QFII-103-14 Advances In Risk Management and Governance
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Areas of Vulnerability for Portfolio Managers

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4. **Experience**
   - Too often, young quantitative analysts are making decisions that they do not have the experience to be making.
Properties of a Risk-Conscious Culture

- Educate employees
  Everyone must understand his/her role in risk awareness and management
- Have policies and procedures that make it clear to employees what they are expected to do
- Risk taking is not bad (an investor cannot make money without taking risks), but risks need to be properly understood
- Risk tolerance needs to be established and tracked
- The organization needs to decide which risks it is best equipped to take
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Risk Management: Best Practices

1. Have a chief risk officer (should report to CEO)
2. Give the chief risk officer a strategic function, and not just a policing function
3. Add research resources within the risk organization
4. Compensation should be adjusted for risk
5. An organization should have a clear risk appetite to align risk attitudes
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Chief Risk Officer: Best Practices

1. Should be independent, but integrated
2. Should have both a policing role and a strategist role (CRO should help make decisions!)
3. Have strong communication and presentation skills
4. Help the board focus on trends and exceptions rather than getting bogged down in the details
5. Needs to know and monitor the risk tolerances and expectations of the firm
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1. Monitoring the dispersion of prices
2. Getting pricing sources from more than one place
3. Paying attention to the dispersion among pricing sources