

## GUEST COLUMN

### Boosting The CCO's Role Under Dodd-Frank

Firms can transform compliance from an obligatory exercise into a competitive differentiator by arming their chief compliance officer with the necessary power and resources. If financial firms wish to comply successfully with new regulatory requirements imposed by the Dodd-Frank Act and other rulemaking generated by regulators focused on issues impacting the industry, the role of the CCO must grow, and grow quickly.

Traditionally, many CCOs have worked backstage, creating and enforcing compliance programs around a relatively static body of regulation. Under Dodd-Frank, they will be forced into the organizational spotlight, as compliance programs will touch a wider range of operations within many firms. The Act's existing requirements and future rulemaking mandates will have a far-reaching impact on almost every aspect of the way financial firms operate. To meet this challenge, CCOs will need adequate budgets and the support of decision makers. More importantly, they will need a seat at the planning table as they try to make certain that their firms' strategies are crafted with compliance in mind. Failure to empower CCOs to meet new oversight requirements may increase the risk of regulatory scrutiny and penalties, litigation or result in mishaps with major reputational impact.

Dodd-Frank's numerous provisions contain many different implementation dates. What's more, the detailed implications of the law depend on the creation of numerous rules that are only just beginning to be released and will be subject to much public comment and debate. Such uncertainty is leaving some firms in a holding pattern. These organizations may be tempted to wait until there is more clarity on compliance requirements. But this would be very shortsighted. CCOs will need time to perform risk and impact assessments as requirements roll out. They will also need time to analyze gaps in compliance programs, processes and systems that are likely to exist.

Forward-thinking organizations will take those parts of Dodd-Frank that are relatively clear and begin the process of laying the technological, administrative and organizational groundwork for eventual compliance. It will be incumbent on the CCO to be a driving force in this effort and assess how different initiatives within the firm will impact the existing compliance function, and how those impacts might change as more regulatory actions

implementing Dodd-Frank become final.

The CCO must also become actively involved in planning initiatives, even those with respect to which the implications of Dodd-Frank are far from clear, and at least be prepared to assess the range of potential impacts of those initiatives on the compliance function. Clear examples of actions that should be taken would be planning for the adaptation of existing compliance activities to cover the emerging swaps regulations and the so-called Volcker rule.

#### The Cost Of Inaction

Firms that fail to empower their CCOs and give them a seat at the planning table may increase their regulatory and reputational risks. They may also put their compliance organizations in the position of having to make rushed implementation decisions, which might prove costly or delay the ability of the business to roll out new products or services. Consider for example that under Dodd-Frank derivatives face additional regulation, so as part of the planning process the firm must consider how it will weave responsibilities for derivatives regulation into its compliance program. If a CCO is not brought into planning until later stages, the firm may find it more costly to create the structures and processes that the compliance organization needs to fulfill its obligations than would have been the case had there been more time to prepare.

Costs may rise further if, for example, IT raises concerns about compliance plans, or the executive committee questions the impact these plans might have on a long-term product strategy. Under these circumstances, the CCO would have to go back to the drawing board, which might prove costly by increasing the time before the product can get to market. Finally, certain compliance errors can lead to potentially embarrassing regulatory violations that may result in front-page news. The likelihood of avoiding these scenarios increases if a firm includes its CCO in early planning stages and gives the CCO the authority and resources needed to meet the formidable compliance challenges that lie ahead.

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