

The Grey Costs of FX

How far to true best execution?



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Grey Costs of FX

Key Survey Findings

Grey Costs of FX: Overview



How close are we to providing best execution today? What are the challenges that are holding us back and where are we driving change to increase efficiency today?

Sponsored by **National Australia Bank** & **Lumint**, with the support of **NewChangeFX** and **ACI**, this benchmarking campaign set out to explain how and where our FX processes are transforming today and based on what key drivers.

This document summarises the key statistical findings of our campaign so far, prepared by the **ValueExchange** and **HD Financial Consulting**. We would love to hear your reactions to these findings and so please reach out if you have any comments or questions (to info@thevalueexchange.co)

Run in **June/July 2021**, this survey draws on direct feedback from industry specialists around the globe: from all industry segments (investors, banks, brokers, exchanges, etc.) and geographies.

Segment	Percentage
Investors	45%
Banks / Brokers	20%
Asset owners	25%
Other	10%

All of the data in this Key Findings is drawn from our interactive data dashboard. Please contact us if you would like to explore this data yourself.



Key Findings

The Case for Change

39%

Of the industry is not tracking any TCA for FX

72%

60% of investors are overlooking 72% of our FX costs

10%

Staff costs are expected to grow by over 10% globally in 2022

Yield

Yields are as important as regulatory compliance in making us track our FX costs today

The Case for Outsourcing

67%

Of investors are planning a technology change in 2022

36%

36% of respondents have outsourced their FX execution today

54%

of fund managers have outsourced their TCA reporting

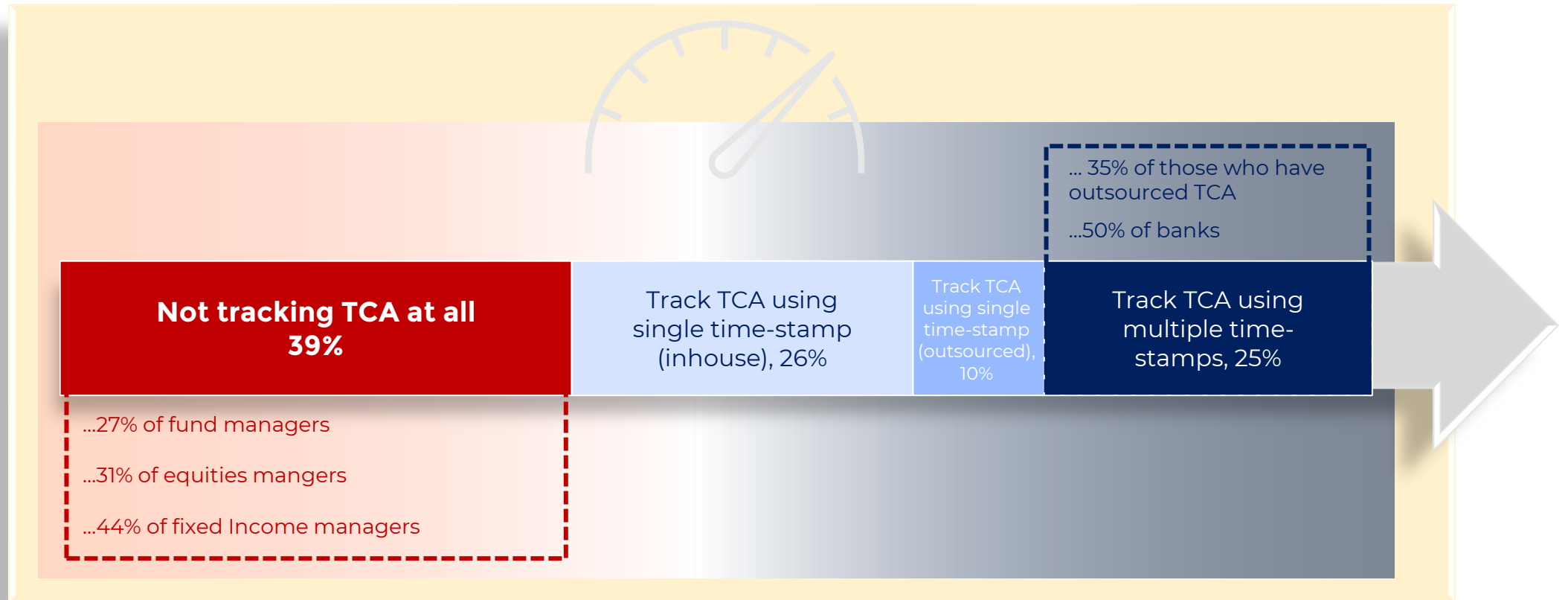
65%

Of banks have already invested in system change (in 2020)



The Case for Change

39% of us aren't tracking our FX TCA

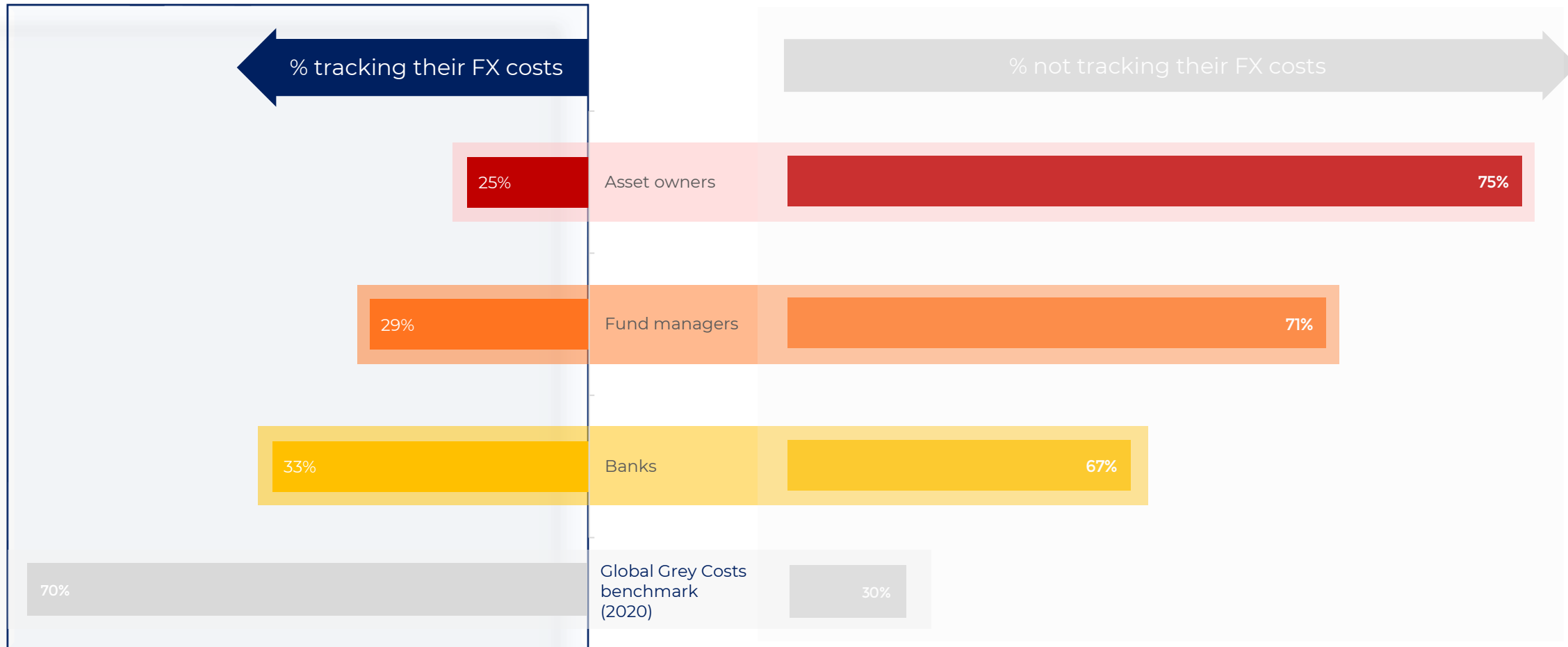


Question: How do you currently calculate your Transaction Cost Analysis (TCA) for FX? (All respondents)



The Case for Change

Less than 30% of investors have a view of their total FX costs – beyond TCA



Question: Do you currently track a "Cost per trade" methodology (outside of your TCA)?
Source: FX expert panel



The Case for Change

Why track a cost per trade? Imbalance between banks and their clients – but MIFID isn't the only driver for investors

Banks (3.1)

Investors (2.7)



Alpha generators are harnessing cost control to drive the client relationship

3.3	Competitive differentiation (e.g. sharing data with clients)
3.0	Enhancing yield
2.6	Regulatory Requirements

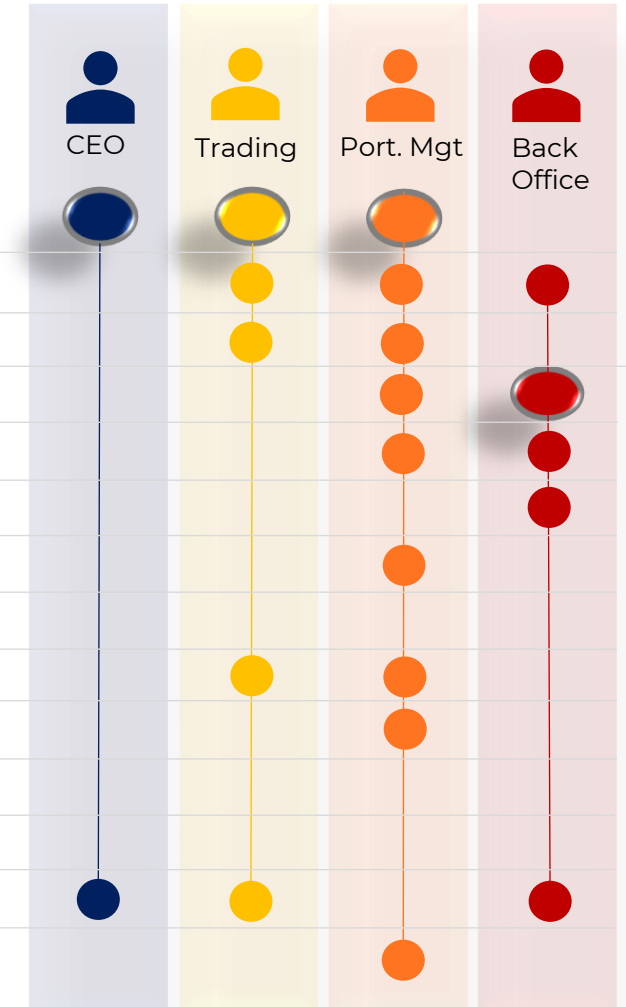
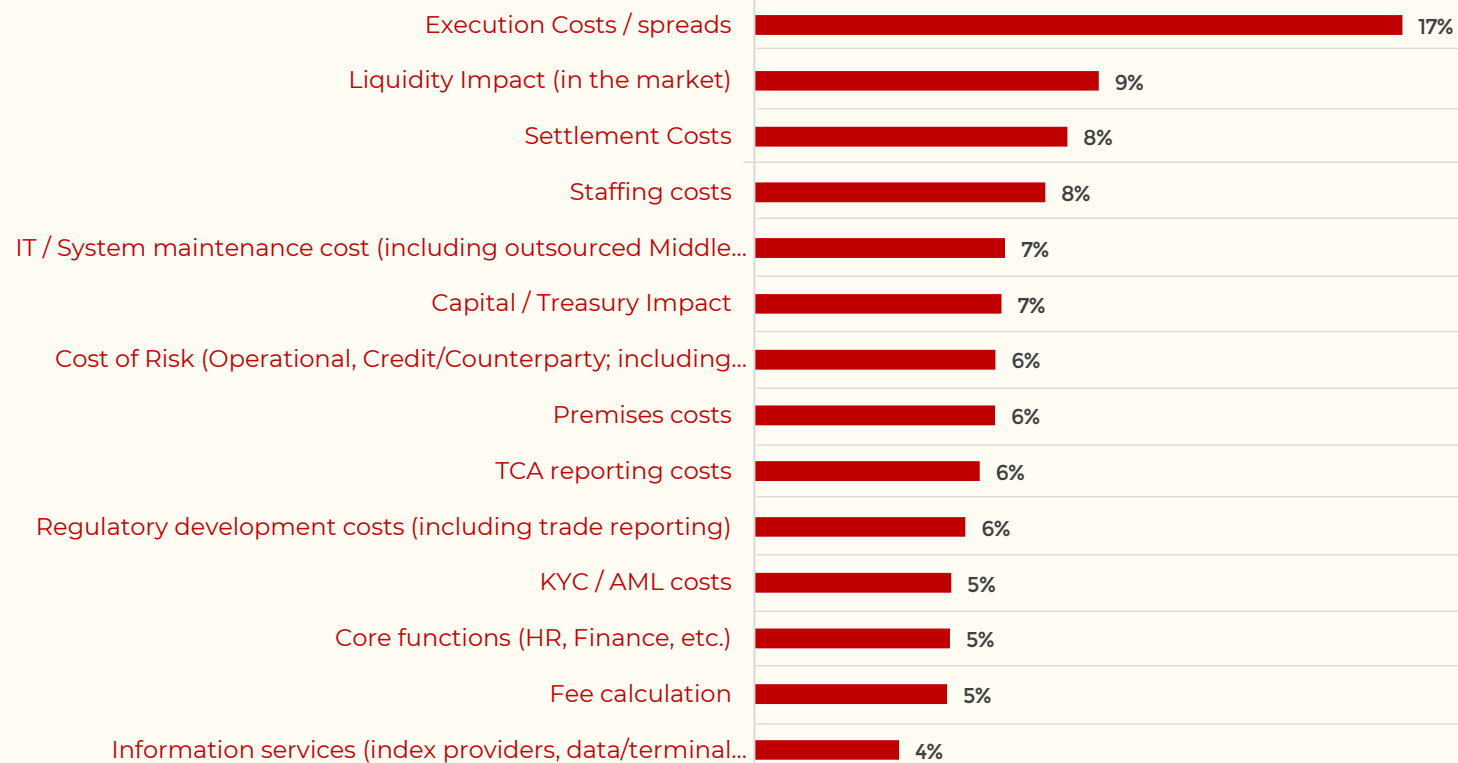
Key Driving Factors (Out of 5)



The Case for Change

More than meets the eye: spreads are only 17% of the true cost of FX

What is an FX trade made up of?



Question: How would you estimate the following costs (as a % of your average cost per trade TODAY across all markets) (All respondents)

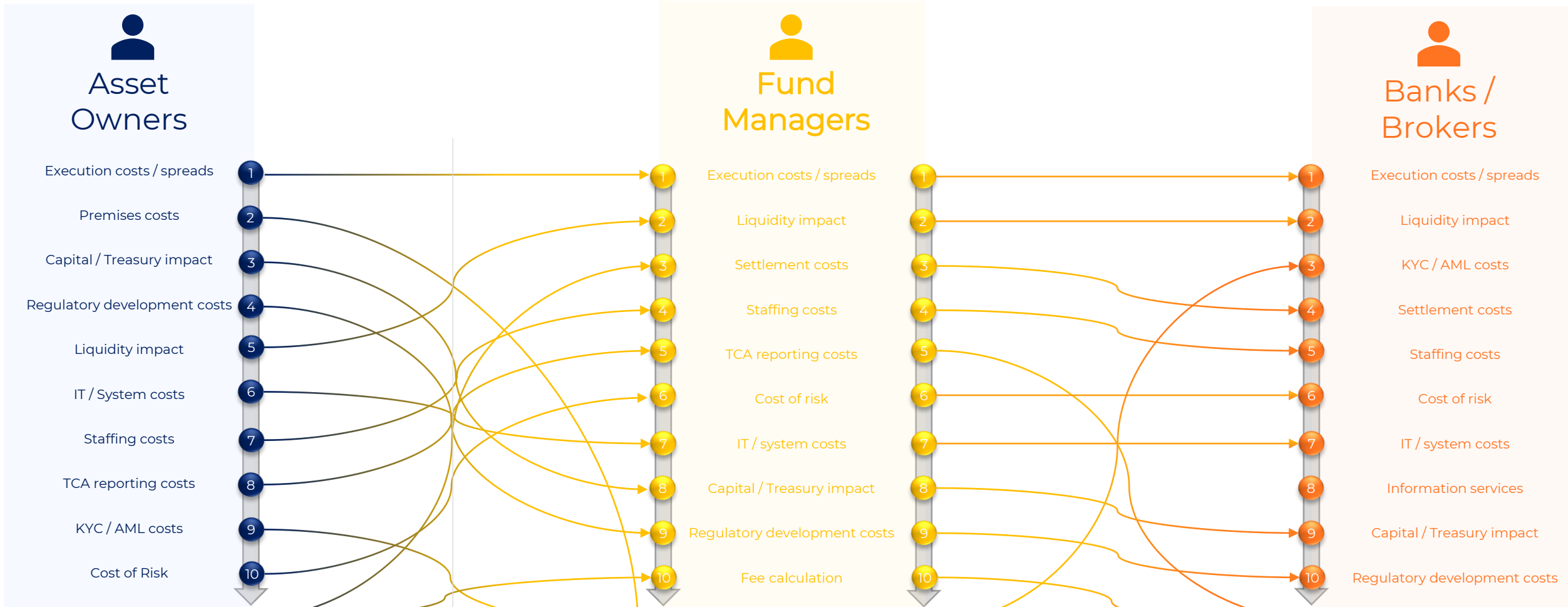
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The Case for Change

What does an FX trade cost? Fund managers and Banks are well aligned, but AOs?

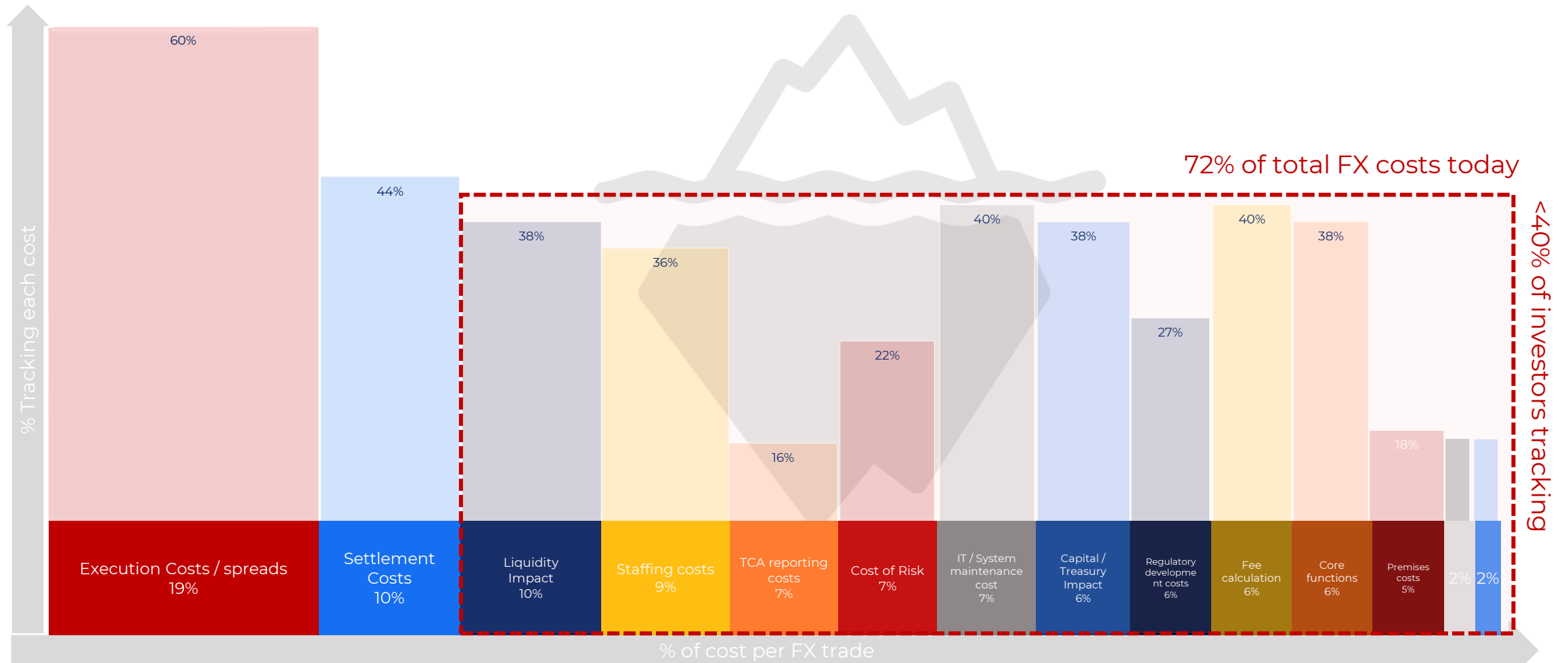


Question: How would you estimate the following costs (as a % of your average cost per trade TODAY across all markets) (All respondents)



The Case for Change

60% of investors are missing up to 72% of our FX costs

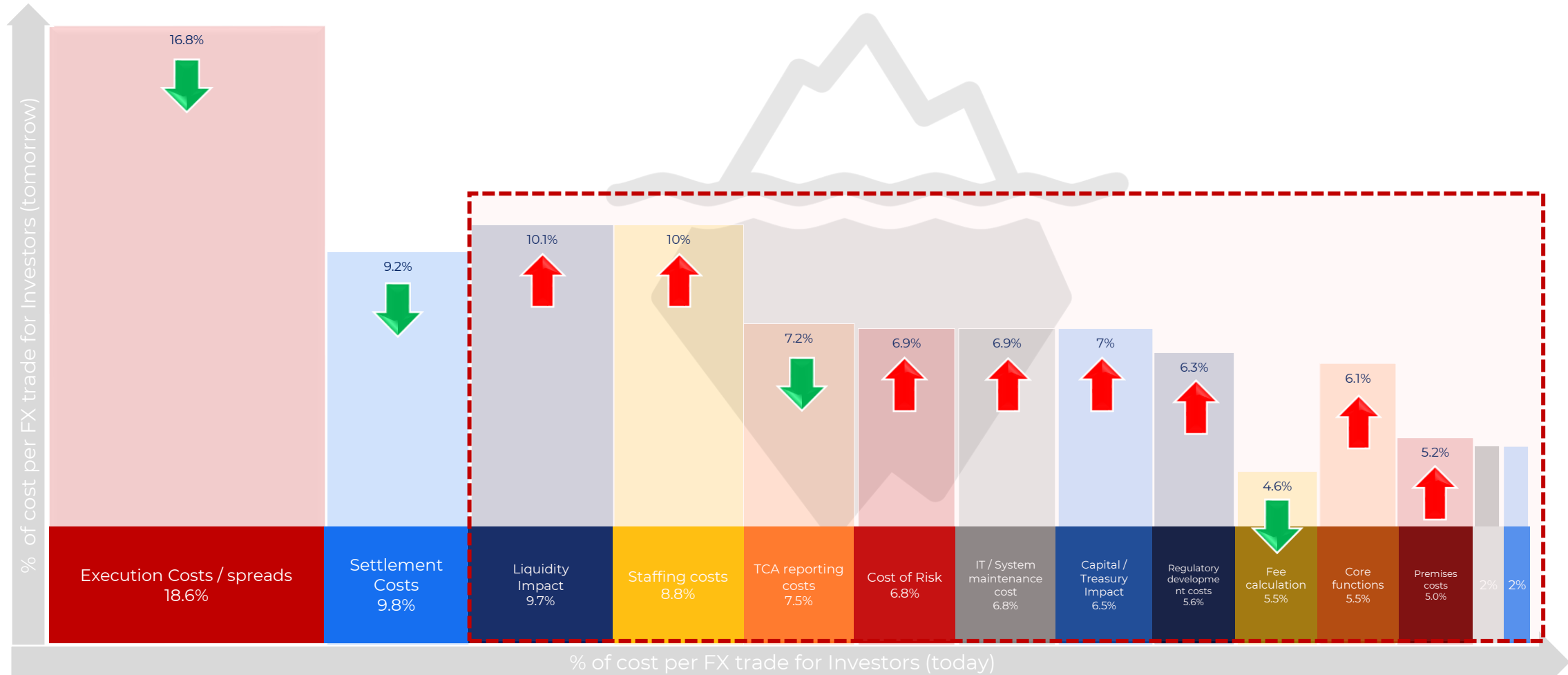


Question: How would you estimate the following costs (as a % of your average cost per trade TODAY across all markets) / Does your cost per trade tracking include a unitised (i.e. volume-based) view of the following costs? (All respondents)



The Case for Change

Beware investors' hidden costs: they are growing every day

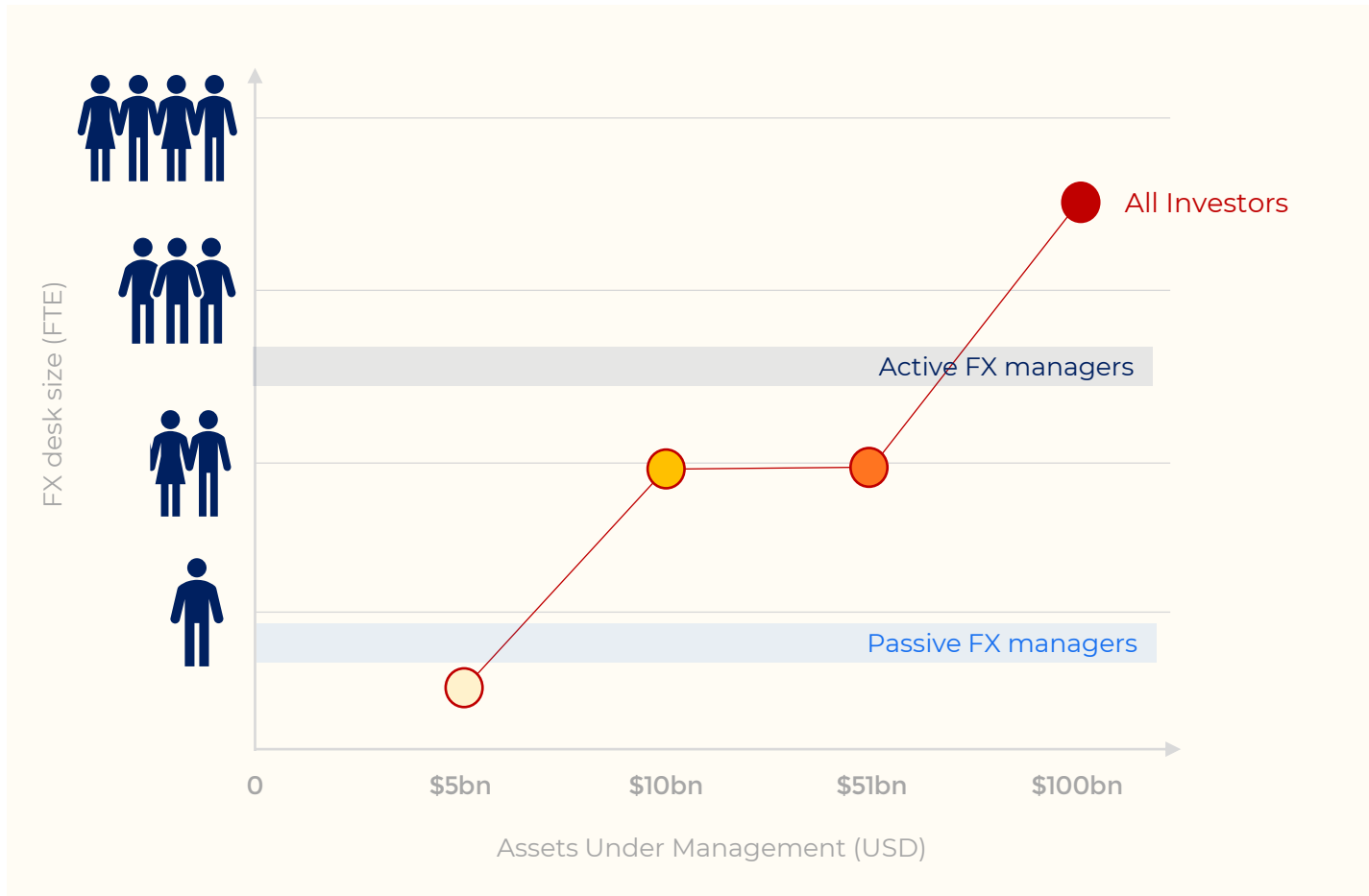


Question: How would you estimate the following costs (as a % of your average cost per trade TODAY across all markets) / Does your cost per trade tracking include a unitised (i.e. volume-based) view of the following costs? (Investors only)

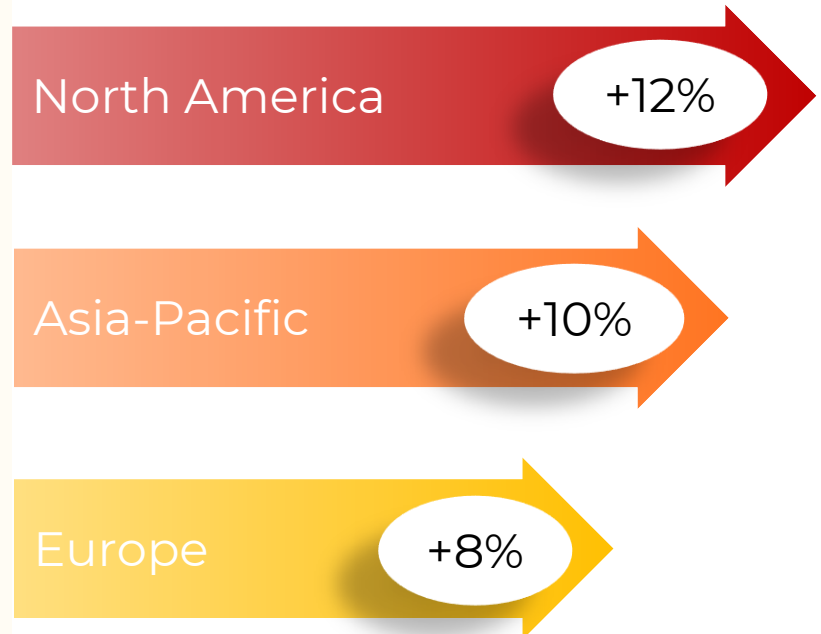


The Case for Change

Staffing: a small but fast-growing cost



Expected growth in staffing costs in 2021/22



Question: How many staff (FTEs) do you have working on FX today (inc share class hedging)? (All respondents)

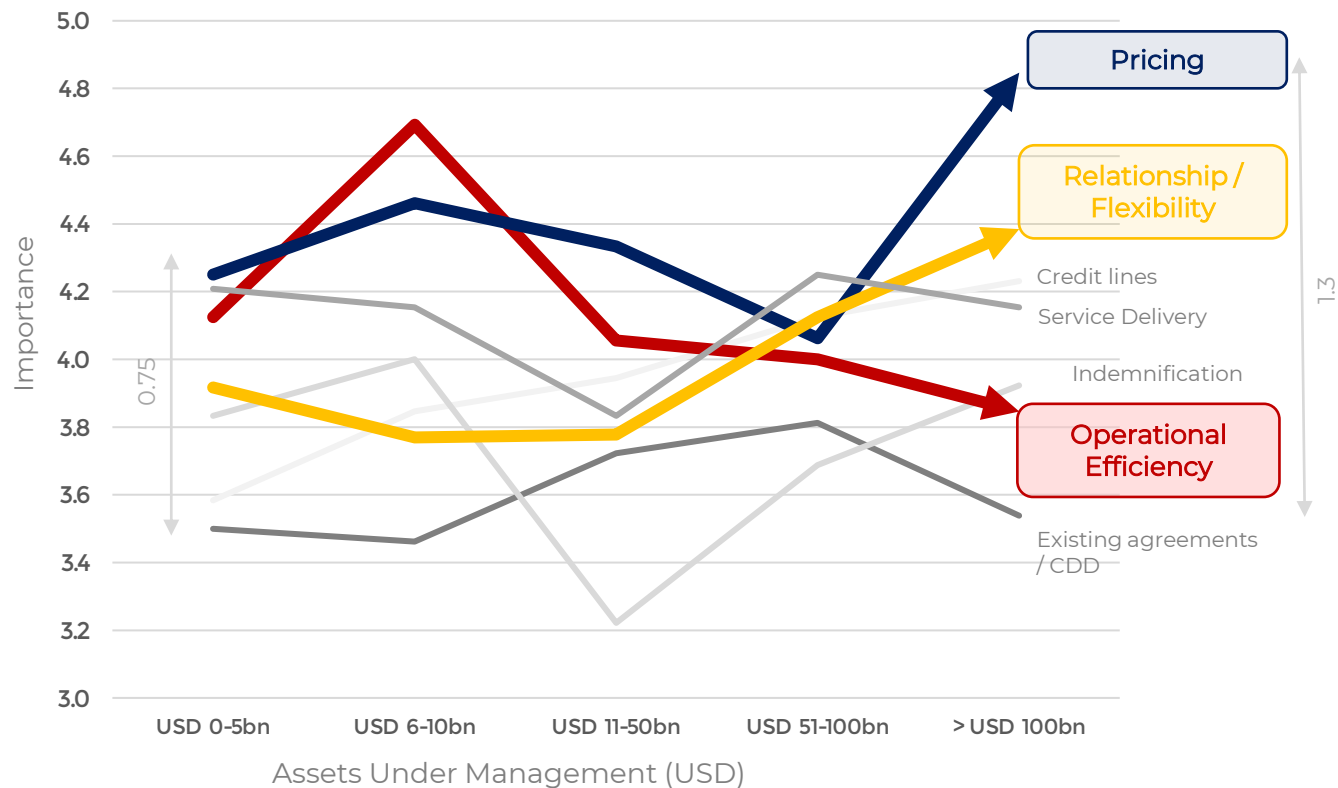


The Case for Change

Broker selection: Pricing or operational efficiency?

is AUM an inhibitor to operational performance?

...and do passive managers see past the spread?



Passive FX managers

Pricing (4.6)

Operational Efficiency (4.1)

Service Delivery (4.0)

Active FX managers

Operational Efficiency (4.3)

Service Delivery (4.2)

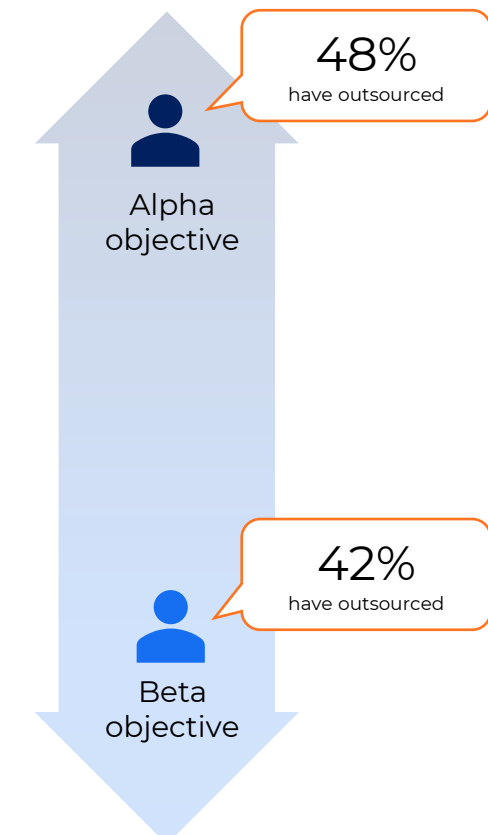
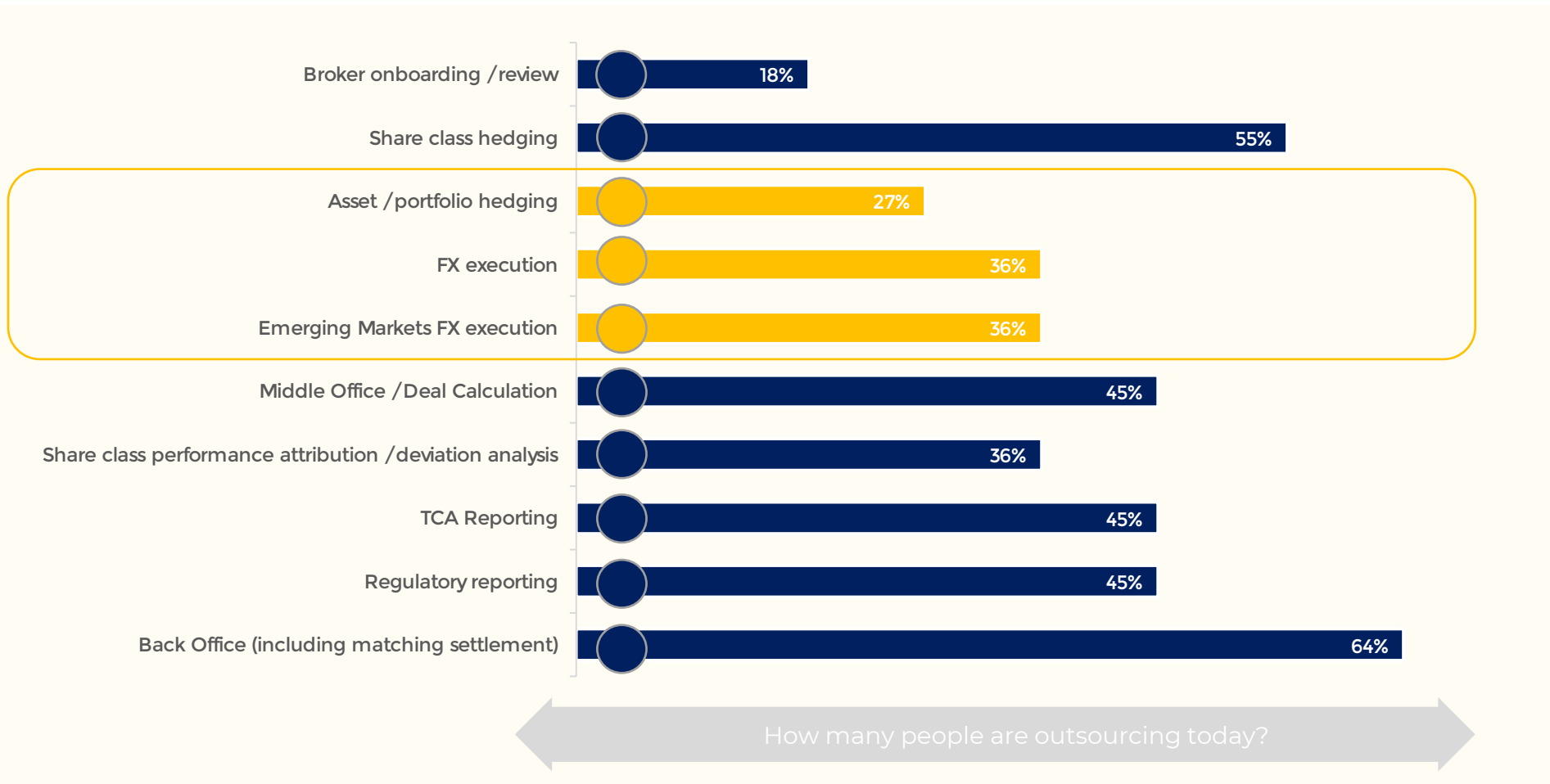
Pricing (4.2)

Question: When selecting your FX broker, how important are each of these criteria?



The Case for Outsourcing

Cost centres are already outsourced – and income-activities are growing



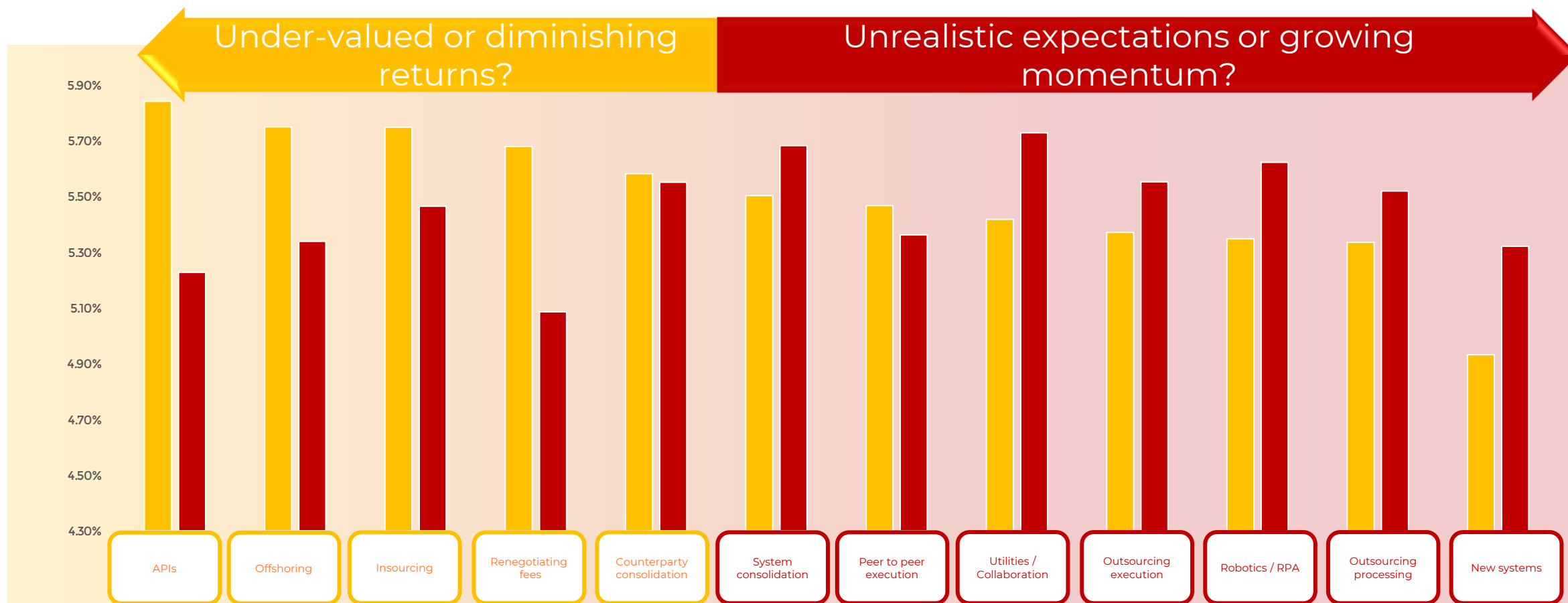
Question: Which functions have you outsourced or do you plan to outsource?

Revenue centres Cost centres



The Case for Outsourcing

What other solutions can deliver returns?



Question: What was the impact of these measures on your total cost per trade over the last 12 months?

Savings delivered in last 12 months

Savings expected in next 12 months



The Case for Outsourcing

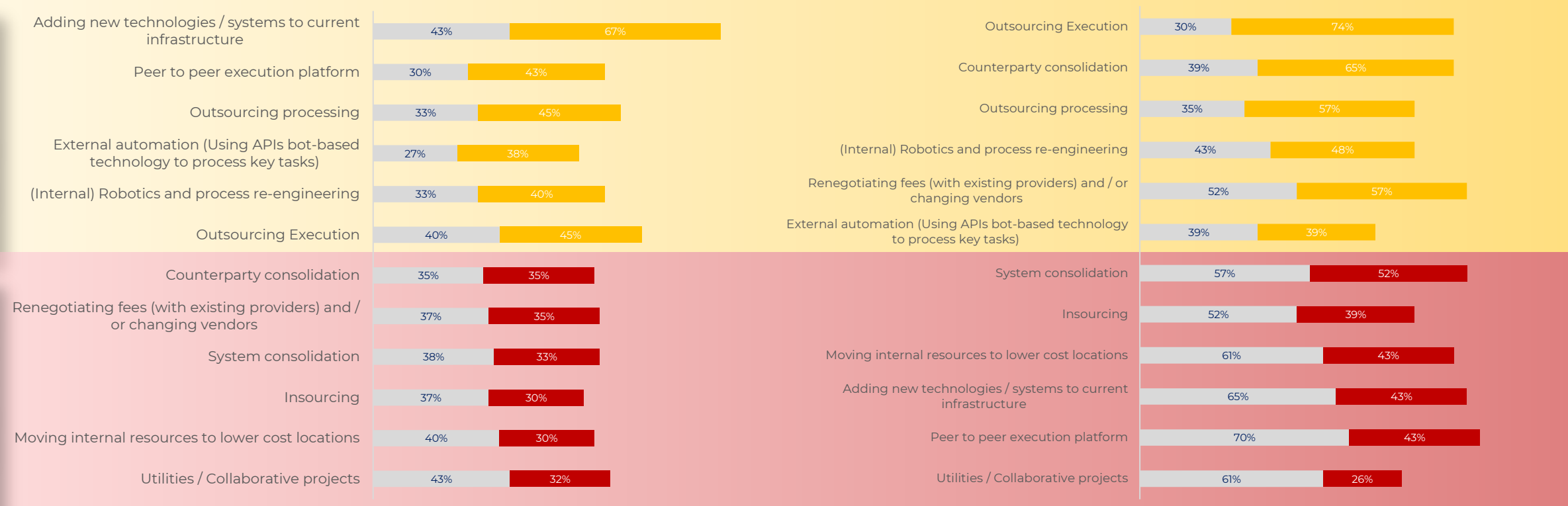
Tech-spend avoidance for investors? The next step for Banks

Investors are beginning their system transformation

...just as banks complete theirs or turn to outsourcing

+ Gaining momentum

- Losing momentum



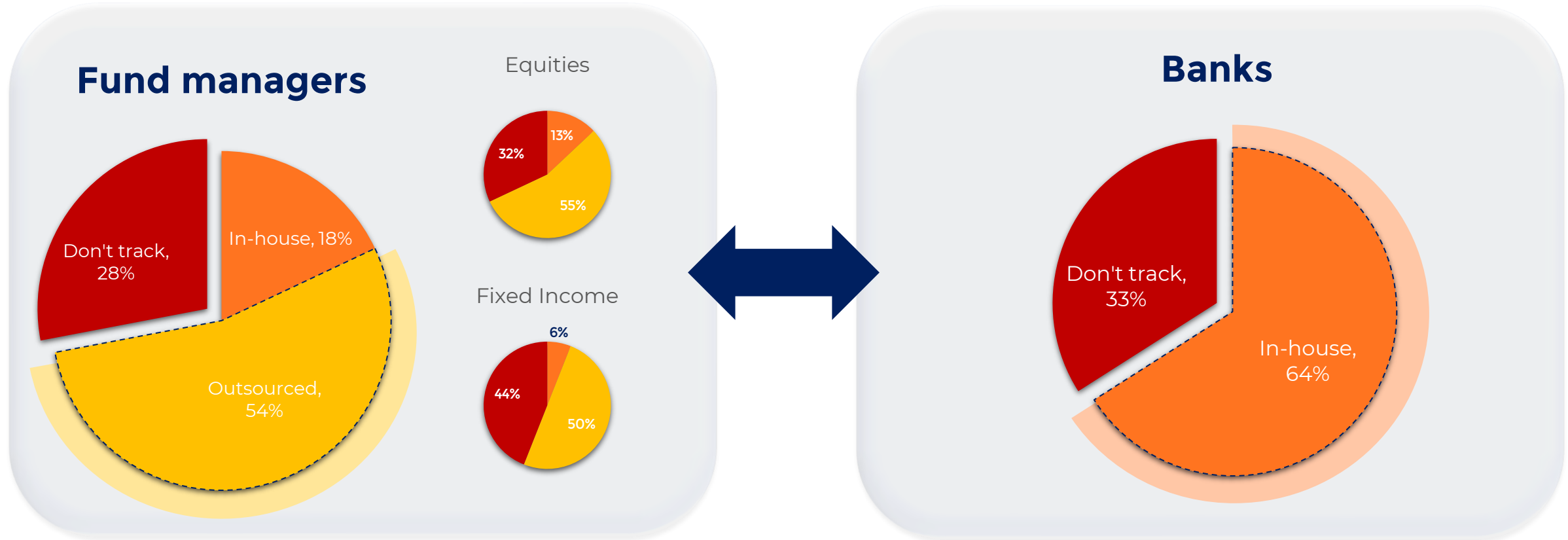
Question: Where do you plan to focus your attention most in the next 12 months: in terms of managing costs and ensuring scale

Last 12 months Next 12 months



The Case for Outsourcing

Investors outsource TCA already, but not Banks



Question: How do you currently calculate your Transaction Cost Analysis (TCA) for FX? (All respondents)



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What next?

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