Coming to Terms with the Dodd-Frank Act—Balancing Strategic Considerations and Tactical Implications

Overview

The Dodd-Frank Act has been called the most comprehensive set of U.S. regulatory reform measures since the Great Depression. Yet, more than two years after the Act was signed by President Barack Obama, only a third of Dodd-Frank's nearly 400 required rules have been finalized and only a third have been proposed.

Background

Clearly, as the implementation of Dodd-Frank has progressed, affected companies have developed a better understanding of the Act's potential benefits as well as its anticipated costs and implications. According to an Accenture quantitative survey completed in 2012, one in two companies anticipate spending over $50 million on Dodd-Frank compliance and almost two-thirds (64 percent) indicate it will increase company costs over the program's lifetime. In 2012, 85 percent of all respondents said Dodd-Frank would require them to rethink their business models. And 83 percent of respondents claim Dodd-Frank would have more of an effect than they anticipated just 12 months ago. Banks and other companies affected by Dodd-Frank are now two years into what was supposed to be a three-year effort toward financial reform. Although Dodd-Frank will have a significant impact on the global financial landscape, only 28 percent of executives surveyed consider their companies to be "extremely well prepared" for its full implementation.

Respondents typically indicated that a variety of external and internal factors, including delays and ambiguity in regulations, poor communications from regulators, and a shortage of skilled staff pose challenges to companies seeking to reach full compliance.

The Accenture survey probed the attitudes and preparedness of companies affected by the Dodd-Frank regulation among 132 company executives in Europe and North America. The report includes findings from over 100 financial services executives and over 30 resources industry executives.

Findings

Companies have worked to prepare themselves for Dodd-Frank, but less than three in 10 respondents claim to be "extremely well-prepared." This is indicative of the open-ended nature of Dodd-Frank—with many changes yet to be determined—but the reported lack of preparedness by many of the organizations it will affect is surprising.

Some of the more difficult challenges posed by Dodd-Frank have included:

- Regulatory scope— the broad scope of Dodd-Frank has led to criticism that new rules are not well thought-out and that insufficient attention has been paid to coordinating with overlapping regulatory agencies. Many companies, as well as regulatory bodies, have had to scramble to find the resources necessary to analyze, define and implement new rules, especially in complex areas such as swaps.
- Communications—there have been numerous delays in publishing regulations, making it hard for some companies to define a clear strategy and objectives, and to obtain commitment from employees in relation to Dodd-Frank.
- Compensation and governance—many financial services firms may be required to re-think their compensation structures and how they attract employees from other firms.

- Strategic planning—most respondents said Dodd-Frank will cause them to revisit their business strategies. For those firms, various strategic changes are typically under consideration, with a focus on strengthening core competencies, cost reduction and change management.

Analysis

Most companies surveyed claim that Dodd-Frank would enhance their competitive position and even more (72 percent) said Dodd-Frank would increase their company's profitability. About two-thirds of companies also expressed confidence in the ability of their management and corporate functions to deal with the structural and compliance issues raised by Dodd-Frank.

The survey indicates that Dodd-Frank will have a major impact on companies, including large expenditures to reach compliance with the regulations fostered by the Act.

The survey also identified some specific areas—including expenditures, impact on financial performance, and long-term strategy—where Dodd-Frank will have an immediate effect.

- Operating expenditures—Overall, 10 percent of companies anticipate spending from $100 million to $200 million on Dodd-Frank across the lifetime of the program, and half anticipate spending at least $50 million.
- Financial performance—Many companies see beneficial results from Dodd-Frank; for example, 64 percent of respondents believe the Act will strengthen their competitive position, especially within the capital markets industry, and a strong majority believe Dodd-Frank will lead to greater profitability across the lifetime of the program.
- Long-term strategy—Seventy percent of companies responding believe the proposed regulatory reforms—and their effect on revenue streams—will cause them to revise their long-term business strategies.

Recommendations

Deriving anticipated benefits from Dodd-Frank will require a strategic approach encompassing both improvements to corporate functions such as risk management, compliance and IT as well as long-term strategic considerations.

Given the broad reach of Dodd-Frank, companies should have strategic projects addressing matters—such as new product or service lines, cost reductions, improvements in core competencies, and change management programs—either in planning or in process. Those companies that aggressively confront both the challenges and the opportunities presented by Dodd-Frank with an integrated, well-executed program will be in the best position to realize these anticipated benefits.

Accenture has worked with numerous financial services and energy firms to address issues raised by Dodd-Frank. Working with clients, we help implement needed changes while supporting value creation and finding new avenues to profitable growth.

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