

## CANTOR FITZGERALD

# RISK MANAGEMENT

The Partnership manages risk by employing lines of defense. It is the responsibility of the Group's business units and functions to identify the most material risks faced by the business area under their oversight as the first line of defense. This is supplemented by review and oversight by Control groups including Risk Management, Compliance, Operations, and Information Security departments as a second line of defense. Internal Audit acts as the third line of defense to provide an independent and objective review of the first and second lines of defense.

The methods used to identify risks can vary across business units and functions, but typically, such risks would include:

### FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET RISKS

**Credit Risk** – Credit risk arises from potential non-performance by counterparties. The Partnership has established policies and procedures to manage the exposure to credit risk. The Partnership maintains a thorough credit approval process to limit exposure to counterparty risk and employ stringent monitoring to control the counterparty risk for the matched principal businesses. The Partnership's account opening and counterparty approval process includes verification of key customer identification, anti-money laundering verification checks and a credit review of financial and operating data. The credit review process includes establishing an internal rating and any other information deemed necessary to make an informed credit decision, which may include financials, correspondence, due diligence calls and a visit to the entity's premises, as necessary.

### FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Partnership enters into TBAs to facilitate customer transactions and provide an economic hedge for the Partnership's trading inventory. The Partnership also enters into swaps and futures contract to provide an economic hedge for the Partnership's trading inventory. The Partnership also enters into option contracts to facilitate customer transactions. Such transactions may expose the Partnership to significant off-balance sheet risk in the event the collateral is not sufficient to fully cover losses, which customers may incur. In the event the customer fails to satisfy its obligations, the Partnership may be required to purchase or sell the collateral at prevailing market prices in order to fulfill the customer's obligations. The Partnership's customer financing and securities settlement activities may require the Partnership to pledge customer securities as collateral in support of various secured financing sources, such as securities loaned.

**Trading Activities** – The Partnership's trading activities include providing securities sales and trading, including brokerage services to institutional clients and other broker-dealers. To facilitate customer transactions, the Partnership will take principal positions in financial instruments, such as government, agency, mortgage-backed securities, corporate obligations, equities and options facilitation.

**Market Risk** – In the normal course of business, the Partnership enters into transactions to purchase inventory securities and sell securities not yet purchased, which are recorded as assets and liabilities in the Partnership’s consolidated statements of financial condition. Market risk is the potential loss the Partnership may incur as a result of changes in the market or fair value of a particular financial instrument. The Partnership’s exposure to market risk is determined by a number of factors, including size, duration, composition and diversification of positions held, the absolute and relative level of interest rates and foreign currency exchange rates, as well as market volatility and liquidity. The Partnership manages market risk by setting and monitoring adherence to risk limits, including hedging, aging, notional and concentration limits.

**Operational Risk** – In providing a comprehensive array of products and services, the Partnership may be exposed to operational risk. Operational risk may result from, but is not limited to, errors related to transaction processing, breaches of internal control systems and compliance requirements, fraud by employees or persons outside the Partnership or business interruption due to systems failures or the other events. Operational risk may also include breaches of the Partnership’s technology and information systems resulting from unauthorized access to confidential information or from internal or external threats, such as cyber-attacks. Operational risk also includes potential legal or regulatory actions that could arise as a result of noncompliance with applicable laws and/or regulatory requirements. In the case of an operational event, the Partnership could suffer a financial loss as well as damage to our reputation.

**Foreign Currency Risk** – The Partnership is exposed to risks associated with changes in foreign exchange rates. Changes in foreign exchange rates create volatility in the U.S. Dollar equivalent of the Partnership’s revenues and expenses. In addition, changes in the remeasurement of the Partnership’s foreign currency denominated financial assets and liabilities are recorded as part of its results of operations and fluctuate with changes in foreign currency rates. The Partnership monitors the net exposure in foreign currencies on a daily basis and hedges its exposure as deemed appropriate with highly rated major financial institutions.