

Falling Leaves, Rising Regulations

November 6, 2025

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Federal Reserve Finalizes Updates to Its Large Financial Institutions (LFI) Supervisory Ratings Framework

November 6, 2025



By Daniel Meade
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On November 5, 2025, the Federal Reserve Board (“FRB”) **finalized** changes to its supervisory rating framework for large bank holding companies. The finalized LFI framework is substantially similar to the **proposal** issued in July.

The FRB originally issued its LFI ratings framework in 2018, to replace the RFI system for the largest bank holding companies with more than \$100 billion in assets. The RFI ratings are still in place for bank holding companies with less than \$100 billion in assets. The LFI framework includes three components: capital, liquidity, and governance and controls. Each component has four potential ratings: broadly meets expectations, conditionally meets expectations, deficient-1, or deficient-2.

The finalized framework will now consider a firm with no more than one deficient-1 rating to be “well managed.” Consistent with the prior framework, a firm with a deficient-2 rating for any component will continue to be considered not well managed. Firms that are not well managed face limitations on certain activities and acquisitions.

Vice Chair of Supervision Michelle Bowman noted in the accompanying press release that “[b]ank ratings should reflect overall safety and soundness, not just isolated deficiencies in a single component . . . these framework changes address this by helping to ensure that overall firm condition is the primary consideration in a bank’s rating.”

FRB staff noted in their **memo** to the Board that “[t]he vast majority of large financial institutions are well capitalized and have sound liquidity positions and good asset quality. However, approximately 47 percent of large financial institutions are not “well managed” under the current LFI Framework.”

The FRB vote was 6-1, with Gov. Michael Barr dissenting. Gov. Barr released a statement regarding his dissent and noted in closing that “[i]n short, this rule change effectively redefines the term “well managed” in ways that will weaken large bank oversight, reduce large bank accountability, and result in a more vulnerable banking system.”

The FRB’s action is in line with a joint proposal we **reported** on last month by the Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency to eliminate reputation risk from their supervisory programs, in that the FRB’s revised LFI Framework will also not consider reputational risk.

The revisions finalized on Wednesday will take effect 60 days after publication in the *Federal Register* (which may be delayed in light of the government shutdown).

FCA Sets Out Plans To Support Tokenisation and Consults on Rules for Regulated Crypto Asset Activities

November 6, 2025



By Alix Prentice
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On 14 October 2025, the UK's Financial Services Authority ("FCA") published [Consultation Paper 25/28 on "Progressing Fund Tokenisation"](#) (the "CP"), which it claims will be a key component of future financial services. The CP is addressed to authorised funds, where the FCA regulates both the fund and manager, but elements will be of interest to non-authorised funds where only the manager is FCA-regulated.

The FCA's proposals include:

- Guidance on operating tokenised fund registers under current FCA rules through [the UK Blueprint model](#) (the aim of which is the operation of the UK funds industry using distributed ledger technology through the full investment value chain).
- A streamlined, alternative dealing model for fund managers to process buying and selling of units in authorised funds, whether traditional or tokenised.
- A roadmap to advance fund tokenisation and address key barriers like using public blockchains and settling transactions entirely on the blockchain.
- A discussion on how tokenisation models could evolve and how regulation may need to change.

The FCA will review the feedback and develop final regulatory requirements for publication in a Policy Statement, expected in the first half of 2026.

This consultation follows hot on the heels of another published on 17 September 2025, in the which FCA seeks feedback on its proposals on the minimum standards that crypto asset firms will be required to comply with. Unsurprisingly these minimum standards mirror many requirements for traditional financial firms, including those relating to operational resilience and systems and controls to prevent financial crime. The FCA is also seeking feedback on the extent to which consumer protections applying to securities should apply to crypto, in particular those under the Consumer Duty the ability to seek redress from the Financial Ombudsman Service. For our note on this consultation see [here](#).

The FCA is expected to publish rules on both counts during 2026.

The UK'S Prudential Regulation Authority Publishes Near Final Rules Affecting Capital Treatments for SRTs

November 6, 2025



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Cadwalader attorneys Alix Prentice and Assia Damianova have authored a Client & Friends memo, “The UK’S Prudential Regulation Authority Publishes Near Final Rules Affecting Capital Treatments for SRTs,” which discusses the UK Prudential Regulation Authority’s (“PRA”) recent rules impacting capital treatments for significant risk transfers (“SRTs”).

The memo examines a recent near-final policy statement issued by the PRA that modifies the approach to the calculation of capital requirements for securitisation exposures and clarifies the rules on the use of unfunded credit protection in synthetic securitisations.

Read the memo [here](#).

Cadwalader Hosts 9th Annual Finance Forum

November 6, 2025



Over 800 financial industry leaders and professionals from around the country participated in Cadwalader's ninth annual Finance Forum in Charlotte last week! It was great to meet all together for a day of networking and insightful discussions on the latest market trends and opportunities across various sectors, including commercial real estate, fund finance, leveraged finance, middle market lending, private credit, securitization and structured finance.

Key takeaways from some of the panels include:

SRTs / CRTs for U.S. Banks - Perspectives from Advisors, Investors and Issuers

Jed Miller led a panel that consisted of **Bill Fedyna**, Global Co-Head Structured Products, Stifel, **John McWhorter**, Chief Financial Officer, Third Coast Bank, **Robert Lewin**, Managing Director, Tokio Marine, **Adam Glassner**, Managing Director, Bayview Asset Management, and **Olivia Allin-Viviano**, Vice President, Morgan Stanley. Key takeaways include:

- The SRT market is expected to (continue to) experience robust growth in 2026
- In particular, more regional banks are expected to enter the SRT market, including by using cash SRTs designed to manage CRE and construction loan concentration limits
- Changes to the bank regulatory capital rules in the US and in the UK are not expected to diminish the use by banks of SRTs as capital management tools
- Mezzanine capital will continue to play an important role in US SRT and will take many forms, including the use of SRT back-leverage structures, tranching, ratings and the use of insurance capital
- First-time issuers should be aware of the workstreams involved in operationalizing SRT transactions, with a particular focus on interfacing with regulators, reporting, designing a reference portfolio, and creating processes for declaring credit events and calling for credit protection

Bank Regulation and Capital Optimization Demystifying Risk

Dan Meade led a panel that included **Jennifer Bearden**, Senior Director of the International Association of Credit Portfolio Managers (IACPM), **Noah Cuttler**, Head of U.S. bank regulatory Policy for Barclays, and **Jen Knox**, bank regulatory counsel at Wells Fargo. Key takeaways include:

- Level-setting of prudential bank regulatory goals and capital adequacy rules

- How risk-weights assigned to assets on a bank's balance sheet impact pricing of various finance products
- How banks can approach capital optimization of their balance sheet
- The panel noted, much like an issuance from the uniform law commission, Basel standards are the starting point but require implementation in each jurisdiction
- The panel discussed the 2023 US proposal of the Basel III Endgame and its demise, and the likelihood of US Regulators re-proposing a rule soon
- The moderator asked panelists what their expectations are for what a U.S. Basel III Endgame proposal will look like and their wish lists.
- There was a consensus amongst the panel that a re-proposal is likely closer to capital neutral than the 2023 proposal.

Read more key takeaways from the various finance forum panels [here](#).