

MEMO# 23175

January 12, 2009

ICI Comments On The CFA Institute's Proposed Risk Principle

[23175]

January 12, 2009

TO: RISK MANAGEMENT ADVISORY COMMITTEE No. 1-09 RE: ICI COMMENTS ON THE CFA
INSTITUTE'S PROPOSED RISK PRINCIPLE

As you may recall, the Certified Financial Analyst (CFA) Institute recently published for comment a proposal to add a new principle relating to risk management to the CFA's Asset Manager Code of Professional Conduct (AMC). * Because comments on the proposal are due no later than January 16th, during our January 8th call of the RMAC we sought member input on the proposal. Based upon the discussion during the call, the Institute drafted and filed the attached comment letter, which is briefly described below.

The Institute's letter supports the CFA's proposal to add a risk management principle to the AMC. We recommend, however, the following changes to the principle as well as to the narrative information that will accompany it:

- Limiting the scope of the principle, which will be applicable to investment managers, to the investment risk management process;
- Requiring the risk management process to include establishing risk tolerances;
- Broadening the list of risks mentioned in the narrative discussion of the principle to include all of the risks discussed in the Risk Principles For Asset Managers, published by the Buy Side Risk Managers Forum;
- Revising the provision stating that it is "imperative" to have the risk management process "independent of the portfolio management process" to recognize both the important role that may be played by portfolio managers in risk identification and

control and the inability, due to resource or other constraints, of some managers to divorce risk management from portfolio management;

- Encouraging managers to challenge risk models in addition to continuously evaluating them; and
- Expanding the discussion of risks considered in the narrative to correspond to those covered by the principle.

The letter discusses our reasons for each of these proposed revisions. The Institute appreciates the input of the RMAC in drafting this letter.

Tamara K. Salmon
Senior Associate Counsel

[Attachment](#)

endnotes

[*](#) See Institute Memorandum to RMAC No. 23126, dated December 16, 2008, which discusses the proposal in detail and includes a link to it.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.