



Foreign Exchange Execution Strategy: Afterthought To Insight

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Exploring Your Foreign Exchange Process

International investing is nothing new but lately, news stories have suggested that best practices in electronic currency trading generally – and best execution specifically – are not necessarily very well known or understood. That has led some pension funds and other big investors to reassess their foreign exchange execution strategy.

To be sure, when executing trades in international markets, currency exposures cannot be an afterthought because they may occur on the back of equity or fixed income transactions. We have found that answering the following four key questions for your organization will ensure you are on the right path to thoughtful foreign exchange trading execution.

1 What risks do you have and where do they come from?

Understand what proportion of your portfolio is impacted by foreign currency exposure and the potential hidden costs that you may be incurring. It is no longer feasible to focus exclusively on hedging your equity and fixed income risk. Many industry leaders recognize that while FX can be a derivative of other transactions, it is still possible to understand the costs, both implicit and explicit, of how they trade FX. A considered approach should be taken to evaluating when to execute through an independent third-party versus when to use a local custodian. For example, for major G10 currencies, managing execution through a third-party may be feasible, whereas in emerging markets, where settlement and operational expertise may be less accessible, using a local custodian may be more economically practical.

2 Which execution techniques are most appropriate?

Since there are many execution strategies, carefully evaluate which of the following execution mechanisms is appropriate for your specific objectives: request for quote or stream (RFQ), collaborative or portfolio trading with your counterparty, central limit order book or phone trading. The choice can vary based on your requirements and market conditions. Most trading today is through electronic venues that provide multiple execution strategies and tools to benchmark performance. Your organization should develop an execution framework which should be evaluated on an ongoing basis. Both investors and regulators expect you to demonstrate that you have followed the practices that you have determined.

3 Is your workflow process efficient?

Effective trade execution can eliminate unnecessary operational risk and result in cost savings for stakeholders. How many people do you have touching data for your trading? Employing straight-through processing (STP) within your back office is another area for further review. Efficient workflow procedures let your organization manage by exception and take advantage of control processes that allow you to focus on your core business strategy without the distraction of manual procedures.

4 How do you measure performance?

It is essential to have the appropriate compliance, reporting and audit trails in place. If you are not incorporating a procedure that includes a documented procedure and time stamps, then you may be opening your organization up to unnecessary exposure as these are crucial components to assessing the quality of your execution. These procedures give you the ability to go back to your stakeholders to demonstrate that you have followed the practices that you have determined are appropriate for your organization. Having useful metrics will allow you to show that you have achieved best execution through measurable processes and that you have the data to support your execution decisions.

The FXall Experience

Increased transparency illuminates areas overlooked in the past that now need to be addressed. It is now easier for investors and stakeholders to evaluate when fiduciary responsibilities are being met. The buy-side must be sophisticated enough to understand the range of execution and reporting tools available to manage their global exposures. Our experience is that many buy-side clients have already put in place the appropriate measures to establish thoughtful processes and define their best execution goals, along with procedures to achieve and measure their performance. Taking a strategic approach to FX trade execution, will not only allow you to apply best practice, but will allow your business to take advantage of new opportunities in this fast-paced market.

When choosing a partner, it is important to understand each party's role in the execution process and how they are compensated. Selecting advisors and vendors, such as trading platforms that are neutral, independent and completely transparent is certainly a good first step. Tools that shed light on your execution process can provide the insight you need to get above average results. Look for partners who add value through their consultative approach and understanding of your strategic objectives, so you can put full focus on your primary business.

As the leading independent institutional electronic platform for foreign exchange trading, FXall offers the broadest suite of flexible execution tools, end-to-end workflow management and straight-through-processing to give its clients an edge.

Our expertise, resources, commitment and neutrality help ensure liquidity in all market conditions for more than 1,000 active traders, asset managers, corporate treasurers, banks, broker-dealers and prime brokers around the globe.

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