Governance Challenges

**Knowledge@Wharton:** Don, as a former regulator, this is right up your alley in a way. This is a lot of regulation coming down the pike at one time.

**Donald Vangel:** There is a lot of uncertainty, which makes it very difficult to plan in a very concrete way around what the precise implications are going to be. [There are] a lot of straws in the wind domestically and internationally. Notwithstanding that, there is an imperative for firms to do the best they can from a governance standpoint to get their arms around all of those moving parts – if for no other reason than to identify the key issues in the implementation phase of many of these matters. [Banks will want] to influence the shape of the final rules in a way that is going to be most constructive – whether you do that as an individual institution or as part of an industry group – and also deal with some of the issues that are beginning to crystallize fairly early.

For instance, there is a theme that pervades Dodd-Frank about increased reporting requirements. Just about every aspect of the statute – whether it is to inform decisions around systemically important institutions, provide information to the Office of Financial Research, or increased [requirements] for regulatory reporting more broadly, [require firms to] look at issues of data and systems architecture so firms can understand about data availability and what may need to be done sooner rather than later to position their systems architecture to be responsive to those issues.

Those are the kinds of questions that we see firms beginning to ask early on and to look at it in a very multi-disciplinary way.

**Richard Herring:** I’d like to add a bit to that. I certainly agree with everything you have said. But I think yet another potential driver of this whole effort will be what is done with regard to rapid resolution. The whole essence of that is having timely information that will permit someone to take over an institution should it fail and knowing the systems – knowing who operates the systems, knowing who owns the systems, and all of that is going to require really massive expenditures in IT, which has typically been one of the motive forces for consolidation in the industry. But on the other hand, we have regulations that are pushing the other way, that are trying to discourage firms from being bigger.

Also with regard to who are your customers and your core business – it is really a huge challenge for a number of the very largest firms in the world because if you look in 2006 and 2007, they were making more than half their revenue off of securitization. That is gone. And so it really is a time to rethink what is our purpose and what should we be doing to help our customers fulfill the basic financial needs of making payments, protecting against certain uncertainties in the future, and providing the kinds of financial services they want rather than the ones that are necessarily enormously popular because they are so opaque.