

QFI – Investment Risk Management Exam

Spring 2024/Fall 2024

Important Exam Information:

Exam Registration	Candidates may register online or with an application.
Order Study Notes	Study notes are part of the required syllabus and are not available electronically but may be purchased through the online store.
Syllabus Readings	Readings listed in this syllabus may include study notes, online readings and textbooks. Candidates are responsible for all readings in their entirety, including sections such as Appendices, unless it is stated otherwise in the syllabus.
Introductory Study Note	The Introductory Study Note has a complete listing of all study notes as well as errata and other important information.
Case Study	A case study will not be provided with the examination.
Past Exams	Past Exams from Fall 2020-present are available on SOA website.
Updates	Candidates should be sure to check for updates on the Exam Study page periodically for additional corrections or notices to the current syllabus.
Formula Package	A Formula Package will be provided with the exam. Please see the Introductory Study Note for more information.

1. Topic: Identification of Risk Types
Learning Objectives
The candidate will understand and be able to identify and describe types of risk present in investment management.
Learning Outcomes
The Candidate will be able to: a) Identify and describe the various kinds of risks, including strategic, market, credit, operational, liquidity etc. b) Describe and apply various risk identification tools c) Identify behavioral risks and explain how they factor into investment management d) Identify environmental, social and governance (ESG) risks and explain how they factor into investment management
Resources
<ul style="list-style-type: none">• <i>Financial Enterprise Risk Management</i>, Sweeting, Paul, 2nd Edition, 2017<ul style="list-style-type: none">○ Ch. 8: Risk Identification• <i>Quantitative Enterprise Risk Management</i>, Hardy, Mary and Saunders, David, 2022<ul style="list-style-type: none">○ Ch. 2: Risk Taxonomy○ Ch. 19: Behavioural Risk Management• QFII-131-24: Chapter 1 Introduction to ESG (pp. 3-36)

2. Topic: Risk Measurement and Assessment

Learning Objectives

The candidate will understand and be able to apply different approaches to measuring and assessing risk exposures.

Learning Outcomes

The Candidate will be able to:

- a) Explain the advantages and limitations of different risk metrics
- b) Explain how different approaches and tests form a set of complementary investment risk metrics
- c) Analyze and evaluate the use and misuse of correlation, integrated risk distributions and copulas
- d) Explain the difference between real-world and risk-neutral processes and select appropriate market risk models
- e) Evaluate and apply credit risk models
- f) Evaluate a company's or a portfolio's exposures to various risks, including liquidity risk
- g) Apply different techniques of assessing tail risks, including stress testing and scenario analysis

Resources

- *Credit Risk Modeling*, Bolder, David, 2018
 - Ch. 1: Getting started (background)
 - Ch. 2: A Natural First Step
 - Ch. 3: Mixture or Actuarial Models
 - Ch. 4: Threshold Models
- *Quantitative Enterprise Risk Management*, Hardy, Mary and Saunders, David, 2022
 - Ch. 3: Risk Measures
 - Ch. 6: Copulas
 - Ch. 7: Stress Testing
 - Ch. 8: Market Risk Models
- *Investment Risk Management*, Baker, Kent and Filbeck, Greg, 2015
 - Ch. 8: Liquidity Risk
- QFII-104-14: Correlation: Pitfalls and Alternatives
- QFII-110-15: The Devil is in the Tails: Actuarial Mathematics and the Subprime Mortgage Crisis
- QFII-123-21: IAA Note on Stress Testing and Scenario Analysis (pp. 1-6, 14-17, 19-26 & 32-39)

3. Topic: Risk Management
Learning Objectives
The candidate will understand and be able to apply the components of an effective risk management system to investment management.
Learning Outcomes
The Candidate will be able to: <ul style="list-style-type: none">a) Explain the best practices of investment risk managementb) Identify and describe various approaches for managing portfolio risks including VaR/ES methods, position limits, etc.c) Explain and manage model riskd) Explain risk budgeting approach to portfolio constructione) Apply principles of liquidity risk management
Resources
<ul style="list-style-type: none">• <i>Quantitative Enterprise Risk Management</i>, Hardy, Mary and Saunders, David, 2022<ul style="list-style-type: none">○ Ch. 9: Short Term Portfolio Risk○ Ch. 14: Model Risk and Governance• <i>The Top Ten Operational Risks: A Survival Guide for Investment Management Firms and Hedge Funds</i>, Miller and Lawton, 2010• QFII-119-19: Chapter 3 of <i>The Known, the Unknown, and the Unknowable in Financial Risk Management: Measurement and Theory Advancing Practice</i>• QFII-120-20: IAA Note on ERM for Capital and Solvency Purposes in the Insurance Industry, pp. 9-38• QFII-129-23: Ch 2 “Risk Budgeting Approach” of <i>Introduction to Risk Parity and Risk Budgeting</i>, T. Roncalli• QFII-132-24: Application Paper on Liquidity Risk Management (IAIS)

4. Topic: Risk Mitigation
Learning Objectives
The candidate will understand and be able to mitigate investment risks using derivatives
Learning Outcomes
The Candidate will: <ul style="list-style-type: none">a) Be able to explain and implement techniques used to mitigate market risksb) Understand interest rate derivatives and use them to mitigate interest rate risk and currency riskc) Understand credit derivatives and use them to mitigate credit riskd) Understand CDS valuations and marking-to-market counterparty risk in credit derivatives
Resources
<ul style="list-style-type: none">• <i>Quantitative Enterprise Risk Management</i>, Hardy, Mary and Saunders, David, 2022<ul style="list-style-type: none">○ Ch. 15: Risk mitigation using options and derivatives• <i>Fixed Income Securities: Valuation, Risk, and Risk Management</i>, Pietro Veronesi<ul style="list-style-type: none">○ Ch. 5: Interest Rate Derivatives: Forwards and Swaps○ Ch. 6: Interest Rate Derivatives: Futures and Options• <i>Investment Risk Management</i>, Baker, Kent and Filbeck, Greg, 2015<ul style="list-style-type: none">○ Ch. 25: Futures○ Ch. 26: Swaps• <i>Handbook of Fixed Income Securities</i>, Fabozzi, Frank J., 9th Edition, 2021<ul style="list-style-type: none">○ Ch. 68: Credit Derivatives○ Ch. 69: Credit Derivative Valuation and Risk

5. Topic: Risk Culture and Governance
Learning Objectives
The candidate will understand the importance of risk culture and governance.
Learning Outcomes
The Candidate will be able to: <ul style="list-style-type: none">a) Explain the importance of risk culture and ethics in an investment firmb) Identify sources of unethical conduct and explain the role of a fiduciaryc) Compare the interests of key stakeholders and describe governance mechanisms that attempt to address conflictsd) Explain how governance may be structured to gain competitive advantages and efficienciese) Explain and apply the lessons learned from risk management failures
Resources
<ul style="list-style-type: none">• <i>Financial Enterprise Risk Management</i>, Sweeting, Paul, 2nd Edition, 2017<ul style="list-style-type: none">○ Ch. 20: Case Studies (except 3 cases: Korean Air, Maxwell, Space shuttle)• <i>Investment Ethics</i>, Peck, Sarah, 2011<ul style="list-style-type: none">○ Ch. 1-3, 7 & 9 (Cases 1, 4, 5, 10, 13, 20, 21 & 30)• QFII-101-14: Chapter 11 of <i>Strategic Management: An Integrated Approach</i>, Hill & Jones, pp. 378-384 only, up to “Agency Theory” (including example 11.1 “Strategy in Action”)• QFII-116-19: Chapter 45 of <i>Risk Management: Foundations for a Changing Financial World</i>, Haslett Jr., Walter V., 2010• QFII-130-23: General American Life Can’t Pay Investors