



INSIGHTS: SR 26-02 FOR MRM AND AI RISK GOVERNANCE

What Changes, What It Means For Governance Leaders, and How to Capture Speed Without Sacrificing Defensibility.

Prepared by:

**Alberto Ramirez
Kannan V.**



US | UK | MENA | APAC | CA



www.solytics-partners.com



+ 1 646 822 3440



A Concise View of What SR 26-02 Changes

SR 26-02 is not just another regulatory update; it redefines how decision-making is governed. It shifts Model Risk Management (MRM) from a compliance obligation to a level for speed, scalability, and competitive advantage. The new guidance builds on the foundations established by SR 11-7 and cannot be read in isolation from it. What it adds is a clearer signal on proportionality: governance depth should reflect the risk a model carries.

What it means to financial institutions: Models with material consequences deserve rigorous scrutiny. Those with limited impact can be managed more efficiently, provided the rationale is documented and the classification is defensible. For banks, this is not a permission slip to do less, it is a shift in where effort belongs. It creates a genuine opportunity to simplify oversight of mid and lower-tier models, redirect validation capacity toward the decisions that matter most, and introduce automation and monitoring where manual processes have historically added time without adding value.

The institutions that read this shift correctly will not just have leaner MRM governance programs. They will have more effective ones.

“ Advantage will come from rethinking governance, aligning rigor to risk, simplifying what does not matter, and focusing expertise where it truly does. Automation and monitoring.

By leaving Generative AI and Agentic AI outside its scope, SR 26-02 places the governance burden directly on institutions. Those that build internal frameworks now, without waiting for regulatory prescription, will deploy with confidence and move at the pace the technology demands. Those that wait will build governance reactively, under pressure, and to a standard set by someone else.



Immediate implications:

<p>MRM Governance Can Become Cheaper</p> <p>1</p>	<p>Model Deployment Can Become Faster</p> <p>2</p>	<p>MRM Practices Divergence</p> <p>3</p>
<p>Banks can reduce low-value reviews, automate oversight and monitoring for low-materiality models, and focus expert resources on the decisions that matter most.</p>	<p>By aligning governance effort with model materiality, institutions can accelerate approvals and remove friction from model and AI deployment.</p>	<p>Institutions that move decisively and act now will enhance speed, efficiency, and responsiveness, while slower peers remain limited by legacy bottlenecks.</p>

Redefine Board & Audit Engagement in MRM 4	Monitoring Automation 5	Conditional Deployment 6
<p>SR 26-02 reduces prescription around Board and Audit involvement, creating an opportunity for institutions to redesign oversight that is more purposeful, risk-focused, and directly linked to consequential decisions.</p>	<p>SR 26-02's proportionality principle creates a clear mandate to automate monitoring and documentation for lower-materiality models, freeing expert capacity for higher-risk models or systems.</p>	<p>SR 26-02 creates a formal pathway to deploy models before validation is complete, replacing rigid checklists with judgment-based governance that requires documented rationale, defined authority, and controls.</p>

How Proportionality Can Reduce Cost And Cycle Time

The introduction of proportionality is among the most important shifts in SR 26-02. Building on SR 11-7 foundations, it sends a clear signal that governance depth should reflect the risk a model actually carries. High-impact models deserve rigorous validation. Lower-materiality models can be managed more efficiently, with streamlined oversight and greater automation, provided the rationale is documented and defensible.

This is a strong risk management approach. But in practice, proportionality only works if the underlying materiality logic is solid. Most banks still use tiering frameworks built for SR 11-7, designed to satisfy examiners, not truly reflect risk. Now, rebuilding these into clear, defensible, risk-based frameworks is critical infrastructure.

Where Proportionality Can Go Wrong

- **Inventory Rationalization Without Rigor:** As model scope narrows, some tools may fall out of oversight. Done well, this focuses effort on real risk. Done poorly, it creates hidden blind spots that surface only after damage is done.
- **Materiality as a Shield, Not a Framework:** Flexibility can be misused to downplay risk. Models may be labeled "Low Materiality" to cut cost or effort, not because the risk truly justifies it.
- **Proportionality Used to Avoid Challenge:** With fewer strict requirements on independent validation and Board/Audit involvement, effective challenge can weaken, gradually and without clear intent.

The mandate extends beyond refining model risk management - it is about structurally reducing control costs and redirecting expert capacity to high-impact areas. Materiality enables a transition from standardized validation to proportionate, risk-based rigor.

SR 26-02 elevates the role of continuous monitoring and outcomes analysis, particularly for lower-materiality models. At the same time, model inventory becomes a strategic asset, enabling visibility into concentration, interdependencies, and aggregate risk.

Gen AI & Agentic AI: A Deliberate Deferral

SR 26-02 explicitly excludes Generative AI and Agentic AI from its formal scope. This is described as a deferral, not an exemption. SR 26-02 does not govern AI directly, but its proportionality principle carries a clear implication: governance that is well-designed and risk-calibrated enables faster deployment, not slower. Third-party and vendor models remain a significant risk source regardless of regulatory scope, requiring clear understanding, rigorous validation, and continuous monitoring.

Banks and insurers that embed scalable governance across monitoring and automation for AI from the outset will move with greater confidence and speed than those that assemble controls under pressure at the point of deployment.

Takeaway

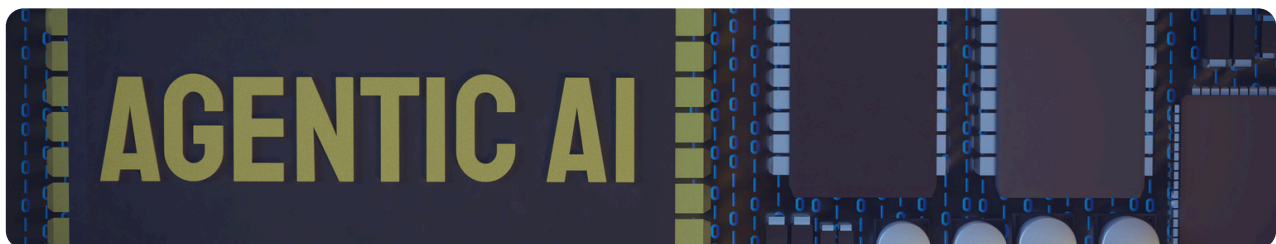
Entities operating across multiple jurisdictions face materially different regulatory expectations. SR 26-02 is among the least prescriptive model risk frameworks globally. The risk of adhering to the least restrictive standard is real. Many globally active institutions will need to reconcile SR 26-02 with SSI/23, the EU AI Act, or guidance with stricter requirements.

The regulatory silence on GenAI and agentic AI does not mean institutional accountability is absent. It means institutions must define their own governance frameworks without the benefit of regulatory prescription. Financial institutions are already deploying large language models and agentic systems across credit decisioning, fraud detection, KYC, customer service, and autonomous workflows.

The governance obligation does not wait for the rulebook.

- The EU AI Act imposes binding requirements for high-risk AI on institutions operating in relevant jurisdictions, with significant compliance consequences already in effect.
- PRA SSI/23 takes a more prescriptive approach than SR 26-02 and constitutes the effective governance floor for UK-regulated entities and globally active institutions operating in that market.
- OSFI E-23 sets out Canadian supervisory expectations for model risk management that apply to federally regulated financial institutions, with explicit attention to AI and machine learning, making it one of the more forward-looking frameworks currently in force.
- Institutions waiting for a bespoke AI regulatory framework before acting are already behind the risk curve. Internal governance should reflect actual risk exposure, not regulatory timing.

Advantage will come from rethinking governance, aligning rigor to risk, simplifying what does not matter, and focusing expertise where it truly does.



MYTH	REALITY
SR 26 – 02 Relaxes Model Validation Requirements	Validation is still required. SR 26-02 emphasizes a risk-based and proportional approach. Higher materiality models require more robust validation and oversight.
You can Eliminate Independent Validation Teams.	Effective challenge remains a core expectation with expertise, independence, and influence to drive appropriate action.
Monitoring can be Replaced by Periodic Checks.	Ongoing monitoring is essential and strengthened. It includes tracking deterioration, changes in products, clients, data market conditions, and triggers for overlays or redevelopment.
Automation Means Governance can be Reduced	Automation is an enabler, not a substitute. Accountability, oversight, documentation, remediation, and effective challenge remain non-negotiable
Low-risk Models Need No Validation	All models require appropriate controls. Lower-risk models may have simplified validation and monitoring, never no controls.
Vendor Models Reduce Our Responsibility	Organizations remain responsible for validating and monitoring vendor and third-party models even with propriety.
Gen AI and Agentic AI are Excluded, So Governance is Unnecessary	They are out of scope today because they are rapidly evolving, but organizations should still apply appropriate governance and risk management principles.

WHAT SR 26-02 DELIVERS

Strong Principles. Smarter Execution. Better Outcomes.

Risk-based Flexibility | Stronger Oversight | Continuous Monitoring | Clear Accountability
| Better Decisions | Clear Accountability

Financial Crime Compliance (FCC) Models Under SR 26-02

Standard rule-based FCC models fall outside SR 26-02's formal scope under its narrowed model perimeter. However, exclusion from scope does not mean exclusion from oversight, given the material regulatory consequences of financial crime compliance, institutions should maintain monitoring programs for these models and retain the discretion to validate them where regulatory exposure warrants it. ML-based FCC models remain fully within scope, governed under SR 26-02's materiality-tiered framework with validation depth proportionate to their risk. FCC is a domain where under-governance carries significantly greater risk than proportionate oversight.

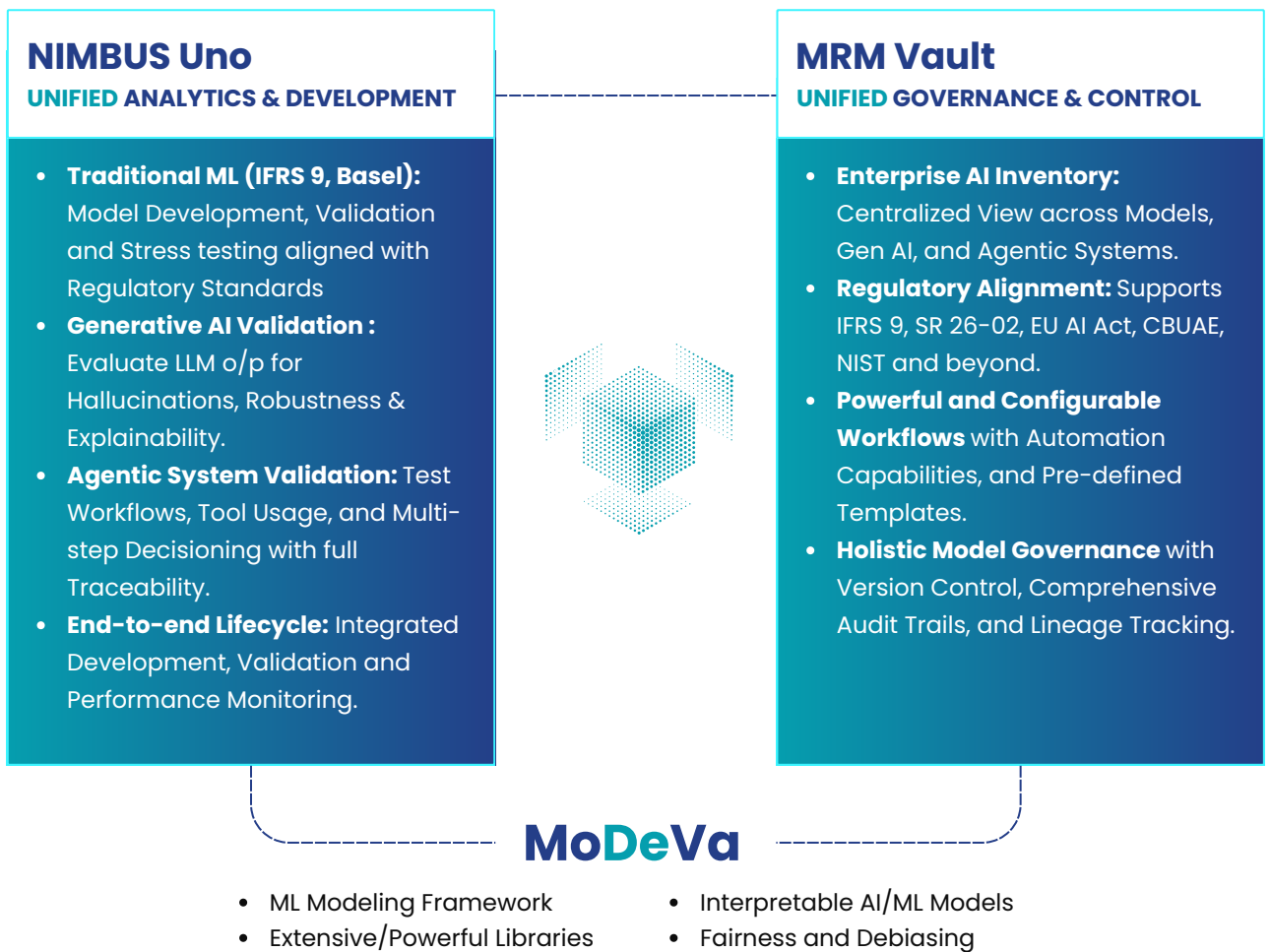
Our Take: One Platform For Every Model

Capturing the SR 26-02 opportunity requires more than policy interpretation; it demands an operating model for risk-based governance, one that can implement materiality-driven workflows, automate low-value oversight, support continuous monitoring, and provide enterprise-level visibility across traditional ML, Generative AI, and Agentic AI in a single control plane.

NIMBUS Uno™ and MRM Vault™ are that platform. Deployed at financial institutions across North America, Europe, the Middle East, and Asia-Pacific, they reduce the cost of control while improving speed, consistency, and defensibility.

<p>MONITOR AND AUTOMATE</p>  <p>Low-code/No-code Analytics and AI Platform</p>	<p>OVERSIGHT</p>  <p>Simplified Model and AI Governance</p>
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Unified AI System Orchestration and Modeling



NIMBUS Uno	MRM Vault
<p>Data Ops End-to-end Data Pipelines supporting ML, Gen AI, and Agentic Systems</p>	<p>Inventory Management Centralized Lifecycle Management across all AI Systems</p>
<p>ML Ops CI/CD Pipelines for Models, LLMs, and Agent Workflows</p>	<p>AI/ML/LLM CGovernance, Explainability, Bias Detection, and Regulatory Alignment</p>
<p>Modeling Statistical and AI/ML, and Gen AI Model Validation</p>	<p>Vault Bot LLM Model Retained on Model Metadata</p>
<p>Data Ops End-to-end Data Pipelines supporting ML, Gen AI, and Agentic Systems</p>	<p>New Usecases Extensible Workflows for AI Governance, Compliance, and Automation</p>

Acceleration Starts Now

SR 26-02 does not reduce the importance of governance. It changes what good governance is for. It is no longer just about satisfying supervision. It is about increasing deployment speed, improving operating leverage, and creating the confidence to scale AI ahead of competitors.

The question is not whether to respond - it is how fast institutions can adapt. For executives, the priority is clear: is governance fast, scalable, and defensible enough for the next wave of model and AI competition?

READY TO TURN SR 26-02 INTO A COMPETITIVE ADVANTAGE?

Speak with our team to see how NIMBUS Uno™ and MRM Vault™ modernize your governance operating model.

Book a Demo - www.solytics-partners.com

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Appendix 1: What Changed Under SR 26-02

DIMENSION	SR 11-7 (2011)	SR 26-02 (2026)	Implication
Scope	All Models Governed Uniformly	Distinguishes models from non-models; narrower perimeter; \$30B+ asset threshold for formal applicability	Classification rigor becomes the new entry gate; inventory design must support a model/non-model distinction.
Validation Rigor	Uniform Validation Cycles Regardless of Risk	Tiered by materiality - depth of review proportional to model impact and risk exposure	Materiality tiering becomes the routing key for validation depth and cadence.
Effort focus	Process-centric Documentation	Outcomes, ongoing monitoring, and effective challenge	Centre of gravity shifts from documentation completeness to outcome evidence.
Cost Model	High, Structural, Fixed Governance Overhead	Re-deployable - concentrate cost where it adds value	Governance spend follows materiality and strengthens the platform ROI narrative.
AI/GenAI	Outside scope; Treated Ad-hoc	Explicitly deferred - governance burden placed on institutions; existing risk practices should still apply	Banks must extend existing MRM to AI/Gen AI on their own judgment; forward-looking design lift.
Inventory	Record Keeping Exercise	Foundation for enterprise-level visibility and exposure	Inventory elevated from register to decision, support system core to the MRM platform.
Independence	Structural Independence (Org Chart Separation)	Substantive independence - quality of challenge demonstrated through documentation and outcomes	RBAC alone insufficient; challenge artefacts must be captured as evidence.
Enforceability	Non-compliance Triggers Supervisory Criticism	Non-compliance alone does not trigger supervisory criticism; principles-based, judgment-led	Flexibility in "how" to comply, but banks must defend the "why" of design choice.
Ongoing Monitoring	Periodic, Often Annual Cycles	Continuous monitoring throughout lifecycle; outcomes alignment with real-world observations	Monitoring shifts from event-based to lifecycle embedded; annual attestation alone is insufficient.
Board/Audit Role	Board and Audit Involvement Explicit	Board and Audit involvement reduced or absent - a notable governance gap	Banks must define Board/Audit oversight in internal policy rather than rely on regulatory prescription.

Appendix 2: How NIMBUS Uno + MRM Vault Operationalize SR 26-02

Every major shift in SR 26-02 has a direct operational answer in the Solytics Partners Ecosystem:

SR 26-02 REQUIREMENT	SOLYTICS PARTNERS SOLUTION
Materiality-tiered Governance	Configurable materiality tiers in MRM Vault – high-impact models routed to full validation; low-risk models to automated oversight
Automated Documentation	Document Engine in NIMBUS Uno generates SR 26-02 compliant model docs, validation reports, and regulatory evidence at every lifecycle stage
Ongoing Monitoring Over The Cycle	Real-time performance, drift, and stability monitoring across the full portfolio – continuous, not periodic
Model vs. Non-model distinction	Inventory logic in MRM Vault distinguishes models from tools and non-models, narrowing the governance perimeter to actual risk
Vendor/Third-party AI	Copilot Governance Module – register, benchmark, monitor, and produce evidence packs for vendor AI tools your bank already uses
Enterprise Portfolio Visibility	360° Inventory with full lineage, dependency mapping, and aggregate exposure reporting across all model families

For leaders responding to SR 26-02, the goal is not just compliance; it's a governance operating model that is faster, risk-aligned, and defensible. NIMBUS Uno™ and MRM Vault™ help institutions reduce control costs, improve time-to-decision, and scale oversight across traditional models, ML, and AI.

- Accelerate approvals by routing work based on materiality (deep review where it matters; streamlined oversight where it doesn't).
- Lower governance overhead through automation of documentation, evidence capture, and recurring monitoring tasks.
- Create enterprise visibility with a single inventory and lineage view across model families, vendors, and decision workflows.
- Strengthen defensibility with built-in challenge workflows, audit-ready artefacts, and lifecycle monitoring.

Suggested Next Steps:

1. Align on your model/non-model perimeter and materiality tiers.
2. Identify 3–5 priority use cases to pilot proportional governance.
3. Stand up monitoring and evidence packs that supervisors and internal audit can rely on.

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