# The Dodd-Frank Act: Implications for Risk Professionals

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**ABSTRACT**

The *Dodd-Frank Wall Street Reform and Consumer Protect Act* imposes sweeping legislation on the financial services industry. This paper addresses, through the lens of a current risk practitioner, how these changes may affect the risk profession. This paper does not provide a comprehensive overview of the act, but instead focuses on the key sections that have relevance to risk professionals.

## INTRODUCTION

Nearly one year ago, the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (the Act) became law. The sole purpose of this legislation, named for Congressmen Chris Dodd and Barney Frank, is to promote the financial stability of the United States. To create a financial system that can weather turbulent times, systemic risk must be addressed. (The definition of systemic risk is the risk of a shock that could cripple America's financial system and spread to the rest of the nation's economy.) The main focus of the Act, therefore, is this type of risk.

While the purpose of the Act is simple, the implementation is not. With 16 titles, over 550 sections and 2,319 pages, the Act is a behemoth of legislation. The Act imposes many rules, requires approximately 70 studies, creates new agencies and amends a host of other acts. Furthermore, the content of the Act extends beyond just traditional banks. Its reach touches hedge funds, insurance companies, nationally recognized statistical rating agencies and clearing houses.

The inspiration of this paper was to identify where the Act specifically requires the skills and knowledge of risk professionals. As the research evolved, it became clear that the risk profession would be impacted beyond just those sections discussing "risk management" or "management of risk". There is a need for risk professionals with management skills, as well as quantification and monitoring skills.

This paper is written from the perspective of a risk practitioner who has worked professionally for seven years. A majority of this time was spent in commercial banks, working in both the acquisitions and portfolio management sides of credit risk. Therefore, risk professionals with other experiences may review the Act and identify alternate areas that impact the profession.

## STRUCTURE

This paper does not provide a comprehensive overview of the Act. Its main focus is to identify and discuss the sections of the Act, as it was initially created, that impact risk professionals. To that end, a summarization is provided for each relevant section, followed by its potential implications. These implications are divided into three categories: management, quantification/assessment, and reporting/monitoring.

The structure of this paper follows that of the Act. Titles and sections are listed in the order in which they appear. Page numbers are provided and can be used to find relevant content within the Act. In addition, a link to the full Act is provided at the end of the paper.

It is important to keep in mind that components of the Act are still in flux. As rules are designed, agencies are seeking public comments, which may then be incorporated into the final ruling. In addition, studies are being performed. Once these are complete, agencies will review the results which, too, could impact the rules.

Occasionally in this paper the words "not complete" will appear before a list. This signifies that the list contains only a sampling of the items provided in the Act. This was done to simplify reading while still conveying the general idea. To view these lists in their entirety, the reader should refer to the Act.

**TITLE I – FINANCIAL STABILITY**

**Sections:** 115/165
**Title:** Enhanced supervision and prudential standards for nonbank financial companies supervised by the Board of Governors and certain bank holding companies.
**Pages:** 60/115

Overview
There is considerable overlap in content between Section 115 and Section 165. Section 115 is oriented towards the Financial Stability Oversight Council (FSOC); Section 165, the Board of Governors (Board). Section 115 states that the FSOC can make recommendations to the Board to help reduce systemic risk. Because the content is similar, the rest of this overview focuses only on Section 165.

In Section 165, the Act states that the Board will create (possibly with FSOC input) a set of standards to reduce or prevent harm to the financial stability due to the failure or activities of a "large, interconnected financial institution" (LIFI). These standards will be stricter than those placed on nonbank financial institutions and bank holding companies (BHCs) that present less risk.

At a minimum, the standards will cover risk-based capital requirements, liquidity requirements, "overall risk management requirements", resolution plan and credit exposure reports, and concentration limits. In addition, the Board may create standards for contingent capital requirements, enhanced public disclosures, and short-term debt limits. If necessary, it may also create other "prudential standards" (118).

Section 165 also states that a Risk Committee should be created in certain financial institutions. For example, nonbank financial institutions supervised by the Board, and any publicly traded BHC with total assets greater than $10b, must create Risk Committees. The purpose of the Risk Committee is to oversee enterprise-wide risk management practices. The committee must have at least one risk management professional with "experience in identifying, assessing, and managing risk exposures of large, complex firms" (133).

In addition, this section states that stress tests are required. The Board will conduct annual evaluations of nonbank financial institutions and those BHCs with total assets of $50b or more that it supervises. These evaluations will determine whether the companies have enough capital to weather adverse economic conditions. The stress tests will be conducted under three different scenarios: baseline, adverse, and severely adverse. Depending on the type of financial company, one or two stress tests will be required annually.

Lastly, this section states that capital calculations must include any off-balance sheet activities. For the purpose of these calculations, an off-balance sheet activity is one which is "not currently a balance sheet liability, but may become one upon the happening of some future event" (138). The list of these items includes (not complete): interest rate swaps, credit swaps, commodities contracts, forward contracts and "such other activities or transactions as the Board of Governors may, by rule, define" (139).

Risk Implications
**Management:** Mandating that financial institutions establish a Risk Committee with at least one risk professional indicates an emphasis on integrating risk into the framework of companies. This, plus the

requirement that a Risk Committee must be created in nonbank financial companies, suggests there will be a growing demand for competent, knowledgeable risk professionals.

The statement "overall risk management requirements" is vague, but its implication is clear. As new requirements are added, or old ones changed, risk professionals will be needed to ensure their correct implementation.

**Quantification/Assessment:** Many risk professionals at financial institutions throughout the country already perform stress tests. In fact, stress testing has become a key tool in a risk professional's toolkit. As a result, it is easy to imagine that risk professionals will be called upon to conduct the required stress tests at financial companies.

The new standards for risk-based capital will likely draw on risk metrics, such as Value-at-Risk (VaR). In addition, calculations will be needed to describe the "nature and extent" of credit exposure one company has to another. While current exposure is easy to calculate, potential exposure is more involved. It requires simulating risk factors and then valuing the credit instrument – a skill that is learned by many risk professionals.

**Sections:** 116/161
**Titles:** Reporting /Reports by and examinations of nonbank financial companies by the Board of Governors.
**Pages:** 68/107

Overview
These two sections explain the reports that may be required by the FSOC or the Board to assess systemic risk. The FSOC will target nonbank financial institutions supervised by the Board and BHCs with total assets of $50b or greater. The Board targets nonbank financial companies it supervises.

The reports for these sections are similar, with two elements of the reports significant to risk. The first is that the report must alert the FSOC to "the systems [the company uses] for monitoring and controlling financial, operating and other risk" (68, 107). The second is that a company must inform the FSOC or the Board of any business activities that may affect the financial stability of the United States.

Risk Implications
**Reporting/Monitoring:** Identifying the systems used to monitor and control risk, as well as those business activities that are risky, will require an enterprise-wide view. To accomplish this, market, credit, operational and other types of risk should be integrated into a cohesive framework. This can be achieved by addressing correlations, concentrations, and diversification benefits.

**Section:** 171
**Title:** Leverage and risk-based capital requirements.
**Page:** 156

Overview

Federal banking agencies will create capital requirements to address risks that stem from activities that could threaten the financial system. These capital requirements will be applicable to certain financial institutions (e.g., insured depository institutions).

There are two types of activities the agencies will address: movement of financial instruments and concentration. Movement of financial instruments includes (not complete): the purchase and sale of securitized products, lending and borrowing securities and "significant volumes of activity in derivatives" (156).

As far as concentration is concerned, there are two types being emphasized. The first is concentration of assets whose values are based on models instead of historical costs or prices from "deep and liquid 2-way markets" (157). The second is concentration of market activity that would disrupt the markets if the company were to unexpectedly end the activity.

Risk Implications

**Quantification/Assessment:** To apply the capital requirements established by the federal agencies, financial companies will need to quantify their risk in these activities. This is at the root of what risk professionals do: assess the risk of an activity, product, or system.

This section hints at model risk. To ensure that model risk is reduced, risk professionals will be needed to assess if appropriate models are being used and if their parameters are accurately estimated.

## TITLE IV – REGULATION OF ADVISERS TO HEDGE FUNDS AND OTHERS

**Section:** 404
**Title:** Collection of systemic risk data; reports; examinations; disclosures.
**Page:** 526

Overview

This section states that private funds must provide reports to the Securities and Exchange Commission (SEC). The purpose of these reports is two-fold: to protect investors and to assess systemic risk. The reports will include (not complete): assets under management, leverage, counterparty credit risk exposure, and valuation practices.

Risk Implications

**Quantification/Assessment:** To meet the requirements for these reports, the market and credit risk of hedge funds will need to be quantified. Risk factor simulation, along with the subsequent valuation of instruments, will be required to compute VaR and counterparty exposure.

**Reporting/Monitoring:** In order to produce the reports, risk monitoring systems will need to be created and maintained by risk professionals.

## TITLE VI – IMPROVEMENTS TO REGULATION OF BANK AND SAVINGS ASSOCIATION HOLDING COMPANIES AND DEPOSITORY INSTITUTIONS

**Section:** 616
**Title:** Regulation regarding capital levels.
**Page:** 645

Overview
Various acts (e.g., Bank Holding Company Act of 1956) have been amended to include phrasing about making capital requirements countercyclical. This means that more capital will be required when the economy expands and less will be required when it contracts. This capital requirement is applied to BHCs, savings and loans and insured depository institutions.

Risk Implications
**Quantification/Assessment:** Capital is used to cover market, credit and operational risk. Building up capital during good times, and using it during bad, should allow financial companies to survive economic adversity. There are multiple ways to calculate capital (e.g., Basel II provides three ways to calculate credit risk). Regardless of the method, whether it is implementing VaR or translating regulatory guidelines, the expertise of a risk professional is needed.

**Section:** 618
**Title:** Securities holding companies.
**Page:** 649

Overview
The definition of a Securities Holding Company (SHC) is somewhat convoluted. An SHC is a "person" that owns or controls at least one broker or dealer registered with the SEC. However, this "person" is not a nonbank financial company supervised by the Board under Title I, an insured bank, an affiliate of an insured bank, or a foreign bank.

A supervised SHC will be required to provide reports to the Board. These reports will include (not complete): balance sheets or income statements, as well as a report from an independent auditor that assures compliance of the SHC with internal risk management objectives. In addition, the Board will set capital requirements and risk management standards for these companies. The purpose of this is to "protect the safety and soundness of the supervised securities holding companies and address the risks posed to financial stability by [them]" (656).

Risk Implications
**Management:** This is a new type of company. The content of this section indicates that, in order to comply with the Board, a sound risk management framework must exist. Professionals with comprehensive risk knowledge will be needed for these companies.

**Section:** 619
**Title:** Prohibitions on proprietary trading and certain relationships with hedge funds and private equity funds.
**Page:** 660

Overview
The introductory sentence of this section states that "a banking entity shall not (A) engage in proprietary trading; or (B) acquire or retain any equity, partnership, or other ownership interest in or sponsor a hedge fund or a private equity fund" (660). This section amends the Bank Holding Company Act of 1956 with what is known as the Volcker Rule. The opening sentence of Section 619 singles out *banking entities*. *Nonbank* financial companies supervised by the Board will be able to engage in proprietary trading or sponsoring a hedge fund. However, they will be subjected to additional capital requirements.

There are, of course, exceptions. Additional capital will not be required of the nonbank financial company if it engages in "permitted activities". Such activities are (not complete): risk-mitigating hedging, the purchase of financial instruments issued by Fannie Mae and Freddie Mac, and investments in small business companies.

A banking entity can organize and offer a hedge fund or private equity fund as long as these funds are created for customers. A banking entity can retain an ownership interest of these funds provided that the interest is reduced to 3% or less within a year of the fund being established. Furthermore, investments into these funds by a banking entity cannot exceed more than 3% of a bank's Tier 1 capital.

Risk Implications
**Management:** The purpose of this section is to reduce systemic risk. While risk professionals will likely be somewhat, or fully, engaged in risk-mitigating hedging, other "permitted activities" may also impact them. Money has been known to flow to areas of least regulation (i.e., regulatory arbitrage). Concentrated investments, or, even worse, *unknown* concentrated investments, can lead to the destabilization of a financial company if prudent risk frameworks are not in place.

**TITLE VII – WALL STREET TRANSPARENCY AND ACCOUNTABILITY**

**Section:** 723
**Title:** Clearing.
**Page:** 809

Overview
This section makes changes to how swaps are traded. For example, in order to participate in a swap, an individual must submit the swap to a derivatives clearing organization. This is a significant change to how swaps are handled; previously, they were traded over-the-counter.

An amendment has been made to Section 2 of the Commodity Exchange Act that makes it "unlawful for any person to engage in a swap unless that person submits such swap for clearing to a derivatives clearing organization…" (810). However, there are exceptions to this. If one of the counterparties in the swap is not a financial entity or is using the instrument to hedge commercial risk, they needn't have it cleared.

In the Act, *swap* has a broader definition than the traditional fixed-for-floating notion. "The term 'swap' means any agreement contract or transaction that is a put, call, cap, floor, collar, or similar option of any kind…based on the value of 1 or more interest or other rates, currencies, commodities, securities,

instruments of indebtedness, indices…" (784). This definition includes (not complete): interest rate swaps, rate floors and caps, credit default swaps, and credit spreads.

Risk Implications

**Management:** The use of a derivative clearing organization for swaps reduces counterparty risk and systemic risk. The derivative clearing organization, however, will impose different requirements on counterparties than those that existed in a traditional over-the-counter transaction. This could result in a restructuring of current risk frameworks within some companies.

**Section:** 725
**Title:** Derivatives clearing organizations.
**Page:** 838

Overview

This section defines the characteristics of a derivatives clearing organization (DCO). Current Depository Institutions and clearing agencies that have cleared swaps before the enactment date of this section are automatically registered as DCOs.

A DCO is different than a traditional clearing organization. For one, a DCO requires a Chief Compliance Officer. This individual's responsibility is to ensure that the DCO agrees with the principles stated in the amendment to Section 5b(c) of the Commodity Exchange Act. These principles include (not complete): ability to manage its risks, measure credit exposure (at least once each business day), and limit exposure to losses from defaults through margin requirements. An interesting, although not surprising, requirement is that the models and parameters used to calculate margins must be risk-based.

The settlement process the DCO employs is designed to reduce or eliminate settlement risk as well as credit and liquidity risk. Furthermore, the DCO is required to have procedures in place to handle defaults of its members. Another requirement is that DCOs must create a "program of risk analysis and oversight to identify and minimize sources of operational risk" (853). Lastly, the DCO has the responsibility to minimize systemic risk. In an amendment to the Commodity Exchange Act, the following statement appears: "In order to minimize systemic risk, under no circumstances shall a derivatives clearing organization be compelled to accept the counterparty credit risk of another clearing organization" (865).

Risk Implications

**Management:** The goal of the DCO is to help minimize systemic risk. To do this, it will need to create a risk framework to resolve issues that threaten its stability. Like the SHCs described in Section 618, there will be an increased demand for risk professionals in these organizations.

**Quantification/Assessment:** Knowledge about operational and credit risk within a DCO is vital to its success. Therefore, risk professionals who are skilled at identifying and quantifying this risk will be needed.

**Section:** 764
**Title:** Registration and regulation of security-based swap dealers and major security-based swap participants.

**Page:** 1112

Overview
Security-based swaps are those based on a "narrow-based security index", a single security or loan, or an "event relating to a single issue of securities or the issuers of securities in a narrow-based security index, provided that such event directly affects the financial statements, financial condition, or financial obligations of the issuer" (1034). These swaps can only be cleared by agencies that are approved to clear them. For example, DCOs registered with the Commodity Futures Trading Commission (CFTC) are approved to clear security-based swaps.

In addition, there are requirements for security-based swap dealers and major security-based swap participants. These entities are required to maintain minimum levels of capital and margin requirements. They are also expected to establish "robust and professional risk management systems" (1133).

Risk Implications
**Management:** Establishing robust risk management systems will require the knowledge and skills of risk professionals. Just like DCOs and SHCs, there will be an increased demand for risk professionals in these facilities.

**Quantification/Assessment:** Risks must be quantified to determine the amount of capital needed to satisfy the requirements of regulatory agencies. Therefore, the expertise of a risk professional will be needed.

## TITLE IX – INVESTOR PROTECTIONS AND IMPROVEMENTS TO THE REGULATION OF SECURITIES

**Section:** 932
**Title:** Enhanced regulation, accountability, and transparency of nationally recognized statistical rating organizations.
**Page:** 1351

Overview
This section falls under the Subtitle C ("Improvements to the Regulations of Credit Rating Agencies"). The subtitle begins with a list of findings from Congress:

- The behaviors of Credit Rating Agencies (CRAs) and Nationally Recognized Statistical Rating Organizations (NRSROs) are of "national public interest".
- CRAs and NRSROs behave much like securities analysts and auditors in that they serve as gatekeepers. Because the latter two have oversight and accountability, so, too, must the CRAs and NRSROs.
- CRAs "perform evaluative and analytical service on behalf of clients" making them commercial enterprises. As a result, they are required to meet the same standards of liability and oversight as auditors, securities analysts, and investment bankers.
- CRAs may face conflicts of interest in some of their activities. The SEC should, therefore, have the authority to address these conflicts.
- "In the recent financial crisis, the ratings on structured financial products have proven to be inaccurate. This inaccuracy contributed significantly to the mismanagement of risks by financial institutions and investors, which in turn adversely impacted the health of the economy in the

> United States and around the world. Such inaccuracy necessitates increased accountability on the part of credit rating agencies" (1350).

These findings have been included to demonstrate why regulatory overhauls have been proposed for CRAs and NRSROs. An overview of this subsection is out of the scope of this paper, but risk professionals may still want to review it. Ratings, after all, are ubiquitous in the realm of credit risk.

A new office will be created within the SEC – the Office of Credit Ratings. This office will be tasked with promoting accuracy in credit ratings, guaranteeing ratings are not influenced by conflicts of interest and "administering the rules of the [SEC] with respect to the practices of [NRSROs] in determining ratings" (1363).

The SEC will have the ability to suspend or revoke the registration of a NRSRO, with respect to a class or subclass of securities, if it finds the NRSRO has inadequate resources to "consistently produce credit ratings with integrity" (1355). In addition, the SEC will require transparency in rating performance. As a result, NRSROs will need to disclose initial ratings as well as their changes. There are two reasons for this. The first is to allow the user better insight into the accuracy of ratings. The second is to enable the user to compare ratings across different NRSROs.

The SEC will dictate the rules NRSROs must follow when creating ratings. For example, the SEC requires that the methodologies be approved by the board of NRSROs. Also, any change to rating methodology must be applied "consistently to all credit ratings" and the reason for the change must be publicly disclosed (1369).

NRSROs must also disclose qualitative and quantitative information about credit ratings. Qualitative information may be defined as the assumptions underlying the methodologies and the data used to obtain the credit rating. This includes the assumptions used about correlation of defaults among assets that underlie structured products. Quantitative information, on the other hand, is defined as the potential volatility of the rating, its historical performance, and the expected Probability of Default (PD) and Loss Given Default (LGD).

Risk Implications

**Quantification/Assessment:** It is hard to imagine how these changes will *not* affect risk professionals. For example, many financial institutions use credit ratings to rank order risk or as inputs into credit risk models (e.g., CreditMetrics and Credit Portfolio View). With the data that the NRSRO is required to provide, risk professionals will be able to review assumptions and determine which rating, if any, agrees with their view of a company or bond. For example, if a company is contemplating a bond rating from two NRSROs, it might choose the rating that has a better historical performance.

It is conceivable that, with new ratings requirements, the current ratings affixed to bonds or companies will change. If this happens, the changes would ripple through a company's credit risk measurements. While this is a possibility, the probability is, hopefully, remote.

**Section:** 941
**Title:** Regulation of credit risk retention.
**Page:** 1400

Overview

This is the first section under the subtitle "Improvements to the asset-backed securitization process". Asset-backed securities (ABSs) include CMOs, CDOs, CBOs and CDOs squared.

Regulations will be developed to require securitizers (i.e., issuers of the ABS) to keep an "economic interest in a portion of the credit risk for any asset that the securitizer, through the issuance of [an ABS], transfers, sells, or conveys to a third party" (1402). The regulations will prohibit the securitizer from transferring this risk – the company will not even be allowed to use hedges.

The amount of risk retention is not constant across the board; it changes with the asset. The securitizer must keep a minimum of 5% of the credit risk if the asset is not a qualified residential mortgage. A minimum of 5% must also be kept if the asset is a qualified residential mortgage but grouped with other assets that are not qualified residential mortgages. Less than 5% of credit risk is required for assets that are not qualified residential mortgages if the originator meets certain underwriting standards. Additionally, no credit risk retention is required if the ABS is collateralized only by qualified residential mortgages.

For commercial mortgages and CDOs, the risk retention requirements are yet to be defined. In the case where a securitizer purchases assets from an originator, risk retention will be allocated between the two entities as determined by federal banking agencies and the SEC.

Underwriting guidelines will be created by different federal banking agencies. These guidelines will define low credit risk loans in residential mortgages, commercial mortgages, commercial loans and auto loans.

Risk Implications

**Management:** Professionals in acquisitions risk management will be impacted. They must be able to integrate the guidelines established by the federal banking agencies into their companies' current underwriting framework. This will be needed if the asset classes are to be sold to securitizers who want to maintain less than 5% risk retention.

**Quantification/Assessment:** Because securitizers must retain credit risk they will need to integrate this into their current frameworks. Also, when risk retention is split between the securitizer and originator, the originator must assess how the additional credit risk will impact their portfolio.

**Section:** 942
**Title:** Disclosures and reporting for asset-backed securities.
**Page:** 1416

Overview

Issuers of ABSs are now required to provide information, for each tranche or class of security, about assets underlying the ABS. Asset-level or loan-level data will be provided to investors to allow them to perform their due diligence. The content of this data will include: loan broker and originator identifiers, compensation of the broker or originator, and the amount of risk retention by the originator and securitizer.

Risk Implications
**Quantification/Assessment:** The availability of this additional data will allow risk professionals to better assess the riskiness of an ABS. With this information they will have a clearer understanding of the risk present in their companies' portfolios.

**TITLE XIV – MORTGAGE REFORM AND ANTI-PREDATORY LENDING ACT**

**Section:** 1411
**Title:** Ability to repay.
**Page:** 2088

Overview
Near the beginning of Title XIV is this statement, which defines the title's purpose: "The Congress finds that economic stabilization would be enhanced by the protection, limitation, and regulation of the terms of residential mortgage credit and the practices related to such credit, while ensuring that responsible, affordable mortgage credit remains available to consumers" (2079). Going forward, the goal is to offer mortgages to consumers that they are able to repay. In addition, mortgages must be understandable and free of unfair, deceptive or abusive lending practices.

Section 1411 is the first one under the subtitle "Minimum Standards for Mortgages". The creditor is responsible for ensuring that the consumer has a "reasonable" ability to repay the loan and ancillary fees, given the information at the time the loan is created. If there are multiple loans secured by the same dwelling, the creditor must ensure that the consumer can repay all of them. Among the factors used to determine ability to repay are (not complete): credit history, current income, debt-to-income ratio, and employment status.

In addition, any income or assets used to pay the loan must be verified by the creditor. This will be done by using documents such as tax returns and payroll receipts. However, if the consumer is refinancing, the creditor does not have to perform income verification provided the consumer meets certain conditions (e.g., they are not more than 30 days past due).

There are also guidelines for assessing payment ability for nonstandard loans. To assess the ability to repay a variable rate loan that defers principal or interest, the creditor must use a fully amortizing repayment schedule. For interest-only loans, the creditor "shall use the payment amount required to amortize the loan by its final maturity" (2093).

Risk Implications
**Management:** Like section 941, professionals in acquisitions risk management will be impacted. Gone are the days of Low Doc and NINJA ("no income, no job and assets") loans. With the stricter underwriting guidelines, risk professionals will be required to think of creative, yet prudent, ways to find the right balance between risk and reward.

**SUMMARY**

| Title | Management | Quantification/ Assessment | Reporting/ Monitoring |
|---|---|---|---|
| TITLE I – Financial Stability | | | |
| • Sec. 115/165 | X | X | |
| • Sec. 116 | | | X |
| • Sec. 161 | | | X |
| • Sec. 171 | | X | |
| TITLE IV – Regulation of advisers to Hedge Funds and Others | | | |
| • Sec. 404 | | X | X |
| TITLE VI – Improvements to Regulation of Bank and Savings Association Holding Companies and Depository Institutions | | | |
| • Sec. 616 | | X | |
| • Sec. 618 | X | | |
| • Sec. 619 | X | | |
| TITLE VII – Wall Street Transparency and Accountability | | | |
| • Sec. 723 | X | | |
| • Sec. 725 | X | X | |
| • Sec. 764 | X | X | |
| TITLE IX – Investor Protections and Improvements to the Regulation of Securities | | | |
| • Sec. 932 | | X | |
| • Sec. 941 | X | X | |
| • Sec. 942 | | X | |
| TITLE XIV – Mortgage Reform and Anti-Predatory Lending Act | | | |
| • Sec. 1411 | X | | |

**CONCLUSION**

The Act has significant implications for risk professionals as the sections presented in this paper demonstrate. First, there is a clear need for risk expertise if the Act is to be successfully implemented and integrated into the frameworks of financial institutions.

Second, the Act indicates a need for risk professionals in financial companies other than traditional banks. For example, financial entities such as hedge funds, insurance companies, NRSROs, SHCs and DCOs need the skills and knowledge risk professionals possess. While some of these companies already have risk groups, the responsibilities of these groups will grow. Meanwhile, new organizations like DCOs will be required to establish robust risk practices.

Third, risk professionals will be needed for their quantitative, management, and monitoring skills. In some instances, risk professionals will be called upon to simulate risk factors or scrutinize credit ratings. In other cases, they will need to manage portfolio risk or send reports detailing their companies' risk to regulatory agencies. Also, with Basel III on the horizon, risk professionals will need flexibility and creativity to integrate the rules of Basel III and the Act. At times these rules can be contradictory. For example, the Act stipulates that references to credit ratings must be removed from federal laws. However, Basel III (and Basel II) relies heavily on ratings.

Fourth, the need for risk professionals will likely continue to grow. There are still many studies that need to be conducted, the results from which can cast a wider spotlight on the skills of risk professionals. For example, section 620 of the Act requires a study that focuses on activities a bank may engage in under Federal and State law. To complete this study, banking agencies will review the activities, consider the financial and operational risk involved with the activities, and review any risk mitigating behavior engaged by the bank due to the risk. A report will then be provided that recommends restrictions on these activities, if needed, to address risks to safety and soundness.

In conclusion, successful implementation of the Act's rules rests, on the shoulders of professionals, especially skilled risk managers. As time progresses and financial companies integrate more of these regulations into their businesses, risk professionals will find themselves taking on key roles in these processes.

**SOURCES**

The Act can be found here:
http://docs.house.gov/rules/finserv/111_hr4173_finsrvcr.pdf

The status of rules, reports, and studies can be found at these Web sites:

The Securities and Exchange Commission:
http://www.sec.gov/spotlight/dodd-frank.shtml

The Board of Governors:
http://www.federalreserve.gov/newsevents/reform.htm

The Financial Stability Oversight Council:
http://www.treasury.gov/initiatives/Pages/FSOC-index.aspx

Also, the American Bankers Association has a Web site that provides a calendar and topic tracker for rules related to the Dodd-Frank Act:
http://regreformtracker.aba.com/