THE JOURNAL OF DERIVATIVES

A LETTER FROM THE EXECUTIVE DIRECTOR OF THE IAFE

Dear Subscribers,

This past fall has been a whirlwind of activity! Since September, we have hosted six programs of all sizes and shapes, broken our event attendance records, named the 2003 FEOY, and kicked off our annual membership drive. As we look forward to 2004, I'd like to thank all of our continuing members for their tremendous support.

The 2003 IAFE/SunGard Financial Engineer of the Year

The IAFE and SunGard are pleased to announce that Dr. Darrell Duffie, the James Irvin Miller Professor of Finance at the Graduate School of Business, Stanford University, has been named the 2003 IAFE/SunGard Financial Engineer of the Year. The eleventh recipient of the award, Dr. Duffie joins a prestigious list of individuals who have contributed to the advancement of financial engineering technology. Dr. Duffie, a member of Stanford's faculty since earning his Ph.D. there in 1984, is the author of books and articles on asset valuation, credit risk, derivative securities, incomplete financial markets, financial innovation, and risk management. Dr. Duffie's most recent research focuses on the empirical behavior of default probabilities and of default-swap prices, and on the theory of over-the-counter market valuation. The award will be presented to Dr. Duffie at the IAFE/SunGard Financial Engineer of the Year Award Gala Dinner, which will be held on February 5, 2004, at the United Nations in New York City.

A REVIEW OF FALL EVENTS

How I Became a Quant: Financial Engineers Give a Personal View of Their Careers in Quantitative Finance

The IAFE Education Committee and the Fischer Black Memorial Foundation hosted the second program in its ongoing series of career panels for students interested in quantitative finance on September 23 at Goldman Sachs in New York City. Close to 100 students heard insights from our terrific panel: Peter Carr (Bloomberg/NYU), Cristobal Conde (SunGard), Bjorn Flesaker (MBIA), and Evan Picoult (Citigroup). Many thanks to our kind moderator, Suzanne Lewis (JPMorgan Chase)! We look forward to hosting more programs in this successful series in 2004 and to welcoming an ever more diverse group of students and young practitioners.

2003 National Financial Mathematics Career Fair

Co-Hosted by IAFE, NYU Courant Institute and SIAM

We proudly co-hosted the Third Annual National Financial Mathematics Career Fair in New York City on October 17. It was far and away our best fair to date! 26 recruiters brought a total of 100 staff to meet with 300+ students in financial mathematics masters degree programs. Bear Stearns, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, were just some of the top-flight financial institutions recruiting at the career fair! It was also a pleasure to welcome eighteen degree programs, including Carnegie Mellon, Columbia, Cornell, NYU, and the University of Chicago. The fair began with a one hour "How I Became a Quant" program. We were lucky to have Tanya Styblo Beder (Caxton Associates), Julia Chislenko (JPMorgan Chase), Mike Mendelson (Goldman Sachs), and Eric Reiner (UBS) as our panelists, and Karim Beguir (JPMorgan Chase) as our kind moderator. The main career fair itself was a bustling afternoon of visiting recruiter booths, learning more about the companies, and private interviews. Thanks to all the recruiters for participating!

Hedge Funds at the Crossroads

On October 23, the IAFE hosted more than 325 people for a 2 hour forum on some of the looming issues in the hedge fund industry. The panel included Mark Anson (CalPERS and IAFE Board Member), Tanya Styblo Beder (Caxton Associates and IAFE Chairman), William Goetzmann (Yale), Patrick McCarty (CFTC), and David Mordecai (Risk Economics and IAFE Advisory Board Member). Our moderator was Hal Lux (Paloma

Partners and Institutional Investor). The audience heard diverse perspectives on the recent SEC staff report, the adoption of hedge-fund style trading by some mutual funds, retail investors, smoothing returns, and the market timing/late trading scandal. The IAFE has received an enormous amount of positive feedback from this forum, which will shape future events on this and other topics. We'd like to thank our sponsors for this event—Financial Risk Management, Institutional Investor Journals, and SunGard Trading & Risk Systems—as well Leon Metzger (Paloma Partners), the Chair of the IAFE Advisory Board, for his help with this event.

Operational Risk: Achieving a Balanced Quantitative/Qualitative Approach

The IAFE Operational Risk Committee hosted its second meeting of the year on October 30 at Goldman Sachs in New York City. Our moderator, Charles Fishkin (Fidelity Investments and IAFE Board Member), led an intelligent and informal discussion among our panelists—Richard Campbell (Wachovia), Lloyd Hardin (Fitch Risk), and Joseph Sabatini (JPMorgan Chase)—about the journey of operational risk management. In particular, the panelists stressed a consensus view that both quantitative and qualitative approaches to operational risk are essential and will be increasingly knit together as the field matures. Close to 100 guests joined us for the evening forum and the cocktail reception afterward. Thank you to our sponsors: Fitch Risk and SunGard Trading & Risk Systems.

Macrofinancial Risk Forum

The IAFE presented a forum discussion on macrofinancial risk on November 3 at Goldman Sachs in New York City. The program began with a brief presentation by Dale Gray (MfRisk and Moody's) on a new macrofinancial risk framework that applies modern financial engineering tools to risk in developed and emerging market economies. A panel of practitioners—made up of Dale, George Handjinicolaou (Etolian Capital and IAFE Advisory Board), Erwin Martens (TIAA-CREF), and Cheryl Rathbun (Citigroup)—then discussed possible applications for the model. In particular, the forum addressed the effects of new participants, agents, and instruments; risk management and portfolio credit risk analysis; possible trading applications; risk management at the sovereign level; and political risk. We would like to thank the evening's sponsors—MfRisk and Moody's—for helping us to host this interesting event.

IN MEMORIAM

It is with a deep sense of loss that we note the passing of our close friend and colleague Franco Modigliani, who died in September at age 85. Long-time members of the IAFE know Franco as a founding Senior Fellow of the Association as well as a long-time faculty member at MIT. Franco's pioneering work on how people save and the role of debt in determining the value of corporations earned him the 1985 Nobel Prize for Economics along with fellow Laureate and IAFE Senior Fellow, Merton Miller. We are grateful for all of his insights and contributions to the field of financial engineering as a discipline and as a global profession. We will especially miss his scholarship, kindness, and incredible energy. The Board of Directors and the worldwide membership of the IAFE extend our sincere condolences to his wife, Serena, two sons, Andre and Sergio, and four grandchildren.

ANNUAL MEMBERSHIP DRIVE

It's that time of year again: the IAFE Membership Drive has begun! This is a great time to renew or join for the first time. Premium IAFE Members receive the Journal of Derivatives at a substantially discounted price—it's a great combination. Signing up is easy and online at www.iafe.org!

Best regards,

Annie Bystryn
Executive Director, IAFE