CFA versus FRM

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Gone are the days when the entire global economy was booming and every Tom, Dick and Harry with no strong academic background could notch up a decent job. Firms around the world are endorsing cost-cutting by pruning staff and having a hiring freeze. Quality jobs in these type of conditions require solid academic background and nothing less.

I often get this question about the CFA versus the FRM. I don't have a great answer because:

1. Individual goals vary (we want different things from our certifications),
2. Job markets are diverse. The CFA is helpful if you want to work in equity research or, say, become a distressed debt analyst. The FRM would be more relevant to a risk manager (but the FRM, at the moment, is probably not a prerequisite for any job). For other Financial Services jobs (e.g., consulting, sales, management), these credentials are elements that complement your overall presentation. Like the MBA (which has suffered some commoditization), they don't buy you advancement per se, rather they enhance your portrait.
3. It's getting harder to generalize about job markets, even accounting for their diversity. Almost across the board, there is a higher bar on technical skills (e.g., visual basic) or specialized knowledge (e.g., CPA, SOX)
4. Please also note that under the financial certification umbrella, you have more and more choices. Each with their own focus. Just two examples. In alternative investments, we now have the **Chartered Alternative Investment Analyst**. In performance measurement and evaluation, the CFA Institute recently opened a **Certificate in Investment Performance Measurement**. Certification fragmentation, I suppose, follows naturally from the trend toward skills specialization.

Why do we sit for these financial certification exams?

Both exams make extraordinary demands on your extracurricular time. A professional analyst once told me he hadn't sat for the CFA because it would require "giving up my Spring and my Summer" (that would be, in the case of the CFA, three years or six sacrificed "seasons"). I think he is roughly accurate about both exams. According to the published guidance, the CFA Level I requires a "minimum of 250 hours of study."

And while GARP does not, to my knowledge, provide formal timeline guidance for the FRM, I think the average FRM candidate probably needs *at least* 250 hours of study before the exam. Some can spend less time, but I bet among the majority who fail the FRM, their main regret is they underestimated the amount of preparation time required. But notice one difference already: the CFA is a minimum three year commitment (work experience aside) and the FRM is a one year commitment. Although the FRM is harder than any one CFA Level. I'd say it is about 150% - 175% more difficult than the Level I CFA.

Why sit for these exams? I can think of two reasons:

- To get a better job (or enjoy the *prestige* of a respected credential)
- To learn (new material, refresh old material)

Job market trends

Broadly, I perceive the following general trends concerning job markets in financial services

- **Quant Finance occupies rarified air where the CFA/FRM won't really help you**: Surely the headline in recent years is the soaring popularity and importance of Quantitative Finance, or if you like, Financial Engineering (the domain of the "Quants"). This will continue and I seriously doubt the recent subprime fallout, however bad, will put any dent on the demand for this talent. At the top of the skills pyramid, demand for quants will outpace supply for the foreseeable future. But the Quant Finance professional track is a specialized market; you need a Masters in Financial Engineering or a PhD to compete here. (I am not aware that either the CFA or the FRM even help, as much as I'd like to wish otherwise!
- **But Basic Quant and General Finance (quantitative talent) are relevant everywhere and more important than ever**: Below the specialty level of hard core Quantitative Finance, basic quantitative skills and general finance (e.g., CFA or FRM) are becoming more relevant to all finance jobs. Years ago, when I consulted to asset managers, a typical relationship manager was an old-school salesperson. But this has changed. As the business has gradually institutionalized, the jobs have become more professional (i.e., requiring threshold sets of competencies). Nowadays, the salesperson (relationship manager, account manager) is often financially sophisticated. Often he or she has an MBA or maybe even a CFA.

- **The bar has been raised. You now compete with talented hybrids.** Students get credentials earlier. And experienced workers add credentials. Many are not satisfied to be mere experts (nobody wants to be an "expert in a silo" where they cannot understand how their expertise connects to the business), they want be facile across disciplines. And, if you think about it, leaders must bridge disciplines. You see more hybrid personalities: people who are expert in one domain and impressively exposed to additional domains. There seems to be everywhere a recognition that all key jobs are, to some degree or another, *interdisciplinary*. Nowadays, on the supply side, recent MBA graduates are often *triple threats*: the graduate degree, a "first degree" in a hard science (e.g., math, engineering), and off-path, valuable real-world experience (e.g., product manager).

About the CFA

The CFA was traditionally a credential for the sell-side equity analyst at an investment bank. But its appeal has broadened over the years. It is now typical to see job descriptions for Consultants that "prefer an MBA or a CFA." Or, the following are among the requirements for a Strategist at a major money manager: "1. Bachelors, Masters, or PhD in a quantitative subject (math, statistics, economics, and finance); **and** 2. CFA, Actuarial or similar professional qualification."

In many cases, the CFA has *more perceived value* that an average Finance MBA (unless the Finance MBA is earned from a globally prestigious school). I sort of view the CFA as the today's Finance MBA. The Finance MBA, in my opinion, has suffered gradual commoditization over the years and is sort of stuck in the middle between two dynamic markets. One, true mathematicians with PhDs or Master's in Financial Engineering are wanted for the Quant jobs. Two, the supply for generalists now includes many streams of qualified, non-MBA candidates (e.g., economists, experienced workers; and my pick for tomorrow's hot job, anthropologist). And firms are more eager to directly recruit exceptionally talented undergraduates, some of whom amass credentials like the CFA seemingly before they've worked much.

Nowadays, an average Finance MBA plays a merely supporting role in a candidate's overall presentation. But the CFA still has glossy sex appeal. On the hiring side, the CFA enjoys a prestige that was, years ago, attached to the Finance MBA. Pretty much everybody knows what the CFA is, and they respect what it signifies about your education.

Organizationally, the CFA Institute is bigger and more mature than GARP; conversely, GARP is growing faster while the CFA has announced it is now entering its second big phase, dubbed the "Membership Era." Translation: we won't be adding new members as rapidly as in the past, so let's focus on our existing members. But the larger size and maturity of the CFA Institute confers the following perqs:

- One of the best job boards on the web (I routinely get requests to post jobs under my account due to the focused audience)
- A voluntary continuing education program that was good even before the CFA recently increased their focus on, and their resource allocation to, continuing education. The CFA Institute has *fabulous* continuing education resources
- The actual exam is the gold standard of financial certification exams. From soup to nuts, it is truly marvelous. The body of knowledge is carefully undated each year, their authors are typically "the final-word Gurus" in their area (e.g., Fabozzi in Fixed Income), and their reading materials continue to impress me each year. Recently, the readings were bundled into the exam; e.g. a six volume set for Level I. I think this six-volume set for Level I is just about the best, most well-organized introduction to finance that you can find anywhere. If you could take only one finance text on your desert island sabbatical, I think it should be the Level I CFA readings.

About the FRM

As the CFA is traditionally linked to an equity analyst, the FRM traditionally served to credentialize a risk manager at a bank. As proof, consider GARP now starts their advertising with "The FRM is not just for risk professionals in banks." Both organizations (CFA Institute and GARP) are actively seeking to broaden their appeal, and in my view they are both succeeding. But the CFA is further along.

I would say that the job market for an FRM is less concretely defined than the market for a CFA. When I talk to people, almost everybody knows what the CFA is. It continues to surprise me that not everybody knows what the FRM is! And if they don't know what it is, then it follows they don't know how much pain it took to earn it. Further, where it is common to see "Chartered Financial Analyst" as a job preference or job requirement, I cannot remember the last time I saw "FRM preferred or required."

But this is mostly due to the relative youth of the FRM credential. Risk is a hot topic and the FRM has a very bright future. Academic institutions are a rapidly growing FRM constituency. Both the CFA Institute and GARP (who administers the FRM) actively seek to partner with universities. Also, regulatory bodies. Even energy companies. And most recently, insurance companies. (In addition to the original constituencies, commercial banks and central/regulatory banks).

I would say that, against the traditional risk manager job market, the FRM is a solid and valued credential. But some qualifiers:

- Unlike the CFA which has no direct competition, the FRM has direct competition in the Professional Risk Manager (PRM) certification (so you have two choices for a risk designation)
- If you want to be an equity analyst, the CFA might be all you need (I would argue it is a pinnacle designation for many careers). At the moment, the FRM is

generally (in my opinion) a complementary sort of credential, not a destination unto itself.

As mentioned before, GARP is growing fast (20-30% per year) so they don't have a continuing education program yet. Their online resources are coming into their own. And, where the CFA Curriculum is a case study in purposeful, well-organized content, the FRM is a bit uneven in areas (e.g., some of the quant readings are stale; operational risk it tough to cover and it shows). These "growing pain" challenges aside, I am partial to the FRM: I think the five competencies (quantitative, market risk, credit risk, operational risk, and investment risk) provide a great blend of **both** foundation **and** cutting-edge theory. So, you get exposed to the traditional stuff (e.g., portfolio theory, fixed income) but, at the other end of the spectrum, you get to grapple right along with GARP as they grapple with the definition of a new frontier (what is operational risk, after all?) and as they systemize very timely content (e.g., credit derivatives).