



Key Trends in Core Banking This Week

S34-2026-BNK • Reporting Period: August 17 - 23, 2026

Stablecoin Custody Moves Inside the Federal Banking Perimeter. On August 14, the OCC granted preliminary conditional approval for World Liberty Trust Company, a national trust bank that would bring issuance, redemption, and reserve custody of the USD1 stablecoin, currently the fourth-largest stablecoin, with roughly \$4 billion in circulation, under direct federal supervision. As a trust charter, the bank would not take deposits, carry FDIC insurance, or hold a Federal Reserve master account; approval instead consolidates functions currently split across external custodians into a single OCC-examined entity. This extends the stablecoin funding question raised in FARO S32, where the stalled CLARITY Act left unresolved whether yield-like stablecoin incentives could pull deposits from regulated banks. The World Liberty approval answers a narrower but related question: regulators are now willing to bring large stablecoin issuers inside the same supervisory perimeter as banks, rather than treating them as adjacent to it. For banks, the precedent matters more than any single issuer's market share. If federally supervised trust charters become the standard route for stablecoins, the line between bank-grade custody and crypto-native infrastructure narrows, and deposit disintermediation becomes a supervised phenomenon rather than only a competitive one.

FRTB Boundary Guidance Signals a Pragmatic Supervisory Line into 2027. On August 3, the EBA issued a no-action letter advising national supervisors not to prioritize enforcement of the boundary between trading and banking books until the earlier of 2029 or a clarifying CRR amendment, alongside technical guidance on FRTB implementation from January 1, 2027. The letter does not relax capital requirements; it buys transition time for banks reclassifying positions under the new market-risk framework. The signal is about supervisory posture, not capital relief. By granting forbearance on the boundary question while holding the main FRTB timeline, the EBA is distinguishing between rules that are settled and mechanics still being worked out in practice, a distinction that matters more as banks fold increasingly complex technology and infrastructure exposures into both books. Market-risk governance, not only market-risk capital, is becoming the object of supervisory attention.

AI Risk Is Becoming Infrastructure Risk. Over the past several weeks, European and U.S. supervisors have converged on the same underlying concern: financial institutions increasingly depend on infrastructure, cloud providers, energy grids, and telecommunications networks that they do not own and cannot fully audit. The FSB's AI Sound Practices consultation, discussed on the insurance page this week, extends the same logic to AI governance more broadly. This continues FARO's own arc: S31 examined AI as a balance-sheet strategy, S32 as a financial-stability concern, and S33 as a financeable asset. What connects the current phase is that supervision is shifting from evaluating banks' AI models toward evaluating the infrastructure ecosystem, cloud concentration, third-party dependency, and offensive cyber capability that make those models function. The question banks now face is no longer only whether their AI is controlled but also whether the infrastructure supporting it is.

“Operational resilience is increasingly determined by the security of infrastructure banks do not own.”

MY TAKE

Two supervisory developments this week, and one broader pattern behind them, share a single theme: **supervision is increasingly following dependency rather than ownership.** Stablecoin custody is being pulled inside the federal banking perimeter; market-risk governance is being distinguished from market-risk capital; and cyber and AI oversight are shifting from institutional controls toward the shared infrastructure beneath them. The operative premise is no longer what an institution owns but what it depends on and cannot control and whether that dependency is mapped before a supervisor or an outage maps it first.

TECH TERM OF THE WEEK: “Infrastructure Dependency Risk”

The risk that a financial institution's operations, controls, or recovery capacity depends on external infrastructure it neither owns nor directly controls, such as cloud platforms, energy grids, telecommunications networks, or widely shared AI models, such that a disruption originating outside the institution can nonetheless produce a material operational or financial loss inside it. Because these dependencies are often invisible in conventional risk mapping, managing this risk requires tracing operational resilience beyond the balance sheet into the technology and utility ecosystem that sustains it.



Key Trends in Insurance This Week

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Insurers Begin Underwriting the Cloud Itself. On August 13, AIG launched a parametric cloud outage solution, developed with Parametrix, that pays a predetermined amount once cloud service downtime crosses a predefined severity threshold, rather than requiring a conventional loss adjustment. The trigger draws on Parametrix's monitoring of more than 750 data centers and over 9,000 software and technology providers; global cloud infrastructure spending reached \$129 billion in the first quarter of 2026 alone, up 35% year over year.

The product answers the same infrastructure-dependency problem examined on the banking page this week: enterprises, and the insurers covering them, increasingly rely on cloud providers whose internal failure modes are largely opaque to outsiders. A parametric structure sidesteps the need to prove causation or quantify loss after the fact, but it shifts the underwriting question from how much an outage cost the policyholder to how reliable the trigger data is, meaning the insurer's own exposure is now only as sound as a third party's monitoring infrastructure.

EIOPA Board Turnover Reflects a Maturing Supervisory Bench, Not Yet a New Solvency II Phase. On August 13, EIOPA's Board of Supervisors elected Stavros Konstantas of the Bank of Greece to its Management Board, replacing Ante Žigman, who left to become Governor of the Croatian National Bank. The appointment is routine in form; management board seats rotate on a two-and-a-half-year cycle, but it occurs as EIOPA's governance agenda is expanding across Solvency II implementation, DORA oversight, and AI governance coordination at once.

It would be a stretch to read a single board seat as evidence that Solvency II has entered a new implementation phase; the appointment itself does not establish that. What it does confirm is continuity of supervisory leadership at a time when EIOPA's workload is broadening rather than narrowing; it's worth watching for what the reconstituted board does next, not for what this appointment alone represents.

Global Supervisors Converge on AI Governance as a Shared Expectation. On August 6, the Financial Stability Board published the consultation responses to its Sound Practices for Responsible Adoption of AI, submitted by financial institutions and industry groups ahead of the July 22 deadline. The FSB's twelve practices, covering organization-wide AI governance, lifecycle risk management, and third-party and cyber dependencies, are non-binding, but they now sit alongside active initiatives at the NAIC, EIOPA, and the European Supervisory Authorities addressing the same terrain from different jurisdictions.

Individually, none of these initiatives create a binding global standard. Together, they suggest AI governance is moving from a jurisdictional patchwork toward a shared supervisory vocabulary, the same practices, and the same emphasis on human oversight and third-party accountability, echoed across U.S., European, and international bodies. For insurers operating across borders, the practical effect resembles harmonization even without formal mutual recognition: a governance framework built to satisfy one regulator increasingly satisfies the questions asked by others.

“The next competitive advantage may belong less to firms adopting AI first than to those able to demonstrate that it remains governable.”

MY TAKE

Insurance supervision and insurance underwriting are converging on the same insight from different directions. AIG's parametric cloud-outage product prices infrastructure dependency directly into commercial risk transfer, while EIOPA's board continuity and the FSB's published AI consultation responses show supervisors building the framework needed to evaluate how insurers manage that same dependency internally. The open question is no longer whether AI and cloud reliance create insurable and regulatory risk; both are now clearly visible, but whether insurers can demonstrate, with evidence rather than policy language, that they understand where their own infrastructure dependencies reside is the question.

TECH TERM OF THE WEEK: “Supervisory Evidence”

The documented information, testing results, governance records, validation reports, challenge procedures, and operational controls that enable a financial institution to demonstrate to supervisors that regulatory expectations are being met in practice rather than merely described in policy. Effective supervisory evidence transforms governance from a written framework into an observable, verifiable, and repeatable control environment.