

FOR IMMEDIATE RELEASE April 20th, 2011: CMRA and IAFE Survey Finds that Despite AXA Rosenberg/SEC Enforcement Settlement 41.1% of Respondents do NOT Escalate Model Errors

In the wake of the AXA Rosenberg/SEC Model Risk [settlement](#), Capital Market Risk Advisors ([CMRA](#)), a pre-eminent risk advisory and litigation support boutique for the past 20 years and the International Association of Financial Engineers ([IAFE](#)), a not-for-profit, professional society dedicated to fostering the profession of quantitative finance today released the [results](#) of a benchmarking survey of market practice concerning model risk.

“The SEC settlement may foreshadow new rules governing model disclosure and oversight not only for quant funds but for banks, insurance companies, asset managers and Institutional Investors,” said Peter Niculescu, CMRA Partner and former Head of Fixed Income Research at Goldman Sachs and former Head of Capital Markets at Fannie Mae.

The survey of financial institutions including banks, asset managers, insurance companies, and institutional investors found that:

- 41.1% of respondents do not escalate model errors
- 42.0% of respondents were surprised by the SEC’s concern with models not related to financial reporting or disclosure and/or by the implication that model errors should be disclosed to the investors
- Among respondents where “models drive business”, only 33.3% were comfortable that they were in full compliance with the SEC’s expectations
- Among Institutional Investor respondents, only 47.7% currently include a discussion of risk governance of models as part of their due diligence process
- 66.2% of respondents have a model review policy but only 49.4% of respondents have error disclosure policies
- Only 48.5 % of respondents have an independent quality control
- 28.1% of respondents don’t have a policy for spreadsheets or 3rd party vendors

- 28.6% of respondents indicated that model reviews were conducted by the model developer rather than independently
- When presented with a list of 13 model “changes”, the participants disagreed as to which were “errors” and which were “enhancements”, there is not a clear consensus on when a “change” or an “enhancement” becomes an “error”
- 36.4% of respondents whose businesses are “model driven” plan to expand their model review process

“One possible result of the SEC settlement could be the application of much greater review and oversight requirements on investment and hedging models as well as on spreadsheets,” said Richard Lindsey, Chair of the IAFE and former Director of Market Research for the SEC.

More detailed results have been sent to participants and will be discussed at the [IAFE Annual Conference](#) on May 16th-17th.



EXPERIENCE MATTERS

Capital Market Risk Advisors (CMRA) is a pre-eminent risk advisory, risk governance, expert witness, and litigation support boutique. Founded in 1991, we offer clients a unique perspective based on Founder [Leslie Rahl](#), Partner [Peter Niculescu](#), and CMRA's Managing Directors Dave Tyson, Frank Iacono, and Richard Horwitz's years of hands-on experience in the evolution of derivatives, risk management, hedge funds, risk governance, structured securities and other complex financial instruments and capital markets issues. We work with asset managers, hedge funds, plan sponsors, mutual funds, banks, insurance companies, and other market participants. Our advisory services includes assessing risk exposures and advising on risk management and strategy, the valuation of complex or illiquid instruments, benchmarking risk management and risk governance practices against best practice, performing comprehensive investment, operational and risk due diligence, advising senior managers and boards with respect to all types of risk management and risk governance issues, developing risk appetite statements, advising on risk reporting and communication, and reviewing and drafting risk management and policies and procedures.

The synergy between our advisory and litigation practices helps us provide advisory clients with insight about what can and does go wrong and provide litigation clients with insight about prevailing industry standards. For more information please go to www.cmra.com



LESLIE RAHL

Leslie Rahl founded CMRA 20 years ago. She is a derivatives pioneer and was Co-Head of Citibank's Derivatives Group in the 80's and on the Board of ISDA for 5 years. She is an experienced Board and Risk Committee Member. She is the author of Hedge Fund Risk Transparency: Unravelling the Complex and Controversial Debate and the editor of Risk Budgeting: A New Approach to Investing. She has an SB from MIT and as SM/MBA from the Sloan School of MIT.



**PETER
NICULESCU**

Mr. Niculescu is a Partner at CMRA and heads Fixed Income Advisory. Peter was an Executive Vice President at Fannie Mae, where he ran the Capital Markets division, responsible for acquisition of securities and loans on balance sheet and for their hedging and funding. During the 1990's, Peter was a Managing Director at Goldman Sachs, where he was responsible for Mortgage and Fixed Income Research. He has a Ph.D from Yale in Economics and is a Chartered Financial Analyst charter-holder.



The IAFE is a not-for-profit, professional society dedicated to fostering the profession of quantitative finance by providing platforms to discuss cutting-edge and pivotal issues in the field. Founded in 1992, the IAFE is composed of individual academics and practitioners from banks, broker dealers, hedge funds, pension funds, asset managers, technology firms, regulators, accounting, consulting and law firms, and universities across the globe. For more information please go to www.iafe.org

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