The panel also agreed that firms have always managed operational risk but have not always measured it. Enterprise risk management is a new systematic approach to mathematically aggregate risks. Although there is continuing progress in the development and application of quantitative approaches, qualitative controls play a crucial role in mitigating large losses. The challenge that firms now face is marrying both the quantitative and qualitative approaches.

Some panelists observed that customers and clients are becoming better educated about operational risk management practices. In some instances, customers may prefer a regulated entity, particularly in a fiduciary relationship, although the market does not yet appear to have made a clear distinction. One panelist noted that in the U.K. there is less of a distinction between regulated and non-regulated entities and this could become a model for the U.S.

The IAFE would like to thank Fitch Risk and SunGard Trading & Risk Systems for generously sponsoring this forum and Goldman Sachs for kindly providing space.

Post FAS 133: Where We Stand in the Move to Fair Value Accounting, May 13, 2004

The IAFE hosted a forum on the shift to mark to market accounting on May 13 in New York City. Beginning with the release of Financial Accounting Standard No. 133, accounting standard setters took the first concrete step on the road to basing financial reports on fair values, rather than historical costs. The transition to this alternative accounting orientation will likely span several years. However, the implications are already significant. Thus the IAFE hosted this forum to keep its membership abreast of these issues, which affect individuals in both the accounting and financial engineering fields.

Our panel was composed of Susan Schmidt Bies, Governor, the Board of Governors of the Federal Reserve System; Ira Kawaller, President, Kawaller & Company, LLC. and IAFE Advisory Board Member; and Leslie F. Seidman, Board Member of the Financial Accounting Standards Board. Douglas Summa, Director, Financial Services Industry Practice, PricewaterhouseCoopers, was our moderator for this informative forum.

Ms. Seidman began the program by outlining FASB's immediate objective of reaching consensus with the accounting community regarding current accounting rules and practices in connection with those instruments that receive fair value treatment currently, before embarking on a second phase where rule changes might be considered. Governor Bies shared the perspective of bank regulators, and offered her opinion that fair value accounting may not be a panacea; and Dr. Kawaller addressed the practical difficulty of valuing instruments that are not actively traded, focusing explicitly on the problem of valuing options. A lively Q&A session followed their remarks.

The IAFE would like to thank SunGard Trading & Risk Systems for generously sponsoring this important program and Goldman Sachs for acting as our kind host, yet again.

I am also delighted to announce that the IAFE has recently hired a new Director, David Jaffe, who will be authoring the IAFE letters in future issues. David comes from a background in professional society management and the Board of Directors and I are fully confident that he will do a terrific job. As for myself, I will be leaving the IAFE in July to go on to graduate school. It has been a wonderful two years working for the IAFE, and I would like to thank everyone with whom I have spoken and worked for making it such an enjoyable experience.

Best regards,

ANNIE BYSTRYN
Executive Director, IAFE

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A LETTER FROM THE EXECUTIVE DIRECTOR OF THE IAFE

Dear Subscribers,

The spring has been a great time for the IAFE. This season, we have offered valuable forums on a diverse set of topics. Furthermore, this summer we are looking forward to hosting our annual conference on June 3 and an IAFE Technology Committee event on reference data management on July 8. It is the IAFE's mission to respond to the ever-evolving field of quantitative finance with relevant and timely forums. So it is with real pleasure that we present this review of our three spring events, each of which focused on a different topic that is of genuine and current interest to our members.

How I Became a Quant, March 24, 2004

The IAFE Education Committee and the Fischer Black Memorial Foundation hosted another event in our ongoing series of career panels for students interested in quantitative finance on March 24 at Goldman Sachs in New York City. Nearly 100 students and junior practitioners participated in a lively panel discussion. We were lucky to have as our speakers Noel Donohoe, Head of Firmwide Risk, Goldman Sachs; Joseph Langsam, Managing Director, Fixed Income Division, Morgan Stanley; Charles Lucas, Vice President and Director of Market Risk Management, AIG; Allan Malz, Risk Manager, The Clinton Group; and Dan Rosen, Vice President of Strategy and Business Development, Algorithmics. It was also terrific to welcome back Karim Beguir, JPMorgan Chase, and recent graduate of NYU's Courant Institute to moderate another of these exciting programs. Each "How I Became a Quant" program provides a medley of perspectives from experienced practitioners and academics. Moreover, they are unmatched opportunities to get hands-on insights into the field and understand the broader perspective of building a satisfying career in quantitative finance over a lifetime. The IAFE and the FBMF are extremely grateful to all the speakers who have participated in this series. We have also been gratified by the tremendous feedback we have received from student attendees. Our plan is to host future events in this series in Boston and California, so stay tuned to our web site for details in the fall!

Is There a Level Playing Field in Operational Risk? Banks vs. Non-Banks in the Operational Risk Space, April 29, 2004

The IAFE Operational Risk Committee (ORC) presented a lively panel discussion entitled "Is There a Level Playing Field in Operational Risk? Banks vs. Non-Banks in the Operational Risk Space" in New York City. The ORC's first program of the year was moderated by Charles Fishkin, who is Vice President of Firmwide Risk at Fidelity Investments and an IAFE Board Member. The panel was composed of Allan Cuttle; Marie Gaudioso, Managing Director Operational Risk Management, Bank of New York; Charles Lucas, Corporate Vice President and Director Market Risk Management, AIG; and Dan Mudge, Group Managing Director, Fitch Risk. Each of the participants contributed to the forum in their own individual capacities.

One of the goals of the panel was to explore the differences between banks and non-banks in their respective approaches to operational risk and to examine implications for client service and market perceptions.

The panel agreed that the most compelling reason to strengthen operational risk controls both for banks and non-banks were business needs and not a stronger regulatory environment. Companies should establish best practice methodologies over time and then leverage regulation to create an integrated approach.