and credit decisioning, portfolio risk management, and advanced analytics and machine learning.

Kevin Kong
Director

Kevin has delivered numerous data analytics projects covering model risk management, predictive analytics, internal audit data analytics, fraud analytics and financial crimes analytics. He leads teams and provides subject-matter expertise to assist clients in understanding sources and magnitude of risk when leveraging statistical analysis and AI/ML technologies, developing sustainable controls to manage such risks and determining appropriate oversight and governance. Kevin also helps organisations develop data analytics and model risk management strategy, implementation of the related frameworks, and sustained operation of processes.

Protiviti Senior Managing Director Carol Beaumier and Managing Director Molly Scherf also contributed to this paper.

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