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How FSOC Reframed Financial Stability in 2025

By

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Table of Contents

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How FSOC Reframed Financial Stability in 2026

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Executive Summary

- The 2025 FSOC Annual Report represents a decisive shift in U.S. financial stability policy, closely reflecting the deregulatory and growth-oriented priorities of the Trump administration
- FSOC sharply narrows its analytical scope, identifying four strategic priorities for 2026: strengthening the U.S. Treasury market, addressing cybersecurity risks, streamlining supervision of depository institutions, and leveraging artificial intelligence to support financial stability..
- Financial stability is reframed around the twin goals of economic growth and economic security, replacing earlier approaches centered on broad vulnerability mapping and precautionary risk identification.
- Treasury Secretary Scott Bessent positions FSOC as a central actor in advancing "Parallel Prosperity," arguing that excessive regulation can itself become a source of instability by limiting innovation, competitiveness, and market depth.
- The report explicitly moves away from climate-related financial risk analysis and sector-wide systemic vulnerability frameworks that featured prominently in earlier editions.
- Compared with the 2024 report, which catalogued 14 separate risks, the 2025 report emphasizes targeted policy action and presents the U.S. financial system as broadly resilient despite episodes of Treasury market volatility.
- FSOC announces new working groups on market resilience, household resilience, artificial intelligence, and crisis preparedness, including cyber and operational risk.
- On the Treasury market, FSOC supports measures such as buybacks, expanded central clearing, improved repo market data, the Federal Reserve's Standing Repo Facility, and easing leverage constraints on banks to strengthen market liquidity.
- Cybersecurity is elevated as a core financial stability concern, with emphasis on third-party service providers, emerging quantum-related threats, and the use of AI to improve detection, response, and system resilience.
- In banking regulation, FSOC acknowledges the benefits of post-2008 reforms but argues that some capital and supervisory requirements have become unnecessarily burdensome, especially for community banks, and should be streamlined.
- The report adopts a markedly softer tone on crypto assets and stablecoins, reclassifying them as significant market developments rather than systemic vulnerabilities and highlighting growing institutional integration.
- The GENIUS Act is framed as delivering long-awaited regulatory clarity for payment stablecoins, enabling innovation while mitigating financial stability risks and potentially reinforcing the international role of the U.S. dollar.

A Fundamental Shift in Focus

The Financial Stability Oversight Council 2025 Annual Report, published on December 11, marks a clear departure from FSOC's approach in previous years, reflecting the policy priorities of the new Trump administration. The report identifies four areas of focus for 2026: strengthening the U.S. Treasury market, improving cybersecurity, enhancing supervisory and regulatory frameworks for depository institutions, and leveraging artificial intelligence (AI) to support financial stability.

Under Treasury Secretary Scott Bessent, FSOC has shifted away from emphasizing "climate-related financial risks" and broad, sector-wide "vulnerabilities." Instead, the report reframes financial stability around the twin pillars of economic growth and economic security. In his introductory letter, the first to accompany an FSOC annual report since 2011, Bessent sets out his "firm belief" that FSOC should play a central role in advancing the administration's vision of "Parallel Prosperity," in which Wall Street and Main Street expand together. He argues that excessive regulation can itself pose a threat to financial stability by constraining growth, innovation, and competitiveness, and calls for deregulation as a core policy tool.

This reorientation reflects the administration's broader critique of post-crisis regulatory frameworks, which it views as overly burdensome and increasingly counterproductive. Unlike last year's report, which catalogued 14 separate "risks" and "vulnerabilities," the 2025 Annual Report narrows its scope to four strategic priorities, signaling a move away from precautionary risk enumeration toward targeted policy action.

Consistent with this shift, FSOC announces new working groups on market resilience, household resilience, artificial intelligence, and crisis preparedness, including cyber risks. The report deemphasizes systemic vulnerability warnings and instead presents the U.S. financial system as broadly resilient, despite recent episodes of Treasury market volatility.

Overall, the report aligns closely with the Trump administration's deregulation agenda, highlighting regulatory rollbacks by banking agencies and reforms designed to support Treasury market functioning and innovation in areas such as digital assets and AI. It is notably more critical of post-2008 financial regulations, describing many as "more costly than beneficial."

The change has elicited mixed reactions. Democrats and financial watchdogs warn that the new approach risks weakening oversight, while industry groups have welcomed what they see as a more pragmatic, growth-oriented framework for safeguarding financial stability.

Key Areas of Focus

FSOC FSOC highlights the U.S. Treasury market as the world's deepest and most liquid, with nearly $1 trillion in daily trading and a central role in global finance. Recent bouts of volatility, including an April 2025 liquidity shock, revealed fragilities. To bolster market resilience, FSOC supports Treasury buybacks, the Federal Reserve's Standing Repo Facility, easing leverage constraints on banks to support market-making, expanded repo market data collection, and broader central clearing.

The report also emphasizes rising cyber risks—from state-backed actors to ransomware and fraud—and calls for stronger oversight of third-party service providers, particularly for smaller institutions. It flags emerging quantum-related threats to cryptography and encourages the use of AI to enhance cyber defense, incident response, and system resilience.

On banking regulation, FSOC acknowledges that post-2008 reforms improved resilience but argues that some rules have become unnecessarily burdensome, especially for community banks. It recommends streamlining capital standards, reducing regulatory costs, and refocusing supervision on material financial risks.

FSOC treats artificial intelligence as both a risk and an opportunity. The report highlights AI's potential to improve financial services, supervision, fraud detection, and market monitoring, while stressing the need for safeguards against misuse and systemic vulnerabilities.

To operationalize these priorities, FSOC will establish new working groups on market resilience, household resilience, and AI. The market group will assess whether regulations distort key markets such as U.S. Treasuries;

the household group will monitor stress related to credit access and housing; and the AI group will examine both the stability risks and resilience benefits of AI, including its use by regulators.

Overall, the report portrays financial markets as broadly stable. Risks in short-term funding and commercial real estate have moderated, activity in digital assets has grown, bank balance sheets remain solid, loan growth and M&A activity have increased, and delinquency rates remain low.

What the Report Says About the GENIUS Act, Stablecoins, and Tokenization

The FSOC's 2025 annual report marks a clear softening in its stance toward crypto assets and stablecoins, abandoning much of the systemic-risk language that defined earlier editions. This shift reflects both new federal regulation, most notably the GENIUS Act, which brings payment stablecoins under a unified federal framework, and a broader political reorientation toward digital assets under President Trump.

The change is substantive rather than cosmetic. The term "vulnerability" disappears entirely from the report's structure, with digital assets reclassified as a "significant market development to monitor." Crypto is no longer framed as a potential contagion channel, but as a growing sector increasingly integrated into the financial system through spot Bitcoin and Ethereum ETFs, asset tokenization, and expanding institutional participation.

This represents a reversal of earlier positions. FSOC's 2022 report, issued under President Joe Biden's Executive Order 14067, warned that crypto activities could threaten U.S. financial stability. The 2024 report went further, characterizing dollar stablecoins as acutely vulnerable to runs. By contrast, the 2025 report explicitly notes that regulators have withdrawn prior broad warnings to banks and even suggests that the expansion of dollar-denominated stablecoins could support the dollar's international role.

The reframing is reinforced by coordinated policy actions across government. President Donald Trump revoked Biden's crypto executive order and replaced it with a policy explicitly supporting the responsible growth of digital assets while ruling out a U.S. central bank digital currency. Congress followed by passing the GENIUS Act, which establishes a federal prudential framework for payment stablecoins and addresses the regulatory gaps FSOC had previously identified as a source of systemic concern.

At the agency level, restrictions on bank engagement with crypto have also been eased. The Securities and Exchange Commission rescinded SAB 121, removing a major accounting obstacle for banks providing crypto custody. The Office of the Comptroller of the Currency expanded the scope of permissible crypto intermediation, and several crypto-native firms received preliminary national trust bank charters, bringing them under federal supervision.

Given FSOC's statutory responsibility to assess whether systemic risks are being adequately addressed, the removal of crypto from its vulnerability list—alongside stablecoin legislation, bank re-entry, and supervisory rollbacks—signals a coordinated de-escalation rather than a rhetorical adjustment. FSOC explicitly states that the GENIUS Act provides regulatory clarity that supports stablecoin innovation while mitigating financial stability risks, and notes that banks may engage in activities such as custody, tokenization, and holding stablecoin reserves, provided they meet safety, soundness, and AML/CFT requirements.

The report nevertheless continues to monitor second-order effects. Because the GENIUS Act requires stablecoins to be fully backed by high-quality liquid assets, often U.S. Treasury billsFSOC is assessing how rapid growth in stablecoin issuance could increase demand for short-term Treasuries, with potential implications for market liquidity and resilience. Even so, the Act is framed as a stabilizing force that delivers "long-awaited clarity" by bringing stablecoins under consistent federal and state oversight, removing a key source of regulatory uncertainty.

Compared with prior reports, the 2025 edition no longer foregrounds run risk, market concentration, or contagion from stablecoins, marking a decisive departure from the more alarmist tone of previous years. Instead, digital assets are increasingly treated as financial infrastructure to be governed through standard prudential and conduct rules.

Beyond stablecoins, the report positions the GENIUS Act as a catalyst for broader asset tokenization. It implicitly treats regulated payment stablecoins as the “cash rail” required for traditional financial institutions to tokenize real-world assets such as bonds or money-market funds. In this framing, digital assets and tokenization are no longer viewed primarily as risks to be contained, but as innovations to be harnessed in support of economic security—fully aligned with the administration’s ambition to make the United States the global leader in digital assets.

Conclsuion

The 2025 FSOC Annual Report signals more than a shift in regulatory emphasis; it marks a redefinition of how U.S. financial stability is understood and governed. By moving away from expansive vulnerability mapping and toward a growth-centric framework anchored in “economic security,” the Trump administration reframes financial stability as a function of productive capacity, market depth, and regulatory restraint rather than precautionary risk containment.

At the same time, this new approach raises important questions. By narrowing its definition of vulnerability, FSOC implicitly places greater reliance on ex post supervision and market discipline, increasing the stakes of regulatory judgment when stress emerges. The emphasis on “Parallel Prosperity” assumes that deregulation and growth will remain mutually reinforcing. Yet repeated episodes of financial crisis—from pre-2008 deregulation to more recent market dislocations—suggest that this assumption often breaks down precisely when it matters most, as shocks amplify risk transmission, overwhelm supervisory capacity, and expose coordination failures that deregulation leaves unresolved.

The report also reframes financial stability through the lens of economic security, explicitly linking domestic production capacity and reliable access to critical global resources to national financial stability. In doing so, it departs from the earlier, more globalist regulatory perspective and advances a more protectionist, resilience-oriented framework that treats supply chains, industrial capacity, and strategic autonomy as core components of financial stability.

Ultimately, the 2025 report reflects confidence that the existing supervisory toolkit is sufficient to manage today’s increasingly complex and interconnected financial system. Whether that confidence is well placed will depend less on rhetoric than on outcomes. Future stress episodes—rather than policy declarations—will determine whether the abandonment of vulnerability-driven oversight represents a durable evolution in financial governance or a recalibration that proves fragile under pressure.