

Technical note

Revised Guidance on Model Risk Management

Federal Reserve SR 26-2 and OCC Bulletin 2026-13: revised interagency guidance and changes relative to SR 11-7

Issued

17 April 2026

Issuing agencies

Federal Reserve Board, OCC and FDIC

Primary applicability

Banking organizations with more than \$30 billion in total assets

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- A stack of wooden blocks is positioned on a dark, reflective desk. The blocks are arranged in a stepped fashion, with some being light-colored wood and others being a dark, charcoal grey. In the foreground, a blue pen lies on a stack of papers. The background is a blurred office setting with a window showing greenery outside.
1. Executive summary

 2. Purpose and scope

 3. Overview of model risk and model risk management

 4. Model development and model use

 5. Model validation and monitoring

 6. Governance and controls

 7. Vendor and other third-party products

 - A. Annexes

What the revised guidance says, and what changes

What SR 26-2 / OCC 2026-13 says

- A **joint interagency guidance** from the Federal Reserve, OCC and FDIC **clarifying model risk management principles** for banking organizations and setting forth a risk-based approach to model risk management.
- It **preserves the conceptual architecture of SR 11-7**: model development, implementation and use; model validation and monitoring; governance and controls, now with a **dedicated section on vendor and third-party products**.
- It adopts a **risk-based, proportional approach** tailored to each banking organization's **model risk profile** and to the **size and complexity of its operations**, recognizing that institutions with **simpler operations** may not need to apply MRM with the same rigor as more complex organizations.
- It defines **model** as a **complex quantitative method** applying statistical, economic or financial theories to inputs, and expressly excludes **simple arithmetic calculations** and **deterministic rule-based processes**.
- It states that the guidance **does not set forth enforceable standards** or prescriptive requirements and that non-compliance **will not result in supervisory criticism**.
- **Generative AI and agentic AI** are placed **outside the scope** of the guidance; the agencies also state that they plan to issue a future **request for information addressing model risk management generally**, with particular attention to banks' use of AI, including **generative AI, agentic AI, and AI-based models**.

What changes relative to SR 11-7

- **Supervisory positioning.** Explicit **non-enforceable** character and statement that **non-compliance will not result in supervisory criticism**; SR 11-7 contained no equivalent language.
- **Scope threshold.** Primary relevance stated for banking organizations **above \$30 bn** in total assets, with possible relevance for smaller institutions with significant model risk exposure.
- **Definition of model.** Adds the qualifier **complex** and expressly excludes **simple arithmetic calculations** and **deterministic rule-based processes**.
- **Risk taxonomy.** Establishes a clearer framework for model risk by distinguishing **inherent risk, exposure, purpose and use**, and links materiality to exposure and purpose.
- **Validation.** Preserves the three components, but states that the quality of validation depends on the **rigour of the review** rather than on the organizational structure of the risk management function.
- **Governance.** The treatment of **internal audit** becomes more conditional, while governance expectations remain centered on **policies, controls, inventory and documentation**.
- **Third parties.** Dedicated section acknowledging **proprietary** constraints on code, data and methodology, while confirming that MRM principles remain applicable.
- **Generative agentic AI models** are outside the scope of the guidance; however, institutions are expected to rely on their broader risk management and governance practices to determine appropriate controls for tools, processes, or systems not covered, while the guidance continues to apply to traditional statistical and quantitative models and to non-generative, non-agentic AI models.

2. Purpose and scope

An explicit non-enforceable, risk-based framework replacing the broader 2011 expectation

SR 11-7 (2011) — previous position

- Addressed to all banking organizations supervised by the Federal Reserve and the OCC; adopted by the FDIC in 2017 (FIL-22-2017) with technical conforming changes. No monetary scope threshold stated in the text.
- Provided **comprehensive guidance** on effective model risk management, including development, implementation, use, validation, governance and controls.
- Indicated that application of the guidance should be **customized** to a bank's **risk exposures, business activities, and the complexity and extent of its model** use.
- Defined **model** broadly as a **quantitative method, system or approach** applying **statistical, economic, financial or mathematical** theories, techniques and assumptions, without expressly excluding spreadsheet-based calculations or deterministic rule-based processes.

SR 26-2 / OCC 2026-13 (2026) — revised position

- Expected to be most relevant to banking organizations with over **\$30 billion in total assets**, while also potentially relevant to smaller institutions with significant model risk exposure or non-traditional activities.
- Explicitly states that the guidance does not set forth **enforceable standards or prescriptive requirements**, and that non-compliance **will not result in supervisory criticism**.
- Frames MRM as a **risk-based approach** tailored to each banking organization's **model risk profile** and to the **size and complexity** of its operations.
- Defines a model as a **complex quantitative method, system, or approach** applying **statistical, economic, or financial theories**, and excludes **simple arithmetic calculations** such as spreadsheets and **deterministic rule-based processes** without those underlying theories.

Key changes

- The revised guidance introduces an explicit statement on **non-enforceability** and **supervisory criticism**.
- It also states that the guidance is expected to be most relevant to institutions with **over \$30 billion in assets**, while allowing relevance for certain smaller institutions.
- Compared with 2011, the revised text articulates more explicitly a **risk-based and tailored approach** to model risk management.
- The revised text introduces a **narrower definition of model**, limited to **complex quantitative methods** applying **statistical, economic, or financial** theories, removing the reference to **mathematical theories** included in SR 11-7.

Explicit taxonomy of model risk drivers and formalisation of model materiality

SR 11-7 (2011) — previous position

- Defined model risk as the potential for adverse consequences from decisions based on incorrect or misused model outputs, identifying two primary sources: **fundamental errors** and **incorrect or inappropriate use**.
- Addressed **proportionality** and **materiality** in general terms, without formally defining materiality through specific named drivers.
- Recognized that model risk should be assessed both **individually and, in the aggregate**, including interactions and dependencies among models and reliance on common assumptions, data, or methodologies.

SR 26-2 / OCC 2026-13 (2026) — revised position

- Defines model risk as influenced by four named drivers: **inherent risk, exposure, purpose, and use**.
- Defines model materiality as the combination of **model exposure and model purpose and** presents it as a key consideration for proportionate MRM.
- Expressly addresses **aggregate risk** as interactions and dependencies among models, reliance on common assumptions, data, or methodologies, and other factors that could affect several models simultaneously.

Key changes

- Compared with 2011, the revised guidance introduces an explicit taxonomy of model risk based on **inherent risk, exposure, purpose, and use**, while preserving the idea that model risk may arise from model weaknesses and from incorrect or inappropriate use.
- It also defines **model materiality** more explicitly by linking it to **exposure and purpose**, supporting a more proportionate approach to MRM.
- The revised text gives more explicit prominence to **aggregate model risk** as part of sound model risk management practice, treating it more clearly as an **ongoing element of the MRM** framework rather than only as a supporting consideration.

Principle-based development, with greater emphasis on purpose and user input

SR 11-7 (2011) — previous position

- Addressed **model development, implementation and use** under a structured framework covering statement of purpose, theoretical construction, data quality, methodology, testing, implementation, and reporting/documentation.
- Identified **effective challenge** as a guiding principle, performed by individuals with appropriate expertise, incentives, and influence.
- Established a strong expectation of rigorous developmental testing, including **comparison with alternative approaches** and **assessment of data quality and relevance**.

SR 26-2 / OCC 2026-13 (2026) — revised position

- States that effective development begins with a **clear statement of purpose** to align model development with intended use and support decisions on data, methodologies, and testing.
- Identifies **input from model users** as a factor that can enhance model development by providing business context and practical insights.
- Makes explicit that the rigor of testing should be **commensurate with model complexity and materiality and** may be more limited for less material models or less complex organizations.

Key changes

- The revised guidance places more explicit emphasis on **statement of purpose, user input, and testing proportionality** in model development.
- It also states more clearly that using a model **beyond its intended purpose** introduces additional uncertainty and risk and may require additional analysis and controls.
- Compared with 2011, the revised text continues to rely on **effective challenge** and rigorous testing, while expressing those expectations within a more explicitly risk-based and proportionate framework.

Three components preserved; emphasis shifts from organisational independence to rigour of review

SR 11-7 (2011) — previous position

- Identified validation as a comprehensive set of activities built around three components: **evaluation of conceptual soundness, ongoing monitoring, and outcomes analysis.**
- Placed strong emphasis on the **independence** of validation from model development and use, including through reporting lines, incentives, and critical review by objective parties.
- Set an expectation that validation should take place **prior to first use**, with ongoing validation activities and periodic review after implementation.

SR 26-2 / OCC 2026-13 (2026) — revised position

- Preserves the three validation components: **conceptual soundness, outcomes analysis, and ongoing monitoring.**
- States that the quality of the validation process depends on the **rigor and effectiveness of the review** rather than on the **organizational structure** of the banking organization's risk management function.
- Recognizes that, in certain circumstances, such as an **urgent business need**, a model may be used before validation is completed, subject to greater attention to limitations, communication to relevant stakeholders, and appropriate controls.

Key changes

- The revised guidance preserves the core validation architecture while expressing more explicitly that validation quality depends on the **rigor and effectiveness of review.**
- It also states that **material model risk can remain** even with sound modeling practices and rigorous validation, making complementary analysis, monitoring, and awareness of limitations important ongoing controls.
- The revised text recognizes more explicitly that, in some circumstances, **models may be used before validation is completed**, subject to communication of limitations to relevant stakeholders and **controls such as limits on model use or enhanced performance monitoring.**

Principles retained; structural expectations now optional

SR 11-7 (2011) — previous position

- Set out an extensive section on governance, including expectations for **board oversight, senior management responsibility, model risk management policies, internal audit, model inventory, and documentation.**
- Presented **internal audit** as a **specific component of the framework**, responsible for evaluating whether model risk management is comprehensive, rigorous, and effective, and whether related policies are being followed.
- Established **model inventory** and **documentation** as core practices supporting effective model risk management.

SR 26-2 / OCC 2026-13 (2026) — revised position

- States that model governance is supported by **clear policies** and **effective controls**, and that its nature and sophistication are informed by the extent and sophistication of model use and the size and complexity of the organization.
- Frames **internal audit's involvement conditionally, in cases where it is part of the banking organization's MRM practices**, and states that its role is **evaluation** rather than **duplication of development or validation.**
- Describes **model inventory** and **documentation** as common industry practice supporting MRM, while allowing different levels of detail depending on model complexity and model usage.

Key changes

- Compared with 2011, the revised guidance continues to emphasize **policies, controls, inventory, and documentation** as core elements of governance.
- The treatment of **internal audit** becomes more explicitly **conditional**: while **SR 11-7** presented it as a **specific component** of the framework, **SR 26-2** recognizes it as a practice that may form part of an institution's MRM arrangements and, where it does, assigns it an **evaluation role** rather than a duplicative development or validation function.
- The revised text maintains the importance of **clear roles and responsibilities**, including conflicts of interest and oversight of external resources, within the governance framework.

A dedicated section acknowledging proprietary constraints, while maintaining MRM principles

SR 11-7 (2011) — previous position

- Addressed **vendor and other third-party products** within the broader validation framework, with the expectation that they follow the same MRM principles as in-house models.
- Recognized practical **challenges** in validating vendor products, including limited access to coding and implementation details.
- Placed responsibility on the **using bank to validate its own use of vendor products**, including customization, monitoring, and outcomes analysis.

SR 26-2 / OCC 2026-13 (2026) — revised position

- Dedicates a separate section (**Section VII**) to **vendor and other third-party products**, including data, parameter values, or complete models, and acknowledges that some components may be proprietary.
- States that the principles of **model risk management remain applicable**, including understanding conceptual soundness, design, development data, and performance.
- States that sound practice includes **ongoing monitoring, outcomes analysis**, and appropriate **documentation, justification, and evaluation of customizations** as part of validation.

Key changes

- Compared with 2011, the revised guidance gives **more explicit and standalone treatment** to vendor and third-party products through a dedicated section.
- While proprietary constraints are expressly acknowledged, the revised text states that **model risk management principles remain applicable** to vendor products.
- The using banking organization **continues to bear responsibility** for **understanding, validating, monitoring, and documenting** its use of **third-party models**, including any customizations.

MS has extensive experience in the field of models, leading the end-to-end definition and implementation of MRM frameworks for major financial institutions and supporting supervisors on model risk

- 1. Experience with supervisory bodies.** MS is a "highly rated external service provider" in the area of internal models by different European and American Supervisors. In particular, it has eight framework service agreements with the ECB related to internal models
- 2. Model Risk Management experts.** MS has extensive experience in the re-definition and adaptation of MRM frameworks to new regulations, creation of model catalogue and tiering of models as well as Governance of Artificial Intelligence models.
- 3. MRM tooling.** Our internally developed platform (Gamma®) is a leading platform that is deployed in large Financial Institutions and supports the end to end of model risk management
- 4. Extensive experience in the field of models.** MS supports main G-SII and D-SII in the in the development and independent validation of models (credit risk - IRB, IFRS 9 & CECL, stress testing, market risk, CCR and IRRBB, ALM and liquidity, residual value, economic capital, as well as non risk models) as well as in in the definition of frameworks and guidelines, development of tools, and automation of processes ...
- 5. Specialized team.** MS has a team of more than 1,000 experts in the field of models (modelling, validation, monitoring, MRM,...), combining quantitative and technical expertise with strong regulatory knowledge.

A. Annex II. Abbreviations

Abbreviation	Meaning
AI	Artificial Intelligence
ALM	Asset and Liability Management
BIS	Bank for International Settlements
BSA/AML	Bank Secrecy Act / Anti-Money Laundering
CCR	Counterparty Credit Risk
CECL	Current Expected Credit Losses
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
ECB	European Central Bank
FDIC	Federal Deposit Insurance Corporation
FIL	Financial Institution Letter
FRB	Federal Reserve Board

Abbreviation	Meaning
IFRS	International Financial Reporting Standards
IRB	Internal Ratings-Based Approach
MRM	Model Risk Management
OCC	Office of the Comptroller of the Currency
RFI	Request for Information
SR	Supervisory Letter
SR 11-7	Supervisory Letter 11-7
SR 21-8	Supervisory Letter 21-8
VaR	Value at Risk
xVA	Valuation Adjustments



International
One Firm



Multiscope
Team



Best practice
know-how



Proven
Experience



Maximum
Commitment

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