

Course content: Financial Risk Management (FRM)

1. Foundations of Risk Management

This area focuses on a candidate's knowledge of foundational concepts of risk management and how risk management can add value to an organization and includes:

- An understanding of corporate risk governance and the trade-off between risk and return
- The construction of efficient portfolios
- Fundamental asset pricing models
- Enterprise risk management frameworks
- Data quality management
- A review of major financial disasters
- To emphasize the importance of ethics as a fundamental requirement for sound risk management, applications of the GARP Code of Conduct to professional situations are covered in this section as well

2. Quantitative Analysis

This area tests a candidate's knowledge of basic probability and statistics, regression and time series analysis, and various quantitative techniques useful in risk management such as:

- Monte Carlo methods
- Volatility forecasting models
- Value-at-Risk estimation

3. Financial Markets and Products

This area tests the candidate's knowledge of financial products and the markets in which they trade, including:

- Futures and forwards
- Equity options, swaps, and other derivatives
- Commodities
- Currencies
- Corporate bonds and interest rates
- A basic understanding of arbitrage arguments and hedging related to these financial products

4. Valuation and Risk Models

This area of FRM Pa will test a candidate's knowledge of valuation techniques and risk models. This includes:

- Basic bond valuation and bond hedging
- Valuation using binomial trees
- An understanding of the Black-Scholes-Merton model
- Value-at-Risk (VaR)
- Expected and unexpected loss estimation
- Stress testing