[DISCUSSION DRAFT]

119TH CONGRESS
1ST SESSION

H. R. ____

To require the clarification and modernization of certain guidance relating to model risk management, and for other purposes.

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IN THE HOUSE OF REPRESENTATIVES

M__. _____ introduced the following bill; which was referred to the Committee on _____

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A BILL

To require the clarification and modernization of certain guidance relating to model risk management, and for other purposes.

1   *Be it enacted by the Senate and House of Representa-*

2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4   This Act may be cited as the ''Model Risk Manage-

5 ment Modernization Act''.

SEC. 2. MODERNIZATION OF GUIDANCE RELATING TO MODEL RISK MANAGEMENT.

(a) REVIEW AND CLARIFICATION.—Not later than 1 year after the date of the enactment of this Act, the prudential regulators shall clarify model risk management guidance with respect to models making substantial use of artificial intelligence by issuing or revising guidance, as appropriate, based on the considerations described in subsection (c) and such other considerations as the prudential regulators determine appropriate.

(b) NOTICE AND COMMENT.—In the case of the guidance issued or revised pursuant to subsection (a), the prudential regulators shall provide a notice and comment procedure for a proposed rule under section 553 of title 5, United States Code.

(c) CONSIDERATIONS.—

(1) SCOPING.—For purposes of appropriately scoping the guidance issued or revised under subsection (a), with respect to models making substantial use of artificial intelligence, the prudential regulators shall consider the following:

(A) CLASSES OF AI.—Any material distinctions between and among classes of artificial intelligence methodologies and technologies, including—

1   (i) AI architectures, including deep

2   learning, neural network, and rule-based

3   architectures;

4   (ii) training paradigms, including su-

5   pervised, unsupervised, and reinforcement

6   learning (including reinforcement learning

7   with human feedback);

8   (iii) system types, including retrieval

9   augmented generation, agentic, and multi-

10   agent systems;

11   (iv) output types, including quan-

12   titative and qualitative outputs; and

13   (v) capabilities, including generative

14   and predictive capabilities.

15   (B) APPLICATIONS.—How artificial intel-

16   ligence is applied in connection with such mod-

17   els, including—

18   (i) whether and to what extent the ar-

19   tificial intelligence is used in connection

20   with model design, model inputs, model

21   processing, generation of model outputs,

22   interpretation of model outputs, model val-

23   idation, and model governance;

24   (ii) whether and to what extent the

25   artificial intelligence or the model is de-

4

1 signed, developed, provided, or maintained

2 by a third-party; and

3 (iii) how such models are used in con-

4 nection with the functions and operations

5 of an institution.

6 (C) BENEFITS.—The benefits afforded by

7 such models, including whether and to what ex-

8 tent the use of such models offers benefits re-

9 lated to regulatory compliance, risk assessment

10 and mitigation, access to financial products and

11 services, reducing the costs of financial prod-

12 ucts and services, enhancing the functionality

13 or quality of financial products and services,

14 and enhancing forecasts, analysis, strategy, and

15 decision-making.

16 (D) RISKS.—The risks posed by such mod-

17 els, including whether and to what extent the

18 use of such models poses risks related to con-

19 sumer protection, data security, institutional re-

20 silience, systemic risk, safety and soundness of

21 the institution, and financial stability.

22 (2) TAILORING.—For purposes of appropriately

23 tailoring the guidance issued or revised under sub-

24 section (a), based on the factors identified under

25 paragraph (1), the prudential regulators shall con-

1 sider, with respect to models making substantial use

2 of artificial intelligence, the following:

3   (A) EXCEPTIONS.—Whether to exempt

4   under such guidance certain low-risk applica-

5   tions of artificial intelligence in relation to such

6   models.

7   (B) MODULATION AND CALIBRATION.—

8   How to appropriately modulate and calibrate

9   such guidance, including with respect to—

10   (i) thresholds for acceptable levels of

11   error;

12   (ii) the frequency of ongoing moni-

13   toring, testing, and policy updates;

14   (iii) the frequency and independence

15   of validation, stress testing, and sensitivity

16   analysis;

17   (iv) the necessity of model adjust-

18   ment, recalibration, or redevelopment in

19   relation to error thresholds;

20   (v) the rejection, or degree of limita-

21   tion, of an application of such models;

22   (vi) the degree and nature of compen-

23   sating controls, including, where applica-

24   ble, model challenges, understanding and

25   accounting for model uncertainty, output

1 supplementation and de-emphasis, capital
2 cushions, and systems and processes re-
3 lated to the expert and interpretive judg-
4 ment of users;

5 (vii) the degree and nature of report-
6 ing and documentation, including of any
7 model deficiencies, assumptions, and limi-
8 tations; and

9 (viii) the degree and nature of govern-
10 ance oversight.

11 (C) OBLIGATIONS.—Third-party risk man-
12 agement obligations, including with respect to—

13 (i) vendor selection and due diligence;

14 (ii) responsibility for testing, valida-
15 tion, monitoring, documentation, and re-
16 porting;

17 (iii) the ability to rely on representa-
18 tions of a vendor;

19 (iv) contingency planning; and

20 (v) implementation of compensating
21 controls.

22 (D) RISK REDUCTION.—Regulatory prin-
23 ciples that prioritize outcomes that reduce net
24 risk.

1   (d) VALIDATION.—Unless otherwise required by ap-

2 plicable Federal law, the prudential regulators shall not

3 treat explainability of a model making substantial use of

4 artificial intelligence as a prerequisite to use of such model

5 where such use is otherwise consistent with the guidance

6 issued or revised under subsection (a), including by means

7 of appropriate validation (including output- and outcome-

8 based validation) and compensating controls.

9   (e) DEFINITIONS.—In this section:

10   (1) ARTIFICIAL INTELLIGENCE.—The terms

11   "artificial intelligence" and "AI" have the meaning

12   given the term "artificial intelligence" in section

13   5002 of the National Artificial Intelligence Initiative

14   Act of 2020 (15 U.S.C. 9401).

15   (2) PRUDENTIAL REGULATORS.—The term

16   "prudential regulators" means the Board of Gov-

17   ernors of the Federal Reserve System, the Office of

18   the Comptroller of the Currency, the Federal De-

19   posit Insurance Corporation, and the National Cred-

20   it Union Administration.