



CASE STUDY

# Due Diligence of a Futures Commission Merchant and Broker-Dealer

FTI Consulting team performed a comprehensive due diligence of a large futures commission merchant (“FCM”) and broker-dealer for the private equity arm of an investment manager looking to invest in the business.

## SITUATION

An investment manager was considering an investment in a large FCM and broker-dealer based in the United States, subject to an independent due diligence of the business.

The scope of the review covered all aspects of the business, including execution, market making, proprietary trading, compliance, technology infrastructure, and cybersecurity practices.

Our due diligence was conducted during the severe market disruptions created by the onset of the COVID-19 pandemic, which caused large market moves, high volatility and stressed valuations/liquidity conditions. This environment, extreme by historical standard, offered a stress scenario to evaluate the company’s risk taking and risk management framework for strengths and weaknesses.

## OUR ROLE

The FTI Consulting team reviewed the risk taking and the risk management of the various desks; we analyzed the time series of the performance and risk metrics of each desk (e.g., P&L, drawdowns, Value at Risk, stress scenarios) and evaluated their consistency with the stated activity/desks' mandates.

We analyzed the firm's market, credit, liquidity, and operational risk frameworks, its systems, and its risk measures and reports.

- We assessed the FCM's clearing risk management approach vs. industry best practices.
- Focus was placed on evaluating the firm's repo and reverse repo activity and the firm's liquidity and financing.

The FTI Consulting team assessed the compliance framework and focused on the policies, the KYC/onboarding process, the trade surveillance procedures and its system for monitoring trading activity.

We reviewed staff management, including key people risks, qualifications, and training and retention policies.

The FTI Consulting team evaluated the information technology infrastructure, systems and trade flows, business continuity planning and cybersecurity posture.

## OUR IMPACT



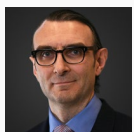
The investment manager client appreciated and valued our deep industry expertise and trading/investment experience with high volatility environments that gave us a strong ability to understand key risk exposures.



The client conveyed their appreciation, stating:

*“Your analysis has helped illuminate the black box for us and has been critical in our understanding of the business / assessing the key risks.”*

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