MillTechFX
by Millennium Global

MillTechFX CFO FX Survey 2022

The intensifying FX challenges for corporates

Summary

Volatility has dominated the foreign exchange (FX) market so far in 2022, driven by high inflation, rising interest rates and geopolitical issues.

The FX challenges for CFOs are intensifying with the rising threat of currency movements negatively impacting their bottom lines. As a result, **FX has become a strategic priority** for senior-finance decision makers at corporates across the globe.

However, many corporates have traditionally struggled with two main problems when it comes to their FX setup.

The first is a **lack of transparency.** Transaction costs can be hidden in the FX spread, typically calculated as the difference between the traded rate at the point of execution and the mid-market rate at that time. Moreover, corporates tend to only work with a small number of counterparties for their FX due to the **operational complexity of setting up multiple banking relationships,** making it harder for them to compare prices.

The second problem is **opaque pricing.** Banks and brokers reserve their most competitive rates for institutions that transact the highest volumes, meaning small and mid-sized corporates struggle to get the best possible deal. This is no secret. The European Central Bank produced a **report** in 2019 that found that **banks were overcharging** their smaller corporate customers for FX services with hedging rates as much as 25 times higher than for their larger clients.

With this in mind, Censuswide conducted a survey on MillTechFX's behalf* of 250 senior finance decision-makers* at corporates to review where they are on their FX journey and where they would like to get to.

Many are reviewing their current FX setup, from price discovery to settlement, and adjusting their hedging programmes to **add in a layer of agility and flexibility** so they can readily adapt to the everchanging business environment.

The 'MillTechFX CFO FX Survey 2022: The intensifying FX challenges for corporates' explores how much resource they dedicate to FX, challenges they face, solutions they are exploring and if their approach to FX risk management has changed in the face of heightened volatility:

Reliance on manual processes: There is still a reliance on inefficient, manual processes and this has forced many corporates to dedicate significant time and resources on their FX operations.

Execution struggles: Corporates are struggling to achieve and demonstrate best execution. One of their biggest challenges is poor visibility on whether they are getting a good deal because of a lack of comparative quotes from multiple liquidity providers.

Automation drive: The vast majority of senior finance decision-makers surveyed are exploring new technology and seeking to embrace digitisation in a bid to streamline operational processes. Some are also exploring outsourcing to free up resources, but trust remains a major barrier.

Managing FX risk: Against the backdrop of rising volatility, the majority of corporates have hedging programmes in place and those that don't are now exploring it. Hedging itself has also changed, with hedge ratios increasing but contract lengths shortening as CFOs move to protect their bottom lines from currency volatility, while maintaining the ability to adapt to the changing environment.

Ultimately, the research has highlighted that it is more important than ever that those trading in FX gain a transparent view of their execution setup, streamline their operational workflows and implement hedging strategies in order to carefully manage their currency exposures.

Part 1

Reliance on manual processes

For many corporates, FX processes are manual, cumbersome and time-consuming.

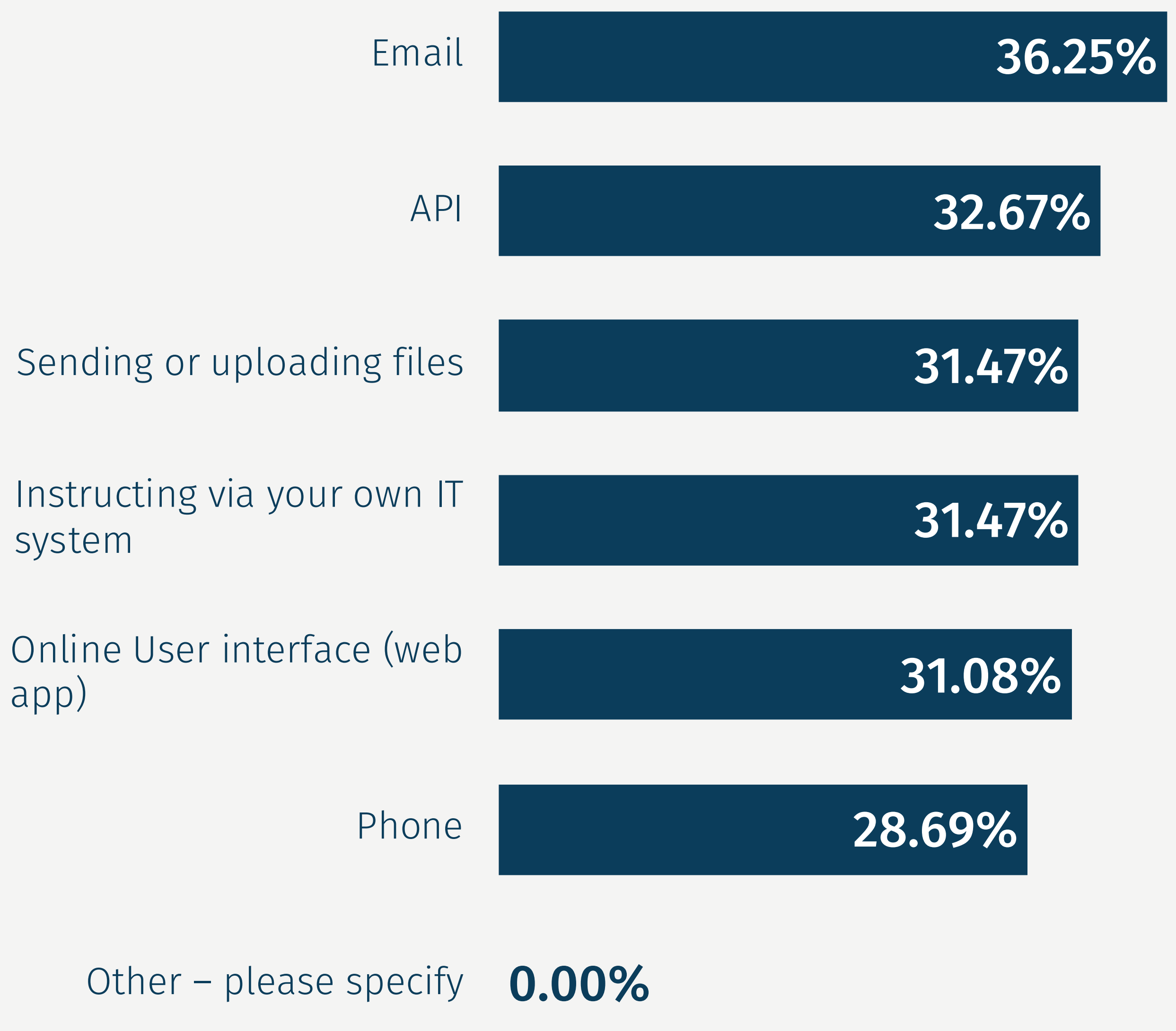
FX price discovery can often involve multiple phone calls, e-mails or online platforms to log in to just to get comparative quotes from your counterparties. Because the market is constantly moving, price discovery requires a team of people; calling, e-mailing and logging in simultaneously before they can collectively decide who offered the best quote.

Price discovery is just the first step in the traditionally long-winded process of booking and settling an FX trade, finance professionals have to get approval from different layers of seniority, wait for trade confirmations which usually arrive via email, process settlement, enter payments details and, in some instances, share trade information with third parties such as administrators or regulators.

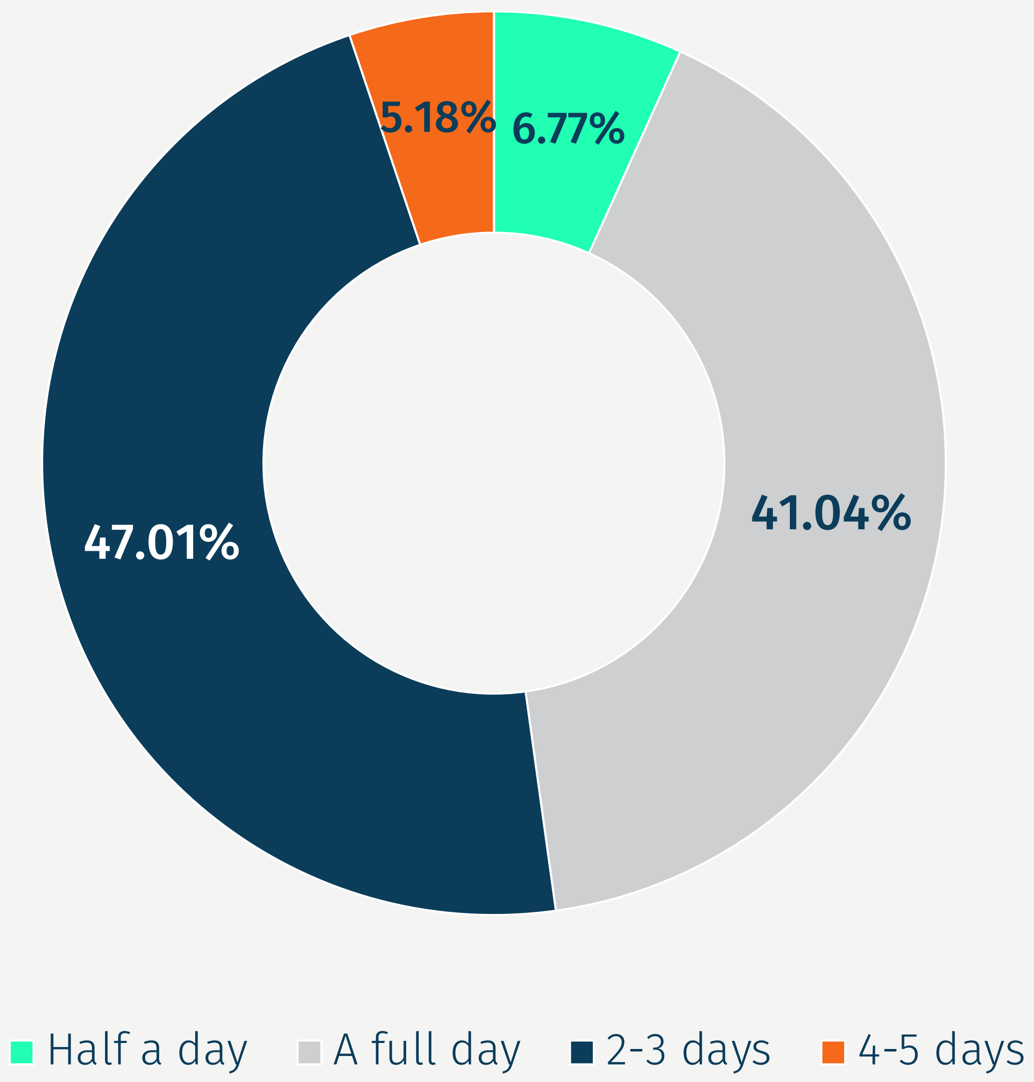
Our research found that there is still a reliance on manual processes, with 36% of senior finance decision-makers relying on email for instructing financial transactions, 29% relying on phone calls and 31% having to send or upload files.

All of this internal, manual and siloed communication is extremely inefficient. And this is just for one, single trade. Many organisations execute tens or hundreds of trades every month with different products and mechanics. This entire process is a huge drain on time and resources, with our research finding that corporate treasury teams spend around 1.85 days per week on FX-related matters while nearly half (47%) of those surveyed said they spend 2-3 days managing such matters. Over 50% of treasury teams have three or more people tasked with FX activities.

How do you currently instruct financial transactions?
Select all that apply

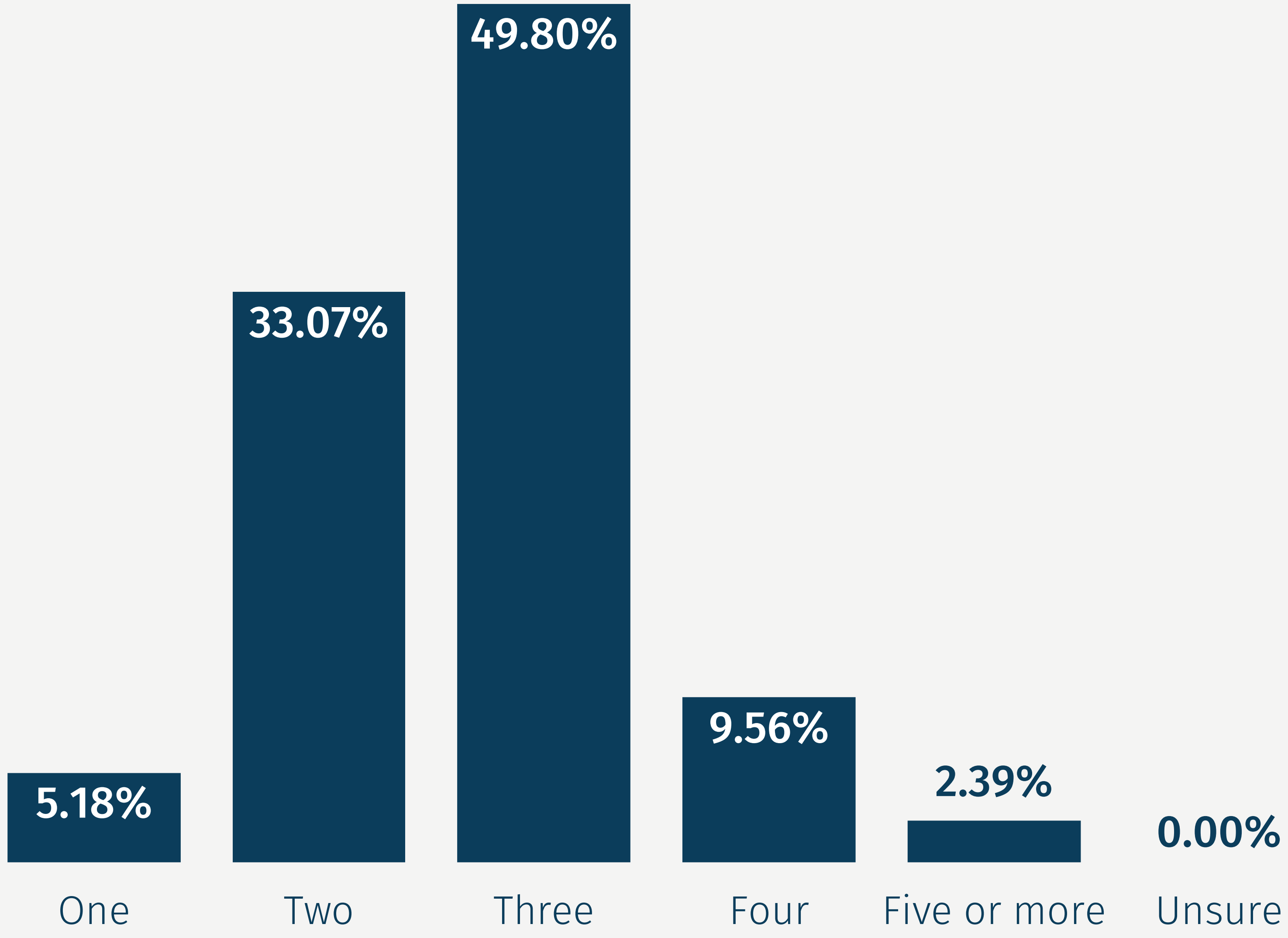


How much time per week does your team spend on FX-related matters?



Mean days: **1.85**

How many of your team are tasked with FX related activities?



Mean team members (excluding "Unsure"): **2.71**

Part 2

Struggling to achieve and demonstrate best execution

After reviewing how much resource they currently assign to FX matters, we then asked corporates to rate their setups and share the biggest challenges they face when it comes to FX operations and execution.

FX operations

The most challenging aspect of their FX operations is getting comparative quotes (43%). For corporates who trade FX for payment or hedging purposes, FX can be seen as second order: they transact in FX not because they 'want to', but because they 'have to' due to international business activities. It is thus often operationally inefficient for them to set up and manage multi-bank relationships.

This makes it difficult to compare the market – so when executing trades, corporates are often beholden to limited sources of liquidity. At any given time, they may not be able to trade at the best available rate as they have no other access points to the market.

This was followed by demonstrating best execution (37%). Due to the difficulty of comparing the market, CFOs struggle to work out whether they are getting the best deal, making demonstrating best execution very difficult, if not impossible.

They are often left with no choice but to accept the rates they're first offered, due to the fact that they're trading as a result of their business activity: they're not trading because they want to or because they choose to, but because they have to.

The reason why they're unable to compare the market is the challenge of onboarding new liquidity providers, which is the fourth top challenge senior finance decision-makers face.

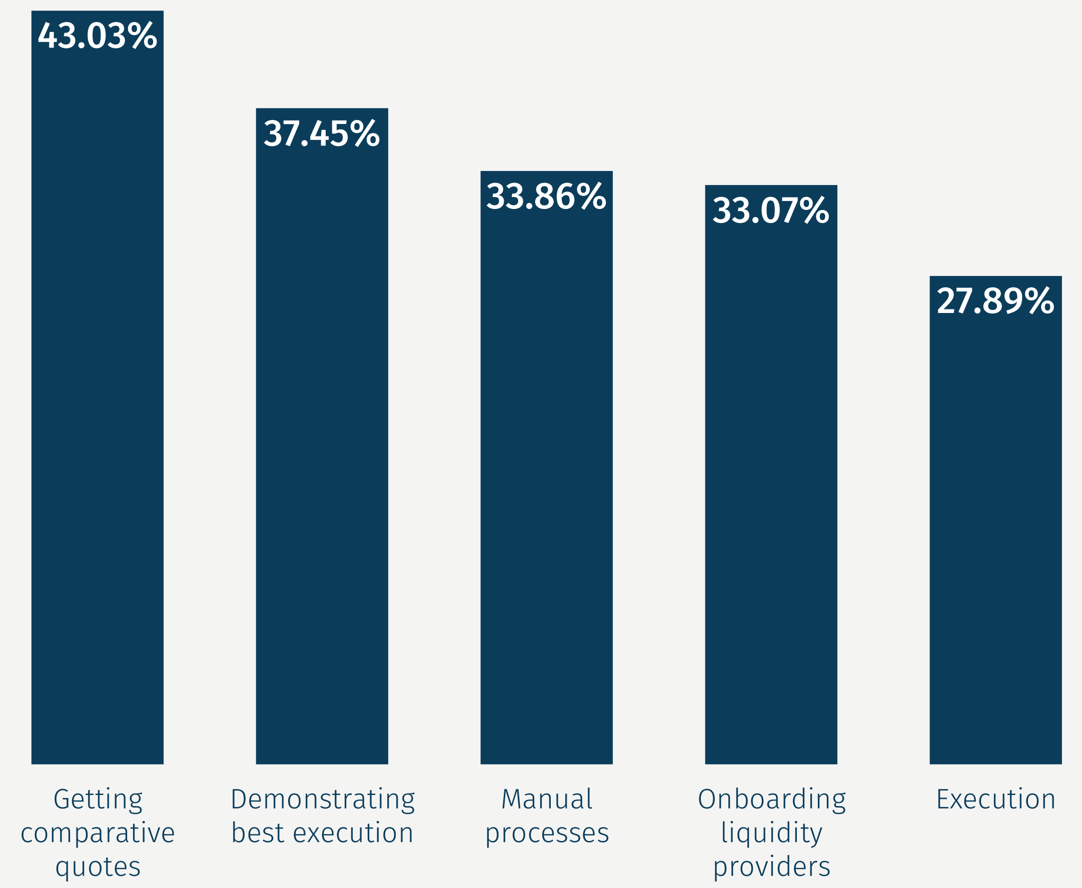
FX execution

On the execution front, unsurprisingly achieving best execution is their biggest challenge. One of the main issues about the FX market, is that clients are **provided rates in different capacities** depending on what kind of client they are.

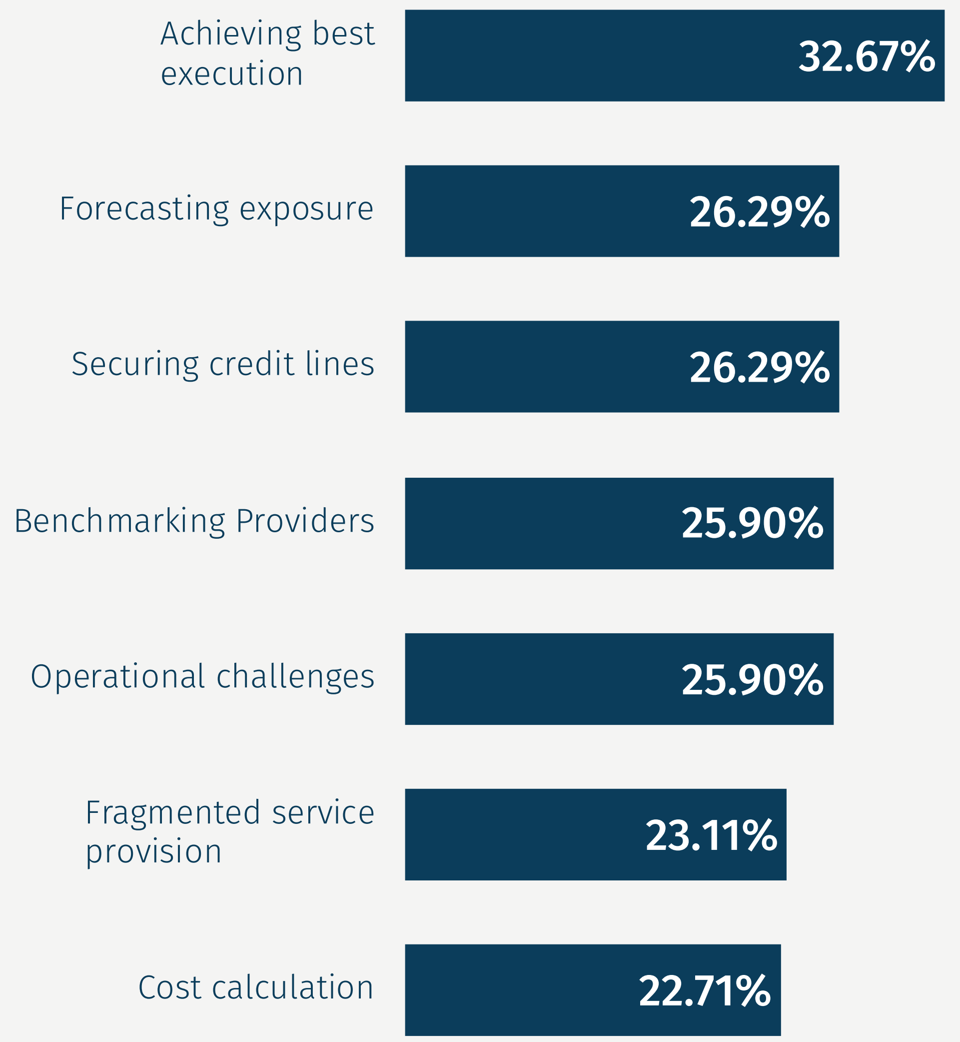
As a result, the best rates are reserved for the largest institutions that transact the highest volumes, meaning CFOs at mid-sized corporates struggle to get best execution.

Despite, or perhaps as a result of the time and resources dedicated by finance teams to FX, over a third (35%) rated their FX set-up as below average or worst in class.

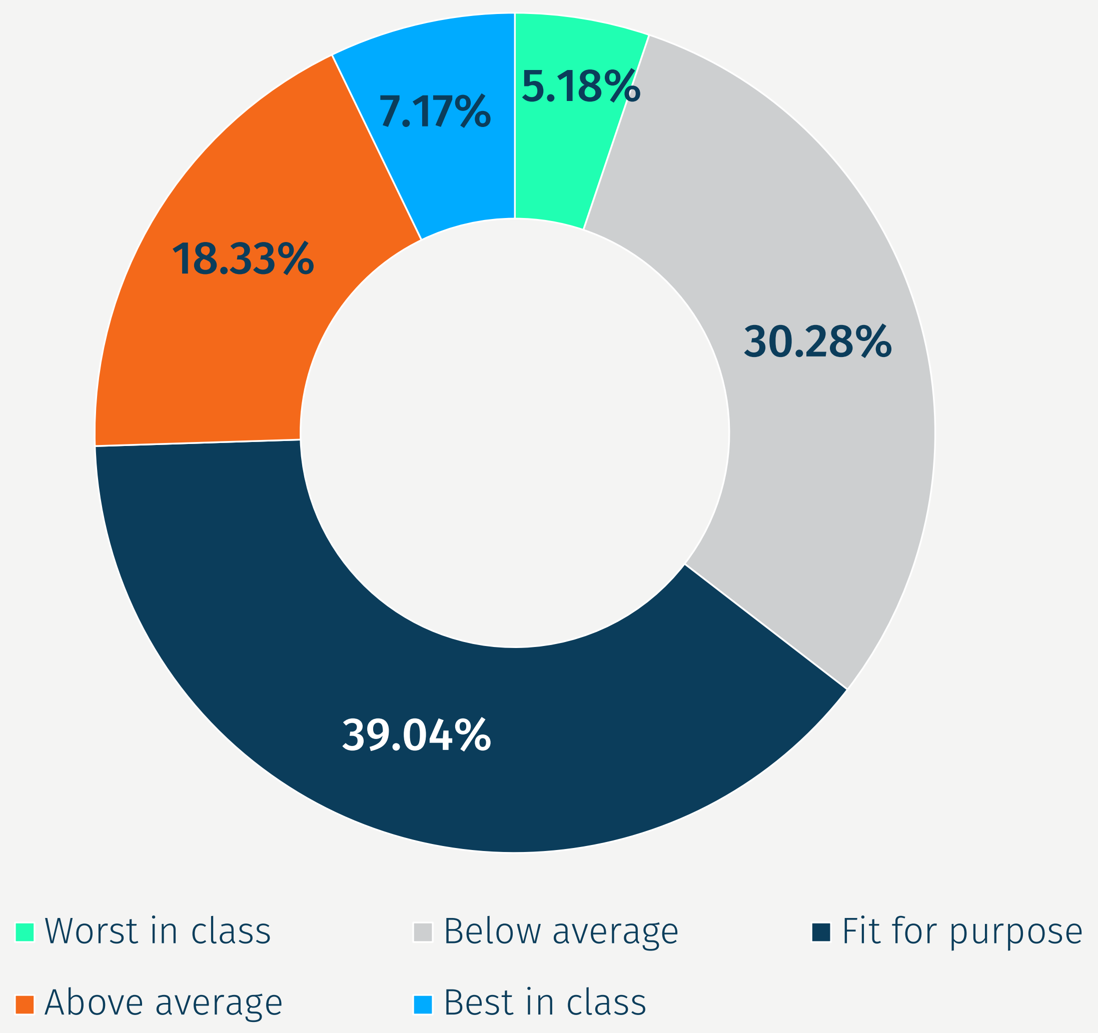
What are the most challenging aspects of your FX operations (select up to 2)



What are the biggest challenges you face when dealing with FX, if any? (select up to 2)



How would you rate your current FX set up?



Part 3

Increasing interest in automation and outsourcing to drive efficiency

One of the most prominent trends in the FX market, expedited by the Covid-19 pandemic, has been the notable increase in organisations seeking to embrace digitisation as a way to streamline operational processes.

As a result of this and the challenges mentioned above, many CFOs are exploring moving away from traditional, cumbersome FX processes and instead are embracing simple, tech-enabled solutions which digitise the end-to-end FX process from initial price discovery right through to reporting at the end of the trade lifecycle.

89% of senior-finance decision makers surveyed said they were looking into new technology and platforms to automate their FX operations, while 35% said automation of manual processes was the most important factor in terms of FX management.

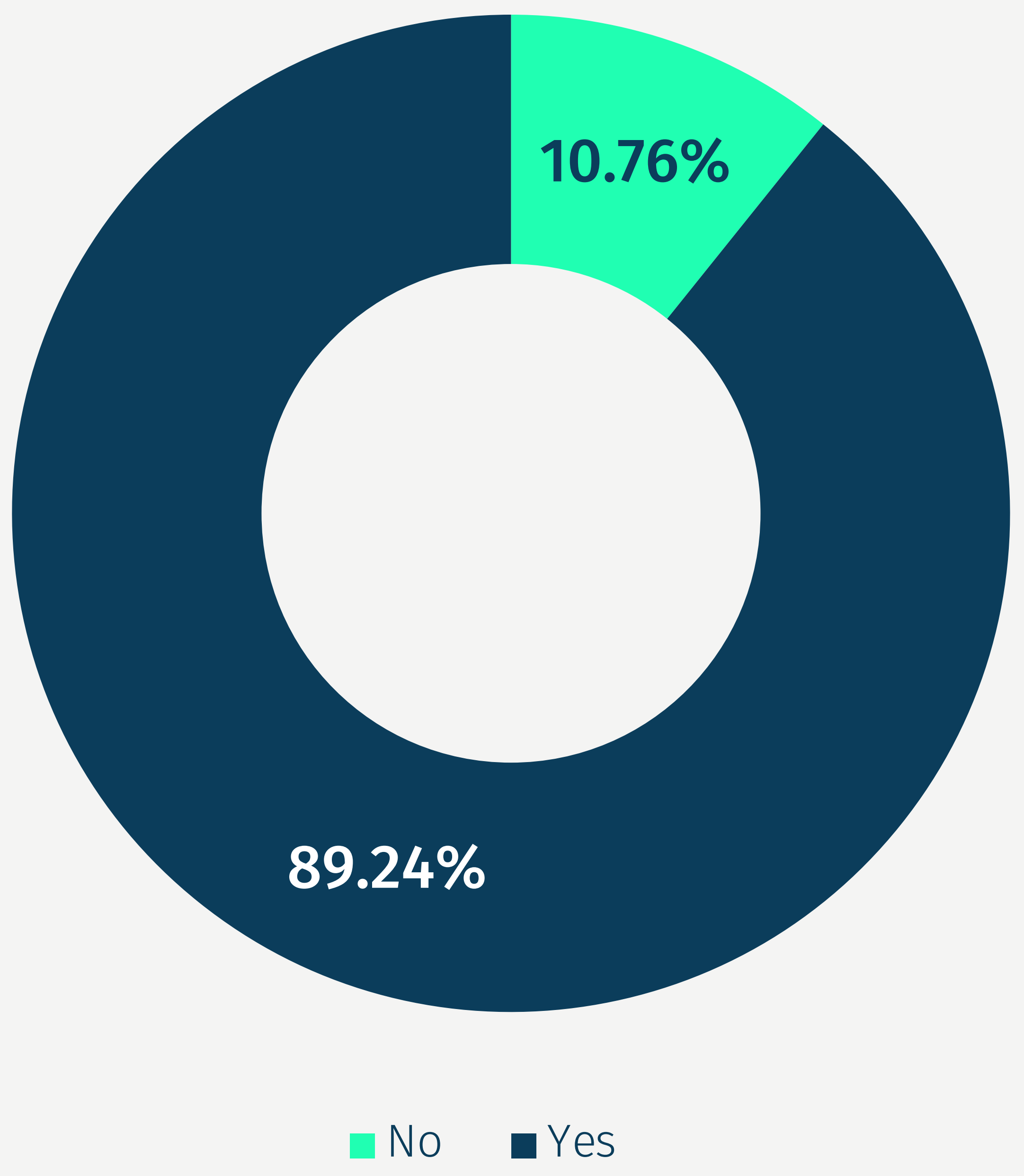
We're also seeing an increasing number of firms looking to outsource not only the onboarding of multiple FX counterparties but also the complete end-to-end FX workflow, from calculating the FX position, to execution, margin management and settlement.

The numerous parties involved combined with the opaque nature of the execution process often create huge administrative burdens for corporates, eating up time and resources. Likewise, the time-consuming and costly nature of onboarding new liquidity providers can outweigh the perceived benefits that they bring.

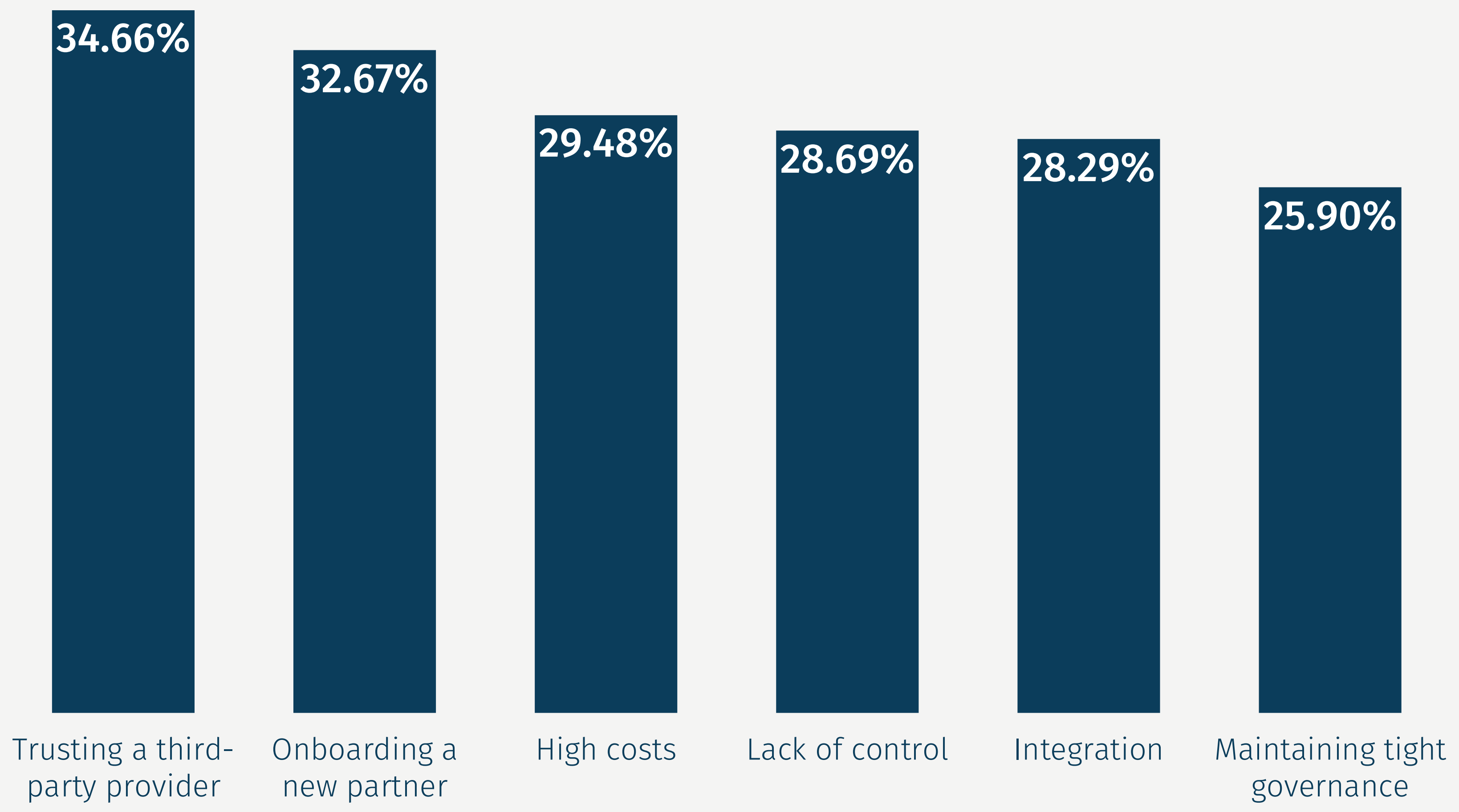
Outsourcing frees up resources for more effective use elsewhere, enabling firms to dedicate more time to core business matters. The end product is also more likely to be of higher quality, leading to improved execution, saving money in the long run.

There are still some barriers to outsourcing for many corporates. These include trusting a third-party provider (35%), onboarding a new partner (33%) and high costs (29%).

Are you looking into new technology/platforms to automate your FX operations?



What are the biggest barriers to outsourcing your FX execution to the right partner? (select up to 2)



Part 4

Changing FX risk management against backdrop of volatility

After a relatively calm 2021, currency volatility has become a dominant theme in 2022, driven by well-documented geopolitical uncertainty and macroeconomic challenges across the globe.

This volatility and the unpredictable nature of the currency market has the potential to drastically erode profit margins or investment returns if FX risk isn't managed effectively.

As a result, FX risk management has become a top priority for CFOs with many renewing their focus on hedging.

Our research found that 59% of senior finance decision-makers had experienced increased risk due to the recent rise in volatility.

It also revealed that the vast majority understand the importance of hedging risk, with 89% having a hedging programme in place. Of the 11% that currently don't, 89% are now considering doing so given recent market volatility.

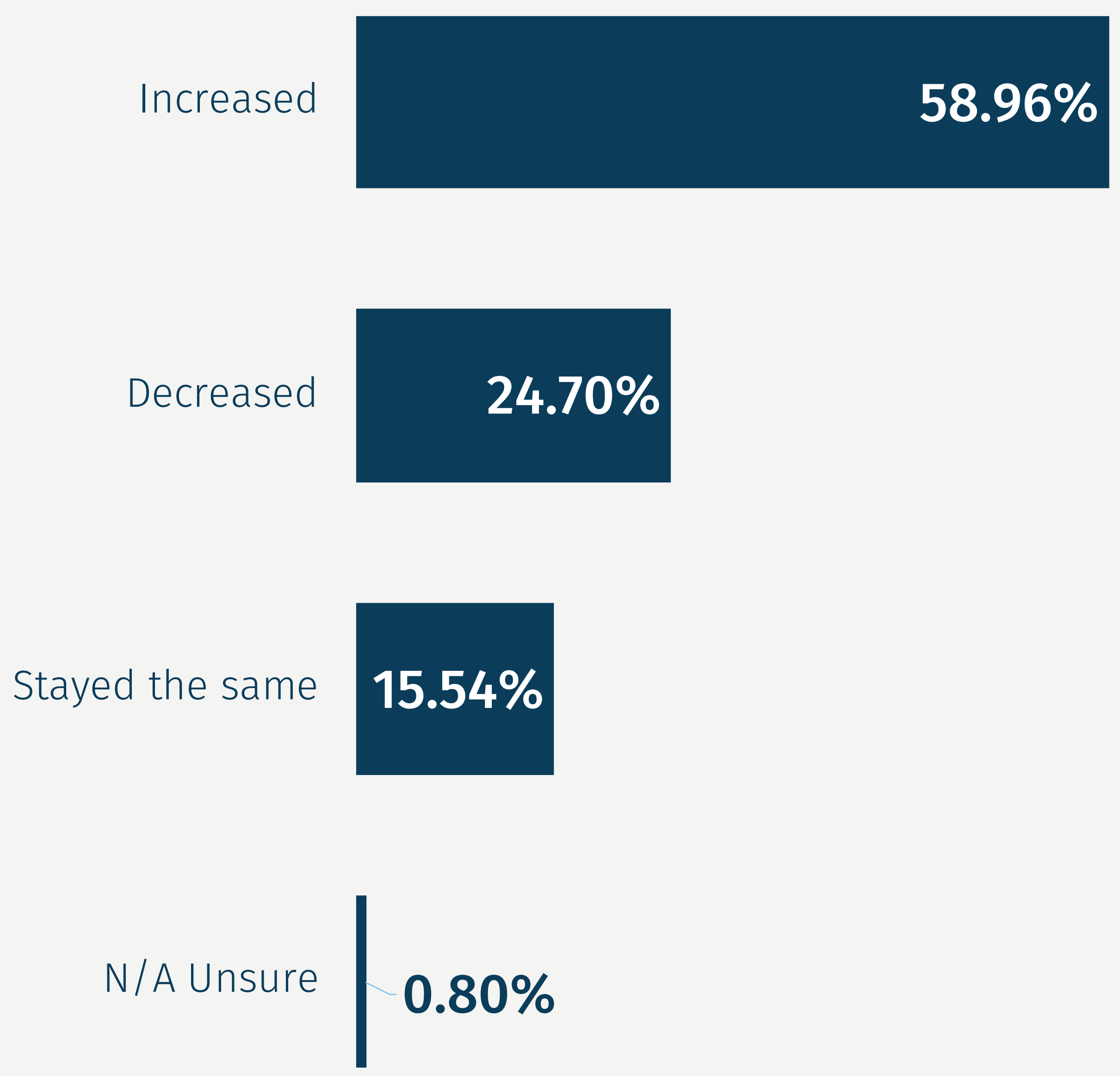
The majority of senior finance decision-makers current hedge ratio is over 50%, while overall the average hedge ratio is 56%. The average length of hedges was five months.

This is particularly interesting as it indicates corporates are clearly balancing their valid concerns around profit erosion with the need to be fluid in the face of fragile supply chains, weakening consumer demand and rising inflation.

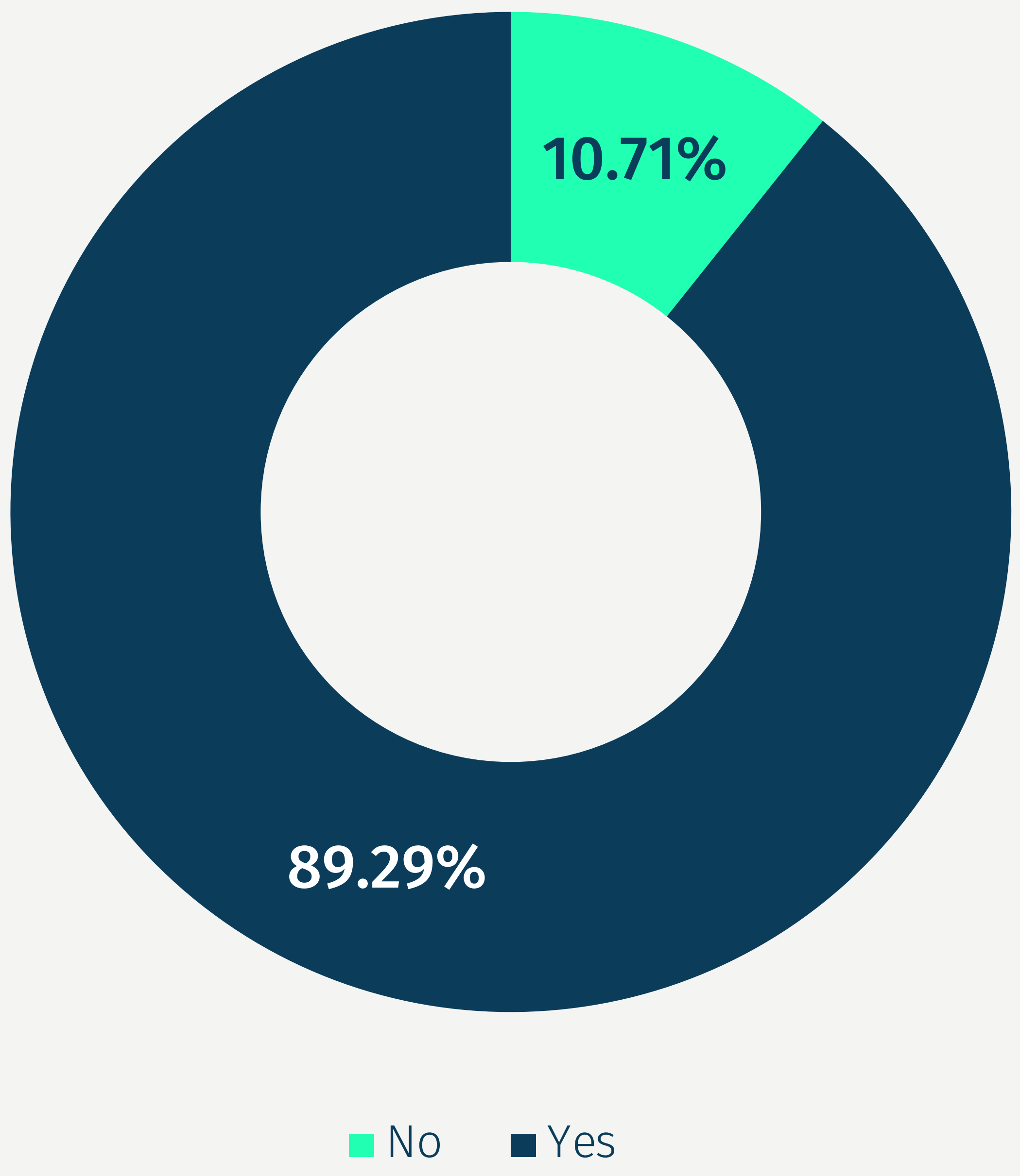
These insights are significant because they highlight senior finance decision-makers are moving to hedge more of their FX risk, protecting their bottom lines from currency movements. In parallel, shorter hedging lengths means they have flexibility to adapt to the changing market, rather than locking in a rate for a long time.

In response to market volatility, 40% of senior finance decision-makers said they are considering increasing their hedge ratio, while 33% shortened their hedge window to remain flexible in the face of multiple uncertainties.

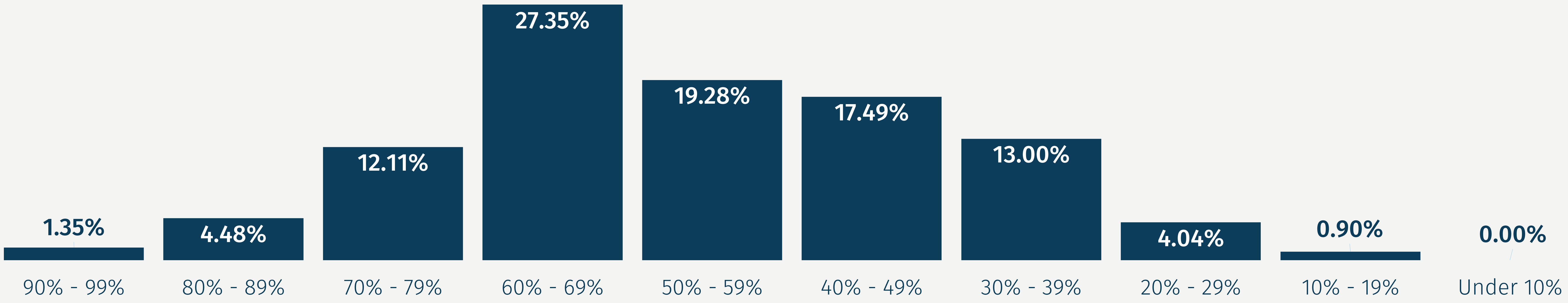
Has the increased volatility due to macroeconomic and geopolitical influences increased or decreased your firms FX risk?



If no, are you now considering hedging given market volatility?

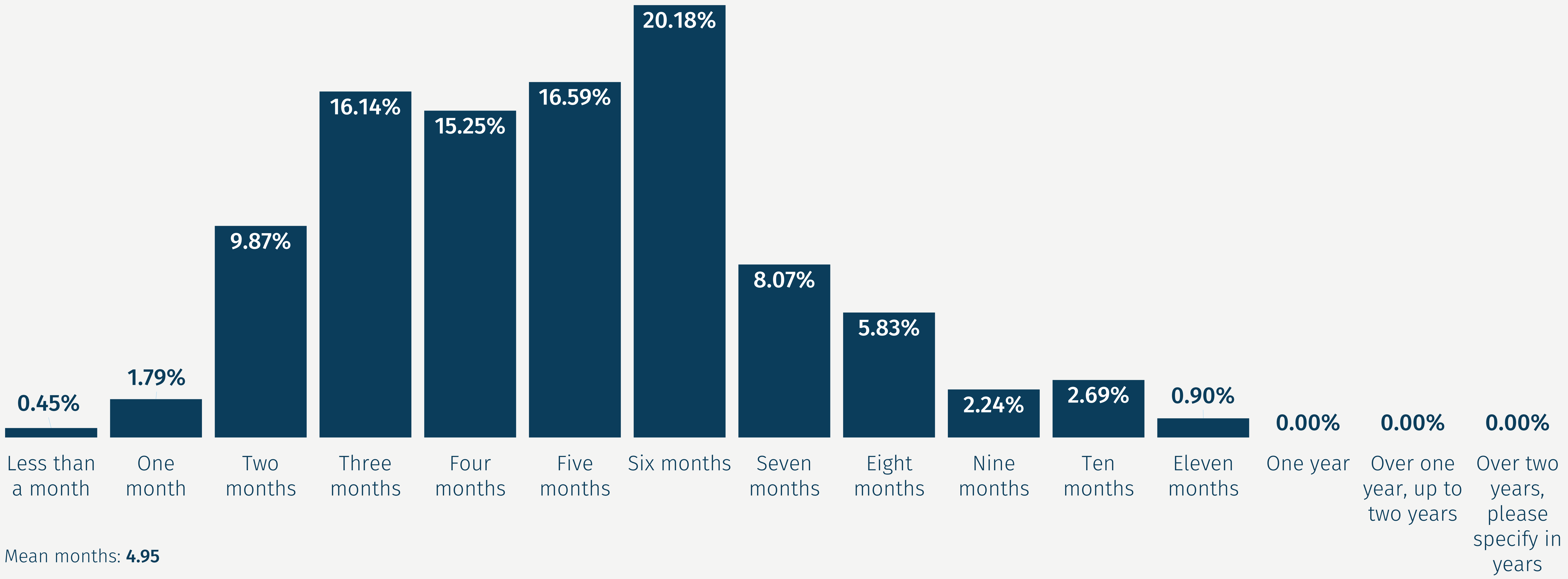


What is your current hedge ratio?



Mean % (excluding "Not sure"): **55.62**

If yes, how far out, on average, do you currently hedge FX risk?



Mean months: **4.95**

Conclusion

It is likely that currency volatility, as a result of economic uncertainty, will remain a dominant theme over the next couple of years, meaning the management of FX currency risk must be a top priority for CFOs.

Fortunately, there are several ways CFOs can improve their FX risk management infrastructure and protect their firms' bottom lines in these turbulent times:

Transaction Cost Analysis (TCA) – TCA was specifically created to highlight hidden costs and enables firms to understand how much they are being charged for the execution of their FX transactions. Ongoing, quarterly TCA from an independent TCA provider can be embedded as a new operational practice to ensure consistent FX execution performance.

Comparing the market - Having the ability to put trades up for competition is central to ensuring access to the best price – which is key to effective hedging. However, many CFOs are hampered by their inability to access Tier 1 FX liquidity, meaning they often rely on a single bank or broker to meet their hedging requirements.

A new generation of fintechs is tackling this problem, enabling treasurers to access rates from multiple banks whilst reducing the operational burden associated with this kind of market access.

Outsourcing - There is a growing recognition that outsourcing does not necessarily mean a loss of control, less transparency or reduced quality of FX activities, but when using the right partner can actually improve transparency and execution quality. Outsourcing can therefore enable firms to dedicate more time to core business matters, which is all the more important amidst inflationary and volatility pressures.

We believe that CFOs should seek alternatives to the traditional single bank-based approach. Instead, looking for solutions that enable them access to live rates from multiple banks and execute at the best rate, all whilst reducing the operational burden traditionally associated with this kind of market access.

How MillTech FX can help

MillTechFX is an FX-as-a-Service (FXaaS) pioneer that enables corporates to access multi-bank FX rates via an independent marketplace.

MillTechFX's market access, pricing power and operational resource enables it to deliver a tech-enabled integrated solution that delivers transparency, cost reduction and operational burden reduction for senior finance decision-makers at corporates.

It is end-to-end at no additional cost, offering easy and quick onboarding, multi-bank best execution and hedging management, and connectivity into clients' bank accounts, internal systems, administrators or custodians.

FXaaS represents the evolution of currency management through automation, integration, and validation:

Easy and quick onboarding – Rather than spending months (even years) setting up multiple FX facilities with different counterparties, firms can sign up to a multi-bank marketplace and transact within weeks with up to 15 Tier 1 counterparty banks.

Best execution and hedging management – Clients benefit from multi-bank access without having to manage multiple relationships and processes. They can transparently compare and execute FX rates from multiple providers on a single marketplace and ensure best execution with a simple click of a button.

Cost savings – MillTechFX has saved clients up to 80% on their execution costs

Transparency – MillTechFX offers a fixed fee service, including third-party Transaction Cost Analysis (TCA) to ensure total cost transparency.

To speak to us directly please reach out to our Head of Corporate Solutions, Jason Gaywood at JGaywood@milltechfx.com or request a free TCA here.

Find out more on **https://www.milltechfx.com**

*The AuM managed by Millennium Global Investments Ltd (MGIL) as at 30/09/2022 and is a combination of USD 16,311 million in notional AuM for unfunded managed accounts and USD 108 million AuM in in funded vehicles. The 2021 annual traded volume refers to all Millennium Group activity. Millennium Group comprises Millennium Global Investments Limited, Millennium Global (Europe) SAS and Millennium Global Treasury Services Limited.

*This white paper examines the data and results of a survey conducted by Censuswide on MillTechFX's behalf conducted between June 2022 – July 2022, based on a survey of 251 CFO's, treasurers and senior finance decision-makers in mid-sized corporates (described as those who have a market cap of £50mil up to £1 billion).

*The full list of job titles surveyed and included within this report is as follows: Accountants, Chief Financial Officers (CFO) Financial Analysts, Financial Accountants, Financial Consultants, Financial Manager, Analysis Managers and Treasurers.