

OMB Proposes Major Overhaul of Federal Grant Rules: What Grant Recipients Need to Know

Client Alerts

June 5, 2026

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On May 29, 2026, the Office of Management and Budget (OMB), joined by federal grantmaking agencies, issued a lengthy proposed rule^[1] covering many aspects of federal financial assistance, including:

- A new process that would require political appointees to approve grants;
- The incorporation of the policy priorities announced in the administration’s executive orders on DEI and “gender ideology”;
- An expansion of the list of factors that agencies use to evaluate applicant risk to include “an applicant’s affiliations with organizations engaged in activities that violate Federal law, undermine public safety or national security, or advocate for the overthrow of the United States Government” and the applicant’s compliance with reporting requirements under Section 117 of the Higher Education Act; and
- A more standardized authorization for agencies to terminate grants due to changed “agency priorities.”

Background

The proposed rule has been expected since last summer, when President Trump signed Executive Order 14332, *Improving Oversight of Federal Grantmaking*, 90 Fed. Reg. 38,929 (Aug. 7, 2025).^[2] That order directed OMB to update the Uniform Guidance in various ways, including among other changes, to implement a new process requiring political appointees to review all funding opportunities and discretionary grants to ensure consistency with “agency priorities,” require termination-for-convenience clauses in all federal grants, and limit the payment of indirect costs (i.e., facilities and administrative costs) for research grants.

Key Takeaways from the Proposed Rule

The proposed rule is extensive and covers a wide range of topics related to federal financial assistance. Below are some major takeaways.

- **DEI and “Gender Ideology” Executive Orders and Guidance:** OMB seeks to effectively codify the policy priorities announced in this administration’s executive orders and other guidance on DEI, “gender ideology,” and gender-affirming care for minors (defined in the proposed rule as individuals under the age of 19).
 - Specifically, under the proposed rule, agencies “must ensure” awards are not used to “fund, promote, encourage, subsidize, or facilitate” “DEI . . . policies, principles, or practices that violate any applicable Federal anti-discrimination laws,” “Gender ideology,” or “[t]he so-called ‘transition’ of a child under 19 years of age from one sex to another.”
 - With respect to DEI, OMB makes clear that the scope of the prohibition is coextensive with applicable law—specifically “governing legal standards under applicable anti-discrimination laws as interpreted in light of controlling Supreme Court precedent.”
 - The proposed rule also invokes the July 2025 DOJ guidance as an important source for grant recipients to consult for anti-discrimination law principles and “illustrative examples.”^[3] Consistent with that guidance, the text of the rule emphasizes that “activities where race or intentional proxies for race will be used as a selection criterion for employment or program participation” are prohibited. Among several objectives articulated in the proposed rule, OMB notes that this provision will “further strengthen the government’s rights to recover misused funds or terminate awards based on noncompliance.”
- **Political Appointee Review of Grants:** As directed by Executive Order 14332, OMB proposed to add a “new pre-issuance review process,” by which senior political appointees must sign off on all funding proposals.
 - The proposed process includes specific political alignment criteria, the incorporation of benchmarks for “Gold Standard Science,” a concept from the May 2025 Executive Order 14303,^[4] an “all else being equal” preference for grantees with lower indirect cost rates, and an anti-prestige provision directing agencies to “prioritize an institution's commitment to rigorous, reproducible scholarship over its historical reputation or perceived prestige.”
 - OMB's proposal also characterizes peer review as purely advisory.
- **Increased Focus on Foreign Collaborations and Influence:** OMB proposes to expand the list of risk factors an agency may consider.
 - New factors would include any history of “questionable practices based on publicly available and verifiable information”; compliance with foreign gift disclosure requirements, including

under Section 117 of the Higher Education Act,^[5] and affiliations with “organizations engaged in activities that violate Federal law, undermine public safety or national security, or advocate for the overthrow” of the US government.

- OMB also proposes adding a government-wide prohibition on the use of federal funds for collaborations with a “foreign adversary,” “country of particular concern,” or “country subject to sanctions or restrictions relating to national security, defense, or intelligence activities.”
- **Expanded Termination Authority:** Under the proposal, all agencies would be required to adopt and incorporate in all funding notices and awards the provision allowing termination of funding due to changes in “agency priorities,” which OMB explicitly says may lead to mid-award terminations, including to accommodate a change in political leadership.
- **No Changes to Indirect Costs, for Now:** Despite widespread expectations to the contrary and a directive in Executive Order 14332, OMB is not proposing any changes to indirect cost rates in this rulemaking.
- **New Viewpoint-Neutrality Requirements:** OMB proposes to add a new viewpoint-neutrality requirement for events. For public entities, this requirement will apply entity wide. For non-public entities, it will apply to the use of any funds “within the scope of a Federal program under which the non-public entity accepts a Federal award,” for example, a public forum funded through a federal grant.
- **Making the Uniform Guidance Binding:** OMB also proposes to make the Uniform Guidance a binding set of regulations going forward, meaning agencies would not need to undertake separate rulemakings to implement future changes to the Uniform Guidance, as they must now.
 - While this may make rulemaking more consistent across agencies, it means fewer opportunities to comment on proposed changes going forward, since there will no longer be agency-specific notice-and-comment periods.
 - Federal grantmaking agencies were already moving away from such procedures—for example, in March 2025, the Department of Health and Human Services (HHS) rescinded the “Richardson Waiver” under which HHS had for decades used notice-and-comment procedures to issue or update grant regulations.^[6]

What Now?

The 45-day comment period for the proposed rule ends on July 13, 2026, making now a critical time for all recipients of federal financial assistance to understand the scope of the proposed new obligations and consider submitting comments to ensure that the administrative record includes

their concerns and perspectives. A final rule is expected in the coming months, with a planned effective date of October 1, 2026, to coincide with the start of the government’s fiscal year.

Footnotes

[1] Regulation for Federal Financial Assistance, 91 Fed. Reg. 32,198 (proposed May 29, 2026) (to be codified at 2 C.F.R. pts. 1, 25, 170, 175, 176, 180, 182, 183, 200). <https://www.federalregister.gov/documents/2026/05/29/2026-10817/regulation-for-federal-financial-assistance>.

[2] Exec. Order No. 14332, 90 Fed. Reg. 38,929 (Aug. 7, 2025). <https://www.federalregister.gov/documents/2025/08/12/2025-15344/improving-oversight-of-federal-grantmaking>.

[3] US Dep’t of Just., Guidance for Recipients of Federal Funding Regarding Unlawful Discrimination (July 29, 2025), <https://www.justice.gov/ag/media/1409486/dl>.

[4] Exec. Order No. 14303, 90 Fed. Reg. 22,601 (May 23, 2025). <https://www.federalregister.gov/documents/2025/05/29/2025-09802/restoring-gold-standard-science>.

[5] Higher Education Act of 1965 § 117, 20 U.S.C. § 1011f.

[6] US Dep’t of Health & Hum. Servs., Policy on Adhering to the Text of the Administrative Procedure Act, 90 Fed. Reg. 11,029 (Mar. 3, 2025). <https://www.federalregister.gov/documents/2025/03/03/2025-03300/policy-on-adhering-to-the-text-of-the-administrative-procedure-act>.

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