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Quantitative Consulting — Model Risk Management, Validation, and AI Governance

CLIENT MEMORANDUM

To: Model Risk Management and Compliance Leadership
From: Kevin D. Oden & Associates
Date: April 18, 2026
Re: **Revised Interagency Supervisory Guidance on Model Risk Management (April 17, 2026) — Summary of Changes and Implications**

Executive Summary

On April 17, 2026, the Board of Governors of the Federal Reserve System, the FDIC, and the OCC jointly issued revised supervisory guidance on model risk management, updating the principles that have governed MRM practice since the original SR 11-7 / OCC 2011-12 was released in 2011. The revised bulletin retains the three-pillar architecture of the original guidance — development and use, validation, and governance — but materially changes its regulatory posture, scope, and level of prescriptive detail.

The revised guidance is explicitly principles-based and non-enforceable. It is tailored toward banking organizations with greater than $30 billion in total assets. It narrows the definition of a "model," and places generative and agentic AI expressly outside its scope. Validation independence is softened from a structural requirement to a principle, and documentation, governance, and third-party sections are substantially condensed.

The practical effect is a lighter, more proportional framework on paper — but underlying safety-and-soundness expectations have not changed. Institutions should expect examiner practice to evolve through 2026 and 2027, and should not interpret the revised bulletin as a license to reduce MRM investment in areas where model risk remains material to the business.

Side-by-Side Comparison

The following matrix summarizes the most consequential differences between the two documents. References to the prior guidance refer to SR 11-7 (Federal Reserve) and OCC Bulletin 2011-12 as amended.

Topic	SR 11-7 / OCC 2011-12	April 17, 2026 Bulletin
Regulatory posture	Supervisory guidance treated in practice as a hard expectation; widely cited in MRAs and MRIAs.	Explicitly non-enforceable. Non-compliance will not, on its own, result in supervisory criticism, though safety-and-soundness violations remain actionable.
Applicability threshold	No asset threshold. Applied broadly to banking organizations with model inventories.	Expected to be most relevant to institutions above $30B in total assets. Smaller institutions generally excluded

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		unless model complexity or non-traditional activities warrant application.
Definition of "model"	Quantitative method applying statistical, economic, financial, or mathematical theories, techniques, and assumptions.	Complex quantitative method applying statistical, economic, or financial theories. "Mathematical" dropped. Explicitly excludes spreadsheet arithmetic, deterministic rule-based processes, and software without underlying statistical or economic theory.
Scope: generative and agentic AI	Not contemplated. Institutions have extended SR 11-7 by analogy, with varying degrees of fit.	Explicitly out of scope. The agencies describe generative and agentic AI as novel and rapidly evolving. Principles apply only to traditional statistical and quantitative models and to non-generative, non-agentic AI.
Risk framework vocabulary	Model risk discussed broadly. Materiality tiering applied as industry practice rather than explicit framework.	Formal structure: inherent risk, model exposure, model purpose, and model materiality (exposure + purpose). Introduces aggregate risk as a distinct consideration — interactions, dependencies, and shared assumptions across models.
Validation independence	Strong emphasis on organizational separation between development and validation functions.	Independence preserved under the "effective challenge" principle (expertise, independence, standing). Explicitly states quality depends on rigor of review rather than organizational structure. Structural prescription relaxed.
Pre-deployment validation	Pre-validation use tolerated only in rare, narrowly defined circumstances.	Acknowledges urgent business need as a legitimate exception, provided limitations are communicated and compensating controls (usage limits, enhanced monitoring) are in place.
Documentation requirements	Detailed, prescriptive expectations for development documentation, validation reports, and inventory fields.	Principles-based. Documentation should be sufficient to understand model risks. Treatment compressed to a single paragraph.
Model inventory	Prescribed inventory fields and attributes, commonly interpreted as requiring a firm-wide enterprise inventory.	Principles-based. Inventory should contain information sufficient to support risk management at individual and aggregate levels, scaled to complexity.

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Vendor and third-party models	Detailed expectations regarding vendor transparency, substitution testing, and banking organization diligence.	Core principles retained: conceptual soundness, outcomes monitoring, documentation of customizations. Prescriptive detail reduced.
Governance detail	Extensive treatment of board and senior management responsibilities, policies, and reporting lines.	Substantially condensed. Governance framed around roles, responsibilities, and conflicts of interest, with proportionality to size and complexity.
Change management and limitations	Detailed expectations for model change management, compensating controls, and treatment of known limitations.	Not addressed as a discrete section. Limitations discussed within validation and use.
Stress testing and scenario use	Explicit application of model risk principles to regulatory stress testing (DFAST, CCAR) and scenario analysis.	Not addressed separately. Subsumed under general model purpose and materiality considerations.

Key Implications for Banking Organizations

1. Do not over-read the non-enforceability language

Although the agencies have stated that non-compliance with the guidance will not, by itself, result in supervisory criticism, the bulletin preserves the agencies' authority to act where insufficient model risk management rises to the level of a violation of law or an unsafe or unsound practice. Institutions should assume that their fundamental obligations around prudent model use are unchanged.

2. Revisit model inventory scoping

The narrowed definition of a "model" and the explicit exclusion of deterministic rule-based systems and simple spreadsheet calculations provide a basis for re-examining scope. Institutions that have historically captured end-user computing tools, rules engines, and simple allocation logic within their model inventories may wish to reconsider whether this remains warranted. Any scope reduction should be supported by documented rationale and be consistent with the institution's broader risk taxonomy.

3. Address the generative and agentic AI governance gap

The agencies have expressly removed generative and agentic AI tools from the scope of this guidance. This does not eliminate the need for governance — it reassigns it. Institutions deploying these technologies should stand up a parallel governance construct, typically aligned to the NIST AI Risk Management Framework, with appropriate adaptation to financial services use cases. Relying solely on SR 11-7-style validation for generative or agentic systems was always a poor fit, and is now unsupported by the underlying guidance.

4. Reassess validation operating model

The softening of structural independence language opens meaningful flexibility in how validation functions are organized. Institutions that have struggled to resource a fully independent internal validation group may now have clearer license to use external or hybrid validation models, provided the rigor, expertise, and authority of effective challenge are preserved. This is particularly relevant for mid-sized institutions and specialized portfolio validations.

5. Sub-$30B institutions: do not assume the guidance does not apply

The bulletin contains an explicit carve-in for smaller institutions with significant model risk exposure — for example, those active in stablecoin issuance, digital assets, complex credit portfolios, or model-intensive fintech partnerships. Institutions in these categories should expect examiner interest in their model risk management to continue, regardless of asset size.

6. Expect a period of examiner interpretation

The gap between the relaxed language of the revised bulletin and longstanding examiner expectations is likely to take multiple examination cycles to resolve. We expect inconsistent application across agencies and regions during 2026 and 2027. Institutions should document their rationale whenever they reduce or restructure MRM activities in reliance on the revised guidance.

Recommended Near-Term Actions

Institutions should consider the following actions over the next 60 to 90 days:

- Perform a gap analysis comparing the institution's current MRM policy against the revised bulletin, with particular attention to model definition, inventory scoping, and validation independence.
- Establish or refresh a generative and agentic AI governance framework distinct from the SR 11-7 successor, anchored to the NIST AI RMF and addressing both internally developed and vendor-supplied tools.
- Review the model inventory for items that may no longer meet the definition of a model under the revised guidance, and document any scope decisions.
- Reassess the validation operating model, including whether external or co-sourced validation can replace structural independence requirements that may have been overbuilt under prior interpretation.
- Update MRM policy, procedures, and board reporting materials to reflect the revised framework vocabulary (inherent risk, model exposure, model purpose, model materiality, aggregate risk).
- Prepare internal talking points and examiner-facing documentation that explains any changes to the MRM program and the rationale for those changes.

How KDOA Can Help

Kevin D. Oden & Associates has completed over 500 engagements across more than 50 financial institutions, with deep experience across the full model lifecycle under SR 11-7. In response to the revised guidance, KDOA is offering:

- Policy gap assessments benchmarking existing MRM frameworks against the revised April 2026 bulletin.
- Independent and co-sourced model validation under the revised effective-challenge principles.
- Agentic and generative AI governance frameworks aligned to NIST AI RMF, filling the scope gap left by the revised guidance.
- Model inventory re-scoping support, including documentation of inclusion and exclusion rationale.

- Model IQ platform support for inventory management, validation workflow, and SR 11-7 successor-aligned documentation.
- Stablecoin and digital asset model risk management services, addressing the regulatory overlay created by the GENIUS Act and proposed OCC 12 CFR Part 15.

For a tailored discussion of how the revised guidance affects your institution, please contact:

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