

Finance Transformation in the Age of Dodd-Frank

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In every successful transformation strategy, adaptation is a crucial capability. The core elements of a sound financial model — efficient operations, skilled staff, thoughtful risk management — have not changed, but each now functions within a recovery environment that is uncharted and as yet unknowable. Rather than adopting new priorities, the CFO must adapt to new standards of efficiency and effectiveness.

Today, regulatory compliance demands a prominent position among the matrix of factors influencing performance and success. Prior to the passing of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the relationship of regulatory agencies to banks had been essentially passive, with Finance divisions providing required information to regulators along established guidelines. Dodd-Frank alters that dynamic fundamentally by redefining Finance as a point of access.

Regulators are now positioned to delve deeply into the operational and financial information of an organization by way of Finance, and to use the knowledge gained to wield influence on the bank's internal business. Foreign and domestic organizations alike become subject to scrutiny on matters including capital adequacy, liquidity, compensation standards, business practices (e.g., the Volcker Rule, living will), and more. The implications are far reaching and represent substantial impact on Finance.

Regulatory transparency is clearly reprioritized in the Dodd-Frank era, and needs to be folded into the practices and goals of an organization rather than eclipsing or crippling other critical considerations.

Assessing Readiness

According to the Global Business Outlook Survey concluded in Dec 2010 by Duke University and *CFO Magazine*, finance regulation and governmental policies are the most concerning external factors among CFO's in both the US and Europe. Meanwhile, maintaining margin and improving the strength of the balance sheet remain primary internal concerns.¹

Ultimately, high-performing firms are those possessing world-class capabilities in three areas: provision of business insights; establishing risk control and regulatory transparency; and achieving efficiency. It is incumbent on the CFO, as in the past, to establish a balance on these three pillars by directing available resources appropriately. To derive a baseline view of the "maturity" of the finance function, preparedness should be assessed vis-à-vis the key characteristics listed in our Finance Effectiveness Maturity Model (See figure 1). An accurate, unblinking self-assessment across these areas yields the framework of a successful transformation.

¹ Duke Fuqua School of Business/CFO Magazine Global Business Outlook Survey, December 2011 Results (<http://cfosurvey.org>)

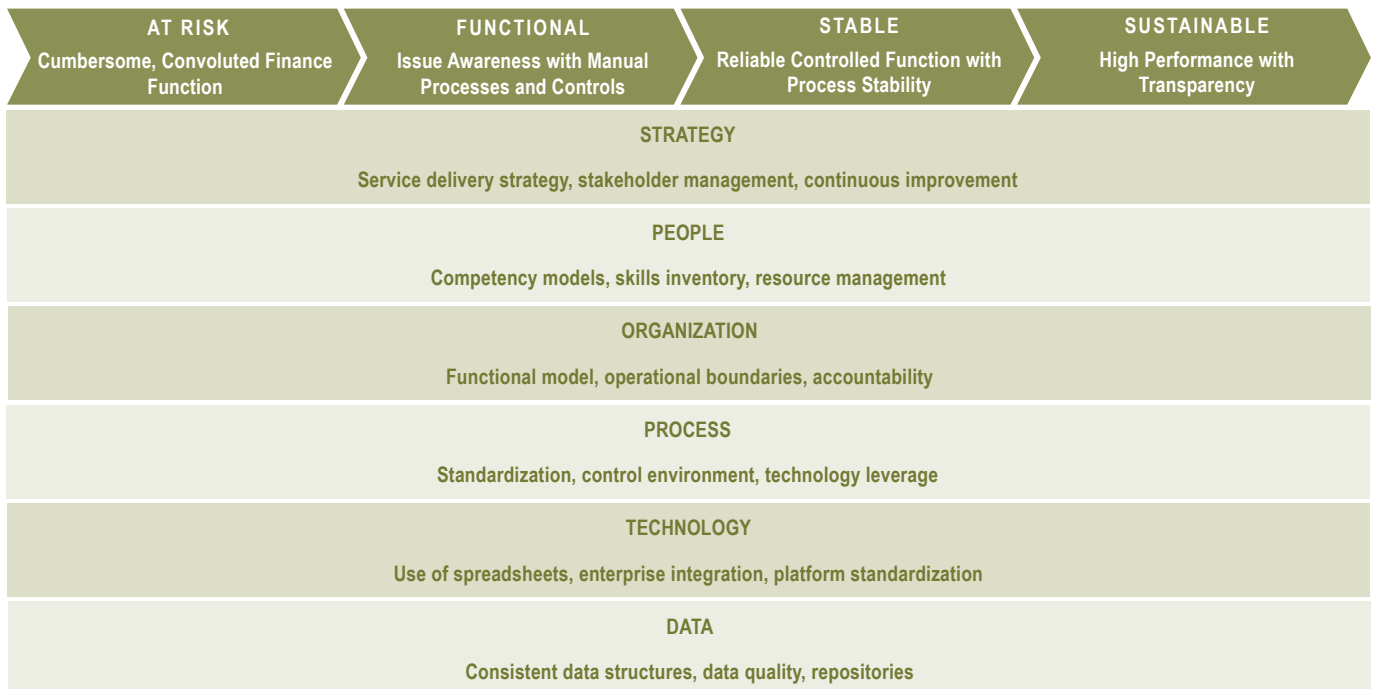


Figure 1: Finance Effectiveness Maturity Model

With capability and efficiency in every category, the bank is outfitted to achieve its goals. Internally, the pressure on profit margins can gain relief and future results can more reasonably be forecast; externally, the timely dissemination of complete and accurate information to regulators is ensured. Such is the definition of financial effectiveness as revised in the era of Dodd-Frank.

From Effectiveness to Excellence

While no single compliance solution is broadly applicable across the industry, every successful strategy will hinge on an efficient approach to producing timely and accurate responses. CFO's without the capability to report effectively and consistently when asked

will face unprecedented scrutiny by internal auditors, external auditors, and regulators.

Increased visibility may escalate liability — but so too does it escalate opportunity for the CFO. The overhaul of regulatory legislation has raised the CFO's profile to a position of not only advocating compliance but formulating best possible outcomes for the business. Financial officers today have the newly reinforced potential to exert influence and drive institutional changes as strategic executives. In the age of Dodd-Frank, a proactive role materializes for Finance leadership: the CFO who has historically been responsible for reporting on the past is now positioned to help shape the future.

Finance Effectiveness Survey

Navigant is conducting a survey designed to assess the finance function across financial services institutions. The survey is designed for CFOs and other finance leaders and covers the six key areas noted in the Finance Effectiveness Maturity Model. All participants will receive a complementary summary of the results and the opportunity to view their organization's results benchmarked against industry averages. If you would like to participate in the survey, please visit

<https://navigant-financefunctionassessment.surveyanalytics.com/>