

Seven Ways to Mitigate Model Risk for Non-Quantitative CCOs

Some CCOs overseeing quantitative or quantamental strategies may feel like they have to accept model risk due to limited compliance expertise, but these seven steps can significantly mitigate these risks.



Compliance Testing

Consider dispersion tests, targeted email reviews, and other compliance tests focused on models.



Risk Rate Models

Work with the investment team to inventory and risk rate models allowing you to focus resourcing on the highest priority ones.



Segregate Duties

Ensure that models are coded, tested and deployed by professionals whose compensation is not dependent on model profitability.



Policies and Procedures

Implement policies designed to clarify the requirements around testing, validation, model deployment and governance.



Ensure Accurate Disclosure

Review your disclosure about investment models, technology, optimizers and AI vs. your practices and procedures to identify and correct any gaps or overstatements.



Comprehensive Documentation

High risk models should have comprehensive and updated documentation showing investment philosophy, limitations, types of inputs, and records of testing and calibration.



Validation and Calibration

If model risk is high, invest in an independent model validation function, whether insourced or outsourced.



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