Risk Is Risk, On or Off Balance Sheet

BY KENNETH SCHORHORST

The derivatives rules will have a long-term impact on how banks are regulated. Before the financial crisis, many banks did not have strong internal controls to prevent their trading desks from taking on excessive risks. The new regulations will require them to have better controls in place, but it remains to be seen how effective they will be. The rules are intended to limit banks' exposure to losses, but they may also limit their ability to make profits. The impact of the regulations will depend on how the regulators interpret them and how the banks respond. The new rules are complex and will take time to implement, so it is too early to say whether they will be effective in preventing another financial crisis.