Dodd-Frank Section 165: Risk Management and Corporate Governance

Section 165 of Dodd-Frank requires the Federal Reserve Board (FRB) to establish overall risk management requirements for bank holding companies with $50 billion or more in assets and all FSOC-designated nonbanks (covered companies). The FRB’s proposed rule implementing Section 165 requires all covered companies, as well as all publicly-traded bank holding companies with $10 billion or more in assets, to create a risk committee to oversee risk management practices on an enterprise-wide basis.

Structure of the Risk Committee

The proposed rule requires a risk committee of the Board of Directors with an independent director. At least one member of the committee must have risk management expertise commensurate with the company’s capital structure, risk profile, complexity, activities, size, and other appropriate risk-related factors. Additionally, the FRB expects each member of the committee to have an understanding of risk management principles and practices relevant to the company.

Responsibilities of the Risk Committee

The risk committee must document and oversee the risk management practices of the company’s worldwide operations. These risk management practices must be tailored to the size and complexity of the company. Should a company grow or increase in complexity, the risk committee must adapt its practices to reflect the changes.

The FRB will impose stricter, more detailed requirements on the risk committees of covered companies. For example, the risk committee of each covered company must report directly to the Board of Directors and cannot be part of, or combined with, any other committee. The risk committee of a covered company must also receive and review regular reports from the Chief Risk Officer.

Appointment of a Chief Risk Officer

Each covered company must designate a Chief Risk Officer (CRO) responsible for implementing and maintaining the risk management framework and practices approved by the risk committee. Like the experience required of at least one Risk Committee member, the CRO must have risk management expertise commensurate with the company’s capital structure, risk profile, complexity, activities, and size. The CRO must report directly to the risk committee and to the CEO. His or her compensation must be structured to create incentives for the provision of objective assessments of the company’s risk posture.

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