



# **Dodd–Frank Act Overview**

## **Addressing Dodd-Frank Regulatory Guidance**



## Summary

- Summary of the Dodd-Frank Act
- Business and IT Implications of the Act
- Current trends resulting from Dodd-Frank



# ◆———— Summary of the Dodd-Frank Act ———◆



“To promote the financial stability of the United States by improving accountability and transparency in the financial system, to end ‘too big to fail,’ to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices...”





## The Dodd-Frank Wall Street Reform and Consumer Protection Act

- Signed into law on July 21, 2010
- Considered one of the most significant legislative changes to the financial sector
- Initially outlined on a 18 month timeline to give the regulatory bodies time to draft and implement appropriate regulations
- Divided into 16 main title sections, hundreds of subtitles, and thousands of sub sections



## The Dodd-Frank Wall Street Reform and Consumer Protection Act

- **Title I** – Financial Stability
- **Title II** – Orderly Liquidation Authority
- **Title III** – Transfer of Powers to the Comptroller of the Currency, the Corporation, and the Board of Governors
- **Title IV** – Regulation of Advisers to Hedge Funds and Others
- **Title V** – Insurance
- **Title VI** – Improvements to Regulation of Bank and Savings Association Holding Companies and Depository Institutions
- **Title VII** – Wall Street Transparency and Accountability
- **Title VIII** – Payment, Clearing, and Settlement Supervision
- **Title IX** – Investor Protections and Improvements to the Regulation of Securities
- **Title X** – Bureau Of Consumer Financial Protection
- **Title XI** – Federal Reserve System Provisions
- **Title XII** – Improving Access to Mainstream Financial Institutions
- **Title XIII** – Pay it Back Act
- **Title XIV** – Mortgage Reform and Anti- Predatory Lending Act
- **Title XV** – Miscellaneous Provisions
- **Title XVI** – Section 1256 Contracts



## Effects of the Dodd-Frank Act

- Numerous agencies created by the Act
  - Financial Stability Oversight Council
  - Office of Financial Research
  - Investor Advisory Committee
  - Bureau of Consumer Financial Protection



## Effects of the Dodd-Frank Act

- Changes, transfers and /or elimination of existing agencies' powers
  - Securities and Exchange Commission
  - Federal Deposit Insurance Corporation
  - Securities Investor Protection Corporation
  - Office of Thrift Supervision (eliminated)



## Effects of the Dodd-Frank Act

- Explicitly lists around 250 required regulations to be written and enforced by various entities, including those that were newly created by the act
- An estimated 95 those regulations are attributed to the SEC , comprising around 38% of the total 250 listed
- The brunt of the act's influence is felt by larger , more complex financial institutions but smaller institutions are also affected by the more stringent regulatory requirements
- Amendments to SOX results in wide-reaching influence, encompassing all public companies at a minimum



## SEC Timeline

Dates	Issues
August - December 2011 (planned)	Oversight of Investment Adviser & Broker-Dealers, Asset-Backed Securities, Derivatives, Clearing & Settlement, Credit Ratings, Market Oversight, Corporate Governance & Disclosure, Municipal Securities
January - June 2012 (planned)	International
July - December 2012 (planned)	Markey Oversight, Oversight of Investment Advisers & Broker-Dealers, Credit Ratings, Corporate Governance & Disclosure
Dates still to be determined	Various issues included in Titles I, II, III, IV, IX, and X



# **Business and IT Implications of the Act**



## Title I – Financial Stability

### Attribute 1

- Creation of the Financial Stability Oversight Council, Office of Financial Research

### Business Implication

- New extensive reporting requirements, resource reallocation and possible additional costs needed to comply with new reporting regulations

### IT Implication

- Need for more sophisticated system and data requirements designed to ensure proper reporting





## Title I – Financial Stability

### Attribute 2

- Fed given Authority over systemically significant nonbank financial companies

### Business Implication

- Required registration with the Fed, extensive data reporting, creation of risk committee, more stringent merger and acquisition rules

### IT Implication

- More sophisticated system and data requirements now mandatory for previously excluded entities



## Title I – Financial Stability

### Attribute 3

- Requirement to periodically submit plan for rapid and orderly shutdown in the event of failure of the company

### Business Implication

- Higher capital requirements without improved plan, reallocation of resources and increased costs to develop acceptable plan

### IT Implication

- More sophisticated system and data requirements for development of plan and possible execution



## Title II – Orderly Liquidation Authority

### Attribute

- OLA and FDIC work together to quickly and effectively liquidate covered entities if failure is deemed to have adverse affects on financial stability

### Business Implication

- Must provide adequate information for committee to classify entity and identify responsible parties in the failure

### IT Implication

- Possible reorganization for improving risk management and to accommodate simpler wind-down procedures



## Title IV – Regulation of Advisers to Hedge Funds and Others

### Attribute

- Nonexempt private fund advisers required to register with the SEC, advisers must also maintain extensive reports related to the systemic risk for each fund they manage

### Business Implication

- Previously exempt companies must register and keep extensive records

### IT Implication

- Increased resources, including staff and system capabilities needed to complete extensive reports



## Title VI – Improvements to Regulation of Bank and Savings Association Holding Companies and Depository Institutions

### Attribute

- Limits many holding companies allowable business activities, imposes capital requirements and risk management standards

### Business Implication

- Change, retirement or spin-off of trading operations resulting in decreased or removed need for current key employees

### IT Implication

- Changes to system and data needs, loss of key individuals who may have proprietary knowledge, access needs to be eliminated



## Title VII – Wall Street Transparency and Accountability

### Attribute

- Enhanced lending limits to include credit exposure, agencies given broad authority to collect and monitor swap and participant information, swaps must be submitted for central counterparty clearing

### Business Implication

- Greater need for transparency in swaps, more requests for data, increased transaction costs

### IT Implication

- System enhancements required to handle increased data requests and internal reporting requirements



## Title VII – Wall Street Transparency and Accountability

### Attribute

- Extensive daily trading records of swaps required

### Business Implication

- Reporting requirements formalized

### IT Implication

- Enhanced system requirements to compile and manage large volume of daily trading reports



## Title VIII – Payment, Clearing, and Settlement Supervision

### Attribute

- Systemically important entities and financial market utilities (FMUs) subject to extensive supervision by the Fed, FMUs must undergo annual examination

### Business Implication

- Enhanced reporting requirements

### IT Implication

- Need for enhanced data capturing and monitoring capabilities





## Title IX – Investor Protections and Improvements to the Regulation of Securities

### Attribute

- NRSROs now regulated, PCAOB given authority to examine auditors of brokers and dealers, auditors must obtain workpapers from overseas, SEC given authority to require documentation and disclosure before point-of-sale, enhanced ABS disclosure

### Business Implication

- Additional reporting and disclosure requirements, revamped governance structure, enhanced auditing process to insure compliance

### IT Implication

- Enhanced system and data requirements for reporting, expanded audit scope



## Title XVI – Section 1256 Contracts

### Attribute

- Clarifies that swaps will retain their current tax properties and will not be subject to Section 1256

### Business Implication

- Removes need to test for Section 1256 qualification

### IT Implication

- Enhanced system and data requirements to ensure proper classification



## Current Trends Resulting from Dodd-Frank



## Affected Company's Reactions to Dodd-Frank

- Evaluating or executing needed changes in existing structure, considering or executing the spinoff or sale of affected segments
- Evaluating or implementing needed processes for enhanced reporting and the flexibility to adapt to the constantly changing reporting environment
- Evaluating or addressing the need for committees or boards to manage the changes in governance requirements



## IT Affects as the Result of Dodd-Frank

- Companies will rely on technology and its providers to keep them abreast of the constant changes in the reporting and governance environments resulting from the act.
- Companies will also be looking to technology to address the issue of their ability to adapt to the constantly changing reporting and governance environment resulting from the ongoing implementation of the act.



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