Banking and Finance Law Daily Wrap Up, PRUDENTIAL REGULATION—Federal Reserve removes reputational risk from bank oversight, (Jun. 24, 2025)

Banking and Finance Law Daily Wrap Up

Click to open document in a browser

By Carrie DeLeon

The Federal Reserve said it will replace references to reputational risk in its supervisory materials with more specific discussions of tangible financial risk.

Similar to actions already taken by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (see *Banking and Finance Law Daily*, Mar. 21, 2025), the Federal Reserve announced that it will no longer consider reputational risk as part of its supervision of banks. The Fed said it has begun the process of removing references to reputational risk, which it had defined as the potential for negative publicity to hurt a bank's business or lead to costly litigation, from its policies, examination manuals, and other materials.

The Federal Reserve said in a revised June 23, 2025, letter that "while an institution's financial performance is an important indicator of the adequacy of management, it is essential that examiners give significant weight to the quality of risk management practices and internal controls when evaluating the management and overall financial condition of banking organizations."

The Federal Reserve Board also pointed out that this change doesn't alter its "expectation that banks maintain strong risk management to ensure safety and soundness and compliance with law and regulation nor is it intended to impact whether and how Board-supervised banks use the concept of reputational risk in their own risk management practices."

The board said it will train examiners to help ensure this change is implemented consistently across board-supervised banks and hopes to work with other federal bank regulatory agencies to promote consistent practices.

The Fed's decision to discontinue the use of reputational risk in bank supervision was welcomed by groups such as the American Bankers Association and the Financial Services Forum.

"We have long believed banks should be able to make business decisions based on prudent risk management and the free market, not the individual perspectives of regulators. This change will make the supervisory process more transparent and consistent while enabling banks to better meet the needs of their customers, clients and communities," Rob Nichols, President and CEO of the American Bankers Association, said in a June 23, 2025, statement.

The Financial Services Forum said the change is "another important step toward focusing bank supervision on material financial risk." "This, taken with the action by other financial regulators, will help to foster a more transparent and effective supervisory framework. We look forward to continuing to work with the Administration and Congress to identify solutions that allow America's leading banks to continue to best serve their customers," Financial Services Forum President and CEO Kevin Fromer said in a statement.

Companies: American Bankers Association; Financial Services Forum

MainStory: TopStory BankingOperations DirectorsOfficersEmployers FederalReserveSystem FinancialStability GCNNews Privacy PrudentialRegulation

© 2025 CCH Incorporated and its affiliates and licensors.
All rights reserved.