Learn the basics of FX

MillTechFX
by Millennium Global

Introduction

The foreign exchange (FX) market is the largest financial market in the world with a **daily trading volume of $6.6 trillion.**

Despite its size, the opaque nature of FX places great responsibility on asset managers and corporates to put the processes, practices and systems in place to ensure the best result possible.

While the market has a wide range of providers offering a vast array of services, we believe that the FX market isn't fit for purpose for many asset managers and corporates. For too long they have been unable to access rates from multiple providers and suffered the consequences of hidden charges and a lack of visibility on whether they are getting a good deal.

They have frequently had no choice but to suffer from significantly overpaying for their FX requirements or the operational agony of managing multiple relationships to seek (though often in vain) best execution.

With this in mind, we have compiled a guide on the basics of FX designed to help demystify the world of FX and equip chief financial officers (CFOs) and finance directors with the information and tools they need to improve performance, deliver sustainable growth and, ultimately, protect their firm's bottom line.

Index

Part 1:

Fundamentals of FX

Fundamentals of FX

We are kicking off our educational blog series with a good, old-fashioned glossary.

To give you greater clarity – and help demystify the world of foreign exchange (FX) – we have explained the most frequently used words and phrases in our industry.

If you are already an FX expert, feel free to skip to the second blog in our series *"What makes MillTechFX different from other FX platforms?"*

FX trades operate in pairs, and each pair has a code. Most of these codes contain two characters relating to the country and a third character relating to the monetary unit. Some famous **currency codes** include USD (US Dollar), EUR (Euro), CAD (Canadian Dollar) and GBP (British Pound Sterling).

FX products include:

Spot – the purchase of a currency for instant delivery on a specified spot date. The standard delivery time for a currency spot transaction is trade date + two business days.

Forwards – a derivative that locks in an exchange rate for a currency pair for settlement on an agreed date in the future. They are fully flexible in terms of amounts and lengths, although one-month or three-month forwards are the most used for hedging purposes.

Swaps – a transaction in which two parties exchange an equivalent amount of money with each other but in different currencies. The parties are essentially loaning each other money and will repay the amounts at a specified date and exchange rate. The purpose could be to hedge exposure to exchange-rate risk, to speculate on the direction of a currency, or to reduce the cost of borrowing in a foreign currency.

The main impact on a currency's value is **volatility.** Currency volatility is characterised by frequent and rapid changes to exchange rates in the FX market.

Volatility is produced in a currency because of a range of factors including the overall macroeconomic environment, inflation levels, interest rates, geopolitical stability, monetary policy and cross-asset volatility.

Often, volatility is unpredictable and can lead to significant losses or gains in the foreign exchange market. To reduce or eliminate the risk of loss for a company or investor from currency movements, firms implement **currency hedging** strategies. This generally involves entering into forward contracts or options strategies to offset an existing risk.

Some investors will outsource their hedging requirements to a currency manager through a **passive hedging** or **dynamic hedging** currency overlay program.

Regulatory terms

One of the most important regulatory terms firms need to familiarise themselves with is **best execution.** This is a legal mandate that requires an execution or investment services firm executing orders on behalf of customers to take all sufficient steps to obtain the best possible results for its clients.

Rules pertaining to best execution are stipulated in MiFID II, a legislative framework that came into force on 3 January 2018. MiFID II aims to strengthen investor protection and improves the functioning of financial markets making them more efficient, resilient and transparent.

Another key framework for best practice in FX is the **FX Global Code.** Although not legally binding, the FX Global Code provides a common set of guidelines to promote the integrity and effective functioning of the FX market. Firms are encouraged to use the code to inform corporate practice and assist in developing and reviewing internal procedures.

Transparency is central to the FX Global Code. One key tool used to gain transparency over the price a trade is executed at is **Transaction Cost Analysis (TCA).** For post-trade TCA, the starting point is a set of accurate data about the transactions to be analysed including precise trade timing, which is known as the 'time stamp'. This data can then be compared to benchmark trade prices to calculate the 'slippage', which is the difference between the actual trade price and the benchmark price.

TCA exposes any hidden costs, including those in the **spread**, which is the difference between the best price you can buy at (the ask) vs the best price you can sell at (the bid). In currency markets, prices are generally quoted as net prices inclusive of any charges. The bid-ask spread is therefore an important component of the overall cost of a transaction. Independent, and frequent, TCA is one clear way that a firm can work towards demonstrating best execution regardless of which currencies or products they trade.

For a more exhaustive list of FX terms with in-depth explanations, see our **FX Glossary.**

Part 2:

What makes MillTechFX different from other FX platforms?

What makes MillTechFX different from other FX platforms?

The foreign exchange (FX) market is the largest financial market in the world with a daily trading volume of **$6.6 trillion.**

The FX execution marketplace has a wide range of providers offering a vast array of services which can make it difficult for decision-makers to pick the best firms to partner with.

Despite the large amount of choice, we believe that the FX market isn't fit for purpose for many asset managers and corporates. For too long they have frequently had no choice but to suffer from significantly overpaying for their FX requirements or the operational agony of managing multiple relationships to seek (though often in vain) best execution.

And so, we made it our mission to level the playing field for these firms by delivering a wholly new model which provides access to multibank FX rates, institutional-grade execution and transparent pricing, all in one marketplace.

So how exactly is MillTechFX different?

One stop shop for FX

• Some providers only offer part of what you need to trade FX, at MillTechFX we have created a marketplace for all of your FX requirements – access to wholesale FX rates, best execution, regulatory reporting and streamlined workflows to reduce and simplify operational burden.

• Instead of having to onboard and work with multiple liquidity providers, you can manage all of your FX needs via one relationship with MillTechFX.

• Best of all? You can be sure we're meeting your needs as we provide hard evidence in the form of independent **transaction cost analysis.** This gives you complete transparency on your costs and evidence of best execution.

Reduced execution costs

• Our FX marketplace harnesses the purchasing power of Millennium Global, one of the world's largest specialist currency managers with 25 years of FX expertise, USD 760 billion in annual FX volume and USD 17.3 billion assets under management.*

• This means customers using MillTechFX benefit from access to vastly preferential rates from up to 15 tier 1 counterparty banks which were previously only available to the largest institutions.

• As a minimum, we believe our solution can cut customers' execution costs in half – in some cases saving up to 70%.

*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. This does not include passive hedging amounts linked to active management mandates. 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 Ltd.

Multi-bank marketplace

• Commonly used FX aggregator tools require clients to have multiple International Swaps and Derivatives Association (ISDA) agreements in place to trade with counterparties.

• Instead of having to navigate the cumbersome process of implementing ISDA agreements, asset managers and corporate treasurers can simply sign up to MillTechFX and access institutional-grade rates directly from up to 15 tier 1 counterparty banks.

Transparency

• Transparency is at the heart of each stage of the execution process.

• MillTechFX offers real-time reporting and independent transaction cost analysis (TCA), which allows customers to see the total cost of their FX execution and demonstrate best execution to investors and board members.

Designed for those who need to trade

• Our marketplace has been designed with a laser focus on mid-sized asset managers and corporates with a genuine need to trade, not alpha seekers.

• It has been machine-tooled from the bottom up and is wholly intuitive and customisable, offering a frictionless, streamlined workflow from execution to reporting and settlement.

Strong governance

• MillTechFX, as part of the **Millennium Global** group, is a signatory to the Global FX Code.

• To date, MillTechFX is the only FX platform that is a signatory to the UN's Principals for Responsible Investment. We are proud of our Carbon Neutral status and are a certified CO2e Assessed Organisation.

Expert leadership team

• MillTechFX is led by technologists, traders and investment managers with decades of currency market expertise who are driven by a collective desire to deliver a better service and create a fairer FX solution for our customers.

• We are proud of the expertise on our advisory board, which features **city grandee Sir Ronald Cohen** and **Harvard Professor, Vikram Gandhi,** among other finance veterans.

By delivering a wholly new model, with technology at its core, MillTechFX is seeking to transform the FX market for asset managers and corporate treasurers. We keep your FX needs front of mind, with guaranteed transparency and regular reporting, to help you achieve best execution and transact with confidence.

Part 3:

What are the **hidden** costs in FX?

What are the hidden costs in FX?

The opaque nature of foreign exchange (FX) execution places great responsibility on asset managers and corporates to put the processes, practices and systems in place to ensure the best result possible, yet they may often be plagued by hidden costs.

Today, many firms may not have access to rates from multiple providers and have no visibility on whether they are getting a good deal.

We believe the current situation is far from ideal as many of these firms are still paying more than they need to – or should do – for foreign exchange (FX). And so, we're shining a light on the hidden costs in FX and highlighting how technology can help improve competition and transparency, to enable these firms to optimise their FX operations.

Hidden cost

The spread

• Pricing transparency is a recurring problem as FX costs are typically hidden in the spread. The transaction cost on any given trade can be calculated as the difference between the rate traded at, and the mid-market rate at that point.

• For example, if a corporate buys €5m of USD at 1.1890 and the mid-market rate at the time was 1.1860, the transaction cost on the trade would be 0.25%, or €12,500. This is not an explicit cost as the treasurer won't receive an invoice for this amount; rather, it's a hidden implicit cost. Let's make no mistake though: it's just as much of a cost.

Inability to compare the market

• For asset managers and 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.

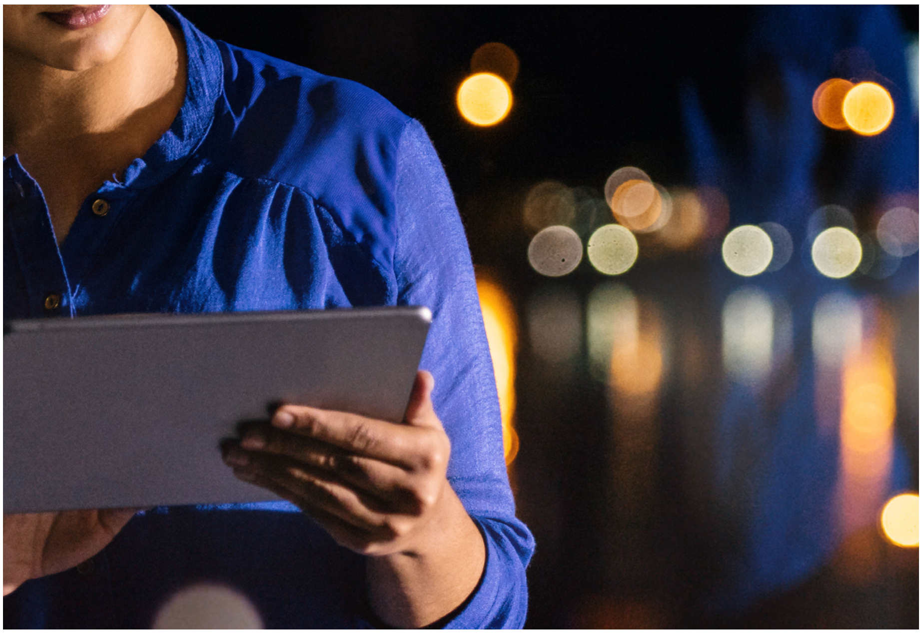
• This makes it difficult to compare the market – so when executing trades, corporates and asset managers are often beholden to limited sources of liquidity. At any given time, they may not be able to trade at the best available rate as they have no other access points to the market.

Best pricing for bigger firms

• One of the main issues in the FX market, in our opinion, is that clients are provided rates in different capacities depending on what kind of client they are – a concept called "tailored pricing".

• As a result, the best rates are reserved for institutions that transact the highest volumes, meaning mid-sized corporates and asset managers are often neglected and struggle to get the best possible deal.

• **A 2019 paper from the ECB** found that banks were overcharging small corporate customers for FX services, charging hedging rates as much as 25x higher than their bigger, more sophisticated customers.



How technology can help?

• To get a view on these hidden costs, corporates and asset managers must first understand how much they are being charged for execution. **Transaction Cost Analysis (TCA)** exposes any hidden costs in the **spread**, so that market participants can benefit from full transparency.

• Multibank marketplaces, like MillTechFX, enable asset managers and corporate treasurers to access a single interface to see 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. This type of multi-bank price streaming and execution process was previously the exclusive domain of the largest trading institutions. This is a step forward in innovation, as it increases efficiency, streamlines operations and saves customers money.

By centralising multi-bank comparison and embedding TCA into the process, corporates and asset managers can access the transparency that's historically only been available to the largest market participants.

Part 4:

What is best execution and how can you achieve it?

What is best execution and how can you achieve it?

Best execution is one of the most commonly used terms in foreign exchange (FX) and across other financial markets. If your firm has an FX exposure, there is a high probability that you have come across 'best execution'.

Despite all the controversy and regulatory intervention relating to FX best execution in recent years, many still don't understand its full definition and how to achieve it.

So, what actually is best execution?

Best execution is a regulatory requirement that investment services firms, executing orders on behalf of customers, take all sufficient steps to obtain the best possible results for their clients.

There are many factors to take into consideration in the quest for FX best execution:

· **Price and cost.**

· **Speed and likelihood of execution and settlement.**

· **Size, nature and other factors directly related to the execution of the order.**

Best execution is covered by various market principles and regulation originating from the FCA Conducts of Business Sourcebook and Principles of Business, the FX Global Code of Conduct and, most notably, MiFID II.

Combined, they stipulate that investment firms should:

· **Treat customers fairly.**

· **Deal with market participants in a consistent and appropriately transparent manner.**

· **Take all sufficient steps to obtain the best possible result for the client when executing orders.**

How new technology can help you to achieve best execution?

Achieving best execution is not easy and in our last blog on the hidden costs of FX we highlighted some obstacles to achieving best execution. The biggest obstacle is the operational complexity involved with managing multiple FX counterparty relationships. Many investment firms may also suffer from a lack of transparency over costs.

There are a number of ways we believe you could overcome these obstacles, and technology is key:

Transaction Cost Analysis

• Transaction Cost Analysis (TCA) enables firms to understand how much they are being charged for the execution of their FX transactions.

• It goes hand in hand with best execution, serving as an ongoing audit of FX practices.

• TCA can enable firms to gain a competitive advantage when trading FX but also potentially to comply with a best execution policy that is reported back to partners and investors alike.

• Ongoing, quarterly **TCA** from an independent TCA provider can be embedded as a new operational practice to ensure consistent FX execution performance.

End to end execution services

• New multi-bank FX marketplaces, such as MillTechFX, enable firms to see quotes from multiple liquidity providers in real-time, enabling them to compare the best rates.

• They deliver full transparency at each stage of the execution process, offer real-time reporting and independent TCA, providing complete visibility of their FX execution costs and enabling them to demonstrate best execution.

• This type of multi-bank price streaming and execution process was previously the exclusive domain of the largest trading institutions, but is now available to smaller firms too.

Outsourcing

• Research published by the investment consultant Russell Investments ***"Still Overpaying for FX"*** analysed 173,000 FX trades conducted on assets totalling approximately $76 billion.

• It concluded that for an average $1 billion fund, savings of $330,000 per annum would have been achievable from the adoption of an agency approach where FX trading is outsourced to a third-party specialist. In some cases, funds could have saved much more.

• The Russell study explicitly suggested the consideration of a model whereby a third-party specialist agent is appointed to manage FX trades and pursue competition among a panel of counterparties to achieve the best possible price.

Part 5:

How can you find out your FX execution costs?

How can you find out your FX execution costs?

Despite businesses regularly transacting in FX, many have poor visibility on what the costs of these transactions are and suffer from hidden charges. These include costs hidden in the spread, better pricing for larger participants and an inability to compare the market, as covered in our ***'What are the hidden costs in FX?'*** blog earlier in the series.

Recently though, there has been a steep change regarding the demand for pricing transparency in FX. As firms strive to increase efficiency, they are also trying to get to the bottom of their FX execution costs with the aim of saving money and demonstrating strong governance to internal stakeholders.

But what is the best way to get visibility on execution costs?

Achieving pricing transparency

TCA and its benefits

The answer is simple: Transaction Cost Analysis (TCA).

• TCA enables firms to understand how much they are being charged for the execution of their FX transactions.

• An independent TCA will compare your executed price against the actual mid-market rate [MID]. It will also demonstrate the total trade slippage as a means of evidencing both explicit and implicit costs.

• It goes hand in hand with best execution, serving as an ongoing audit of FX practices within a firm's currency execution function as a demonstration of good governance.

• A TCA does more than simply safeguard transparency. It allows for ongoing comparison of the quality of execution against the wider market and demonstrates Best Execution.

• Ongoing, quarterly TCA from an **independent TCA** provider can be embedded as a new operational practice to ensure consistent FX execution performance.

Multi-bank marketplace with TCA embedded

• Multi-bank marketplaces, like MillTechFX, have TCA embedded and so provide independent transparency that's historically only been available to the largest market participants.

• They also go a step further. By providing access to a single interface with live rates from multiple banks, FX marketplaces enable asset managers and corporate treasurers to compare the market and execute at the best rate.

• This is a step forward in innovation, as it seeks to increase transparency, streamline operations and save money.

Part 6:

How can you digitise your FX processes?

How can you digitise your FX processes?

One of the most prominent trends in the foreign exchange (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.

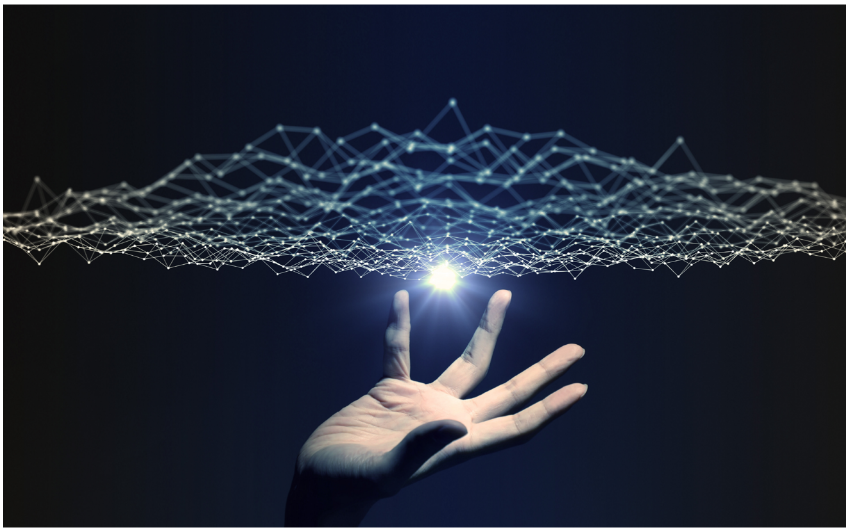
The latest **Citi Treasury Diagnostics Report** found that 57% of treasurers are looking at transformative opportunities across their treasury function, while research from **HSBC** found that 70% of treasurers and 81% of CFOs believe the digitisation of treasury processes has become more important over the last three years. This drive for digitisation across the FX market is motivated by the desire to build for scale, increase efficiency and future proof treasury operations.

Manual operations and human error

For many asset managers and corporates, manual FX processes are time-consuming and can increase the likelihood of errors. For example, FX price discovery can often involve multiple phone calls, e-mails or online platforms to log in to just to get a quote from your counterparties. If its best rate wins, because the market moves by the half second, price discovery requires a team of people; calling, e-mailing and logging in simultaneously before they can collectively decide who offered the best quote. This would have been particularly challenging throughout lockdown, with treasury teams working from home and not in close enough proximity to make quick decisions.

Price discovery is just the first step in the FX booking process! After a rate is booked in, trade confirmations usually arrive by e-mail, settlement must be processed, payment details entered and checked, approval from different layers of seniority can be required and, in some instances, trade information needs to be shared with third parties such as administrators or regulators.

All this internal, manual and siloed communication can be extremely inefficient and may give rise to human error. 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 can be a huge drain on time and resources.



Digitising FX processes

An increasing number of asset managers and corporates are moving away from traditional, cumbersome FX processes and instead are embracing simple, tech-enabled solutions which digitise the FX process from initial price discovery right through to reporting at the end of the trade lifecycle.

These solutions can offer:

Centralised price discovery

Compare prices from multiple liquidity providers on a single marketplace. Not only does this get rid of the onerous phone call and email exchanges, it also enables firms to get the best available price and lock it in with the simple click of a button.

End to End workflow

Post-trade execution processes can be fully automated, from settlement to onward payment, regulatory reporting or sharing trade data with third parties.

Transparency

By embracing a digital FX marketplace, firms can benefit from complete transparency through real-time reporting and FX transaction cost analysis (TCA). TCA can be used to monitor FX costs, but it also demonstrates good governance to internal stakeholders.

Speedy onboarding

Rather than spending months (even years) setting up multiple FX facilities with different counterparties, sign up to a multibank marketplace and transact within weeks.

With digitised FX processes, trades can be executed in minutes rather than hours, with full transparency. **Don’t get left behind; embrace digitisation and level up your business in 2022.**

Part 7:

Why do asset managers and corporates need to manage currency risk?

Why do asset managers and corporates need to manage currency risk?

The foreign exchange (FX) market is the largest and most liquid in the world – daily turnover reached **$6.6 trillion** in 2019.

Trading currencies means dealing with prices that are constantly moving up and down, often almost instantaneously in response to news from the financial markets, with the exchange rate of a given currency pair changing every half-second. This volatility and the unpredictable nature of the currency market has the potential to erode profit margins or investment returns if FX risk isn't managed effectively.

FX risk is an inevitable by-product of doing business internationally, but by implementing FX hedging market participants can mitigate the risks involved using a variety of different currency products.

It is important to note that hedging practices are typically not designed to generate profits but, rather, to protect the bottom line or returns from investments.

The cost of ineffective hedging to corporates

A weakening domestic currency will typically increase the cost of importing. It can also make investing overseas more expensive, and the cost of servicing foreign currency debts will rise, too.

Conversely, when a domestic currency strengthens, exports become less competitive. Yet the cost of foreign imports will also normally decrease, giving importers a competitive advantage over firms that source goods locally.

According to research from **HSBC,** over 57% of CFOs, rising to 77% in EMEA, say they suffered lower earnings in the past two years due to significant unhedged FX risk.

The most recent **Kyriba Currency Impact** report found that the companies in North America and Europe reported $2.13 billion in negative currency impacts in Q3 2021.

The cost of ineffective hedging to asset managers

For asset managers, any assets held in foreign currency might change in value relative to their base currency. So even if their asset is performing well in its domestic market, if the currency of its domestic market drops, so too will the value of their asset. This undermines the value creation efforts of the investment manager and can negatively impact risk/reward ratio.

Furthermore, management fees may need to be exchanged to pay for overseas costs, such as international offices, so if the rate moves these costs might go up.

Importance of effective hedging in 2022

With economic changes, such as further interest rate rises on the horizon and recent geo-political tensions, we feel it is imperative that CFOs prioritise FX risk management to protect their firm's bottom line or investment returns.

Against this backdrop we believe 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 in the year ahead.

Part 8:

How to optimise your FX risk management infrastructure

How to optimise your FX risk management infrastructure

As the old adage goes: in calm water, every ship has a good captain.

Against the backdrop of sharply rising inflation and currency volatility, over the past 12 months CFOs have had to adjust their priorities to reflect the changing environment in which their firms operate.

For many, currency management remains a huge and costly problem.

The challenge of managing currency risk

Throughout 2021, corporates had to adjust their priorities rapidly to reflect the changing economic environment in which their firms operated.

Navigating FX risk has been challenging for a variety of reasons. PwC's recent **Global Treasury Survey 2021** found that inaccurate forecasting and poor visibility were some of the biggest challenges facing treasury teams.

This made the task of FX risk management like hitting a fast-moving target. This was compounded by the supply chain crisis and CFOs having to quickly adjust against a backdrop of working from home due to lockdown restrictions.

Unfortunately, many clearly don't think they have the best possible solution in place, with **only 23%** viewing their treasury as "best in class" in this area.

Many corporates believe they are continually getting a bad deal from the FX markets.

They have had no choice but to suffer the double whammy of significantly overpaying for their currency execution and hedging requirements and the operational agony of implementing and managing multiple relationships to seek (though often in vain) best execution.

Optimising FX risk management infrastructure

With economic changes, such as further interest rates on the horizon, here are four ways that CFOs can improve their FX risk management infrastructure, deliver sustainable growth and, ultimately, protect their firm's bottom line:

1

Transaction Cost Analysis (TCA)

To effectively manage and hedge FX exposures, it's important to first measure the cost and quality of your execution and to get a view on these hidden costs.

Transaction Cost Analysis (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. It goes hand in hand with best execution, serving as an ongoing audit of FX practices.

TCA can enable firms to gain a competitive advantage when trading FX but also potentially to comply with a best execution policy that is reported back to shareholders.

Ongoing, quarterly TCA from an independent TCA provider can be embedded as a new operational practice to ensure consistent FX execution performance.

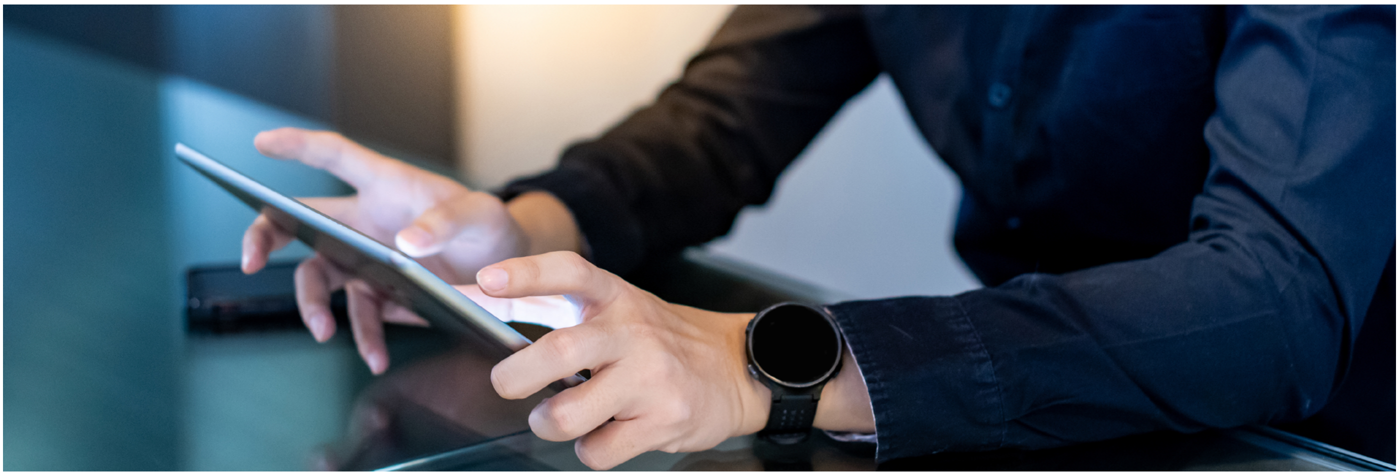
2

Compare the market

Having the ability to put trades up for competition is typically central to ensuring access to the best price – which is key to effective hedging.

But many treasurers can be hampered by the inability to access tier 1 FX liquidity and the best institutional-grade execution terms, meaning they are often reliant on a single custody bank or broker to meet their execution and hedging requirements.

Fortunately, there is a new generation of fintech companies emerging that enable corporate treasurers to access a single interface to access 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.



3

Margin-free hedging

Corporates who hedge, using forward contracts for example, must also consider that placing a hedge typically requires margin to be posted against that position as collateral. Further, if the initial margin no longer covers the mark-to-market of a hedge, due to movements in the spot rate, the corporate may be required to post additional, variation margin.

Any capital posted as collateral is effectively sitting dormant in a margin account and not available as working capital. The FX risk, mitigated with forward contracts, has been replaced with a potential liquidity risk.

One way around this issue is to trade via an uncollateralised FX facility so that a CFO can hedge using forwards and not worry about posting margin. Some solutions crucially offer this service without jeopardising best execution, ensuring total cost transparency.

4

Outsourcing

We have seen a rise in the outsourcing of specific FX functions, mainly those that are deemed 'non-core' to improve efficiency and achieve best execution. This is evidenced by the fact that 44% of CFOs in larger companies* have outsourced some of their day-to-day functions due to increased processes automation and/or digitisation, according to **HSBC and Acuris.**

Research published by the investment consultant Russell Investments ***"Still Overpaying for FX"*** concluded that for an average $1 billion fund, savings of $330,000 per annum would have been achievable from the adoption of an agency approach where FX trading is outsourced to a third-party specialist. In some cases, funds could have saved much more.

The Russell study explicitly suggested the consideration of a model whereby a third-party specialist agent is appointed to manage FX trades and pursue competition among a panel of counterparties to achieve the best possible price.

> **Time for an upgrade - Corporates deserve better quality FX hedging tools. They need a simple tech-enabled solution that cuts costs, reduces operational burden, and improves their FX workflow.**
>
> **In the changeable world of FX, it might not be smooth sailing for much longer and – as ever – being prepared for all market conditions is critical. Choosing the right technology partner can help you stay on course when you need it the most.**

* with revenues over $5bn.

Part 9:

What are the benefits of **outsourced execution?**

What are the benefits of outsourced execution?

The long list of potential counterparties, advisors and electronic trading platforms in foreign exchange (FX) execution means that it can be a confusing landscape for CFOs at corporates and asset managers to navigate.

Implementing a robust FX framework that enables best execution can involve numerous operational hurdles. Setting up and onboarding new FX counterparties, centralising price discovery and navigating the post-execution phase (to name a few!) often have their own complications and can be a headache for the finance function.

As a result, we're 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, margining and settlement.

A growing demand

The demand for third party services **has significantly grown** over the past 12 months. With Covid-19 and other macroeconomic and geopolitical factors putting a strain on firms' bottom lines, clients are increasingly turning to outsourced execution to benefit from the know-how of external experts and improve efficiency with limited resources.

According to **HSBC and Acuris,** 44% of CFOs in larger companies have outsourced some of their day-to-day functions due to increased processes automation and/or digitisation.

There is a growing recognition that outsourcing does not necessarily mean a loss of control, less transparency or reduced quality of FX activities. Instead, it can save firms' time and resources and, when using the right partner, can actually improve governance, transparency and execution quality.

Research from **Russell Investments**, for example, found that for an average $1 billion fund, savings of $330,000 per annum would be achievable from the adoption of an agency approach where FX trading is outsourced to a third-party specialist. In some cases, funds could have saved much more.

Notably, the **study** from Russell Investments explicitly suggested an 'agency' model - whereby a third-party specialist is appointed to manage FX trades as a means of achieving best execution. The report says, "this third party then 'shops around' for the best deal for each set of FX trades using competition between possible counterparties to ensure that the prices achieved are as attractive as possible."

What to look for in a service provider?

There are a number of features that forward-thinking businesses should look for in a potential outsourcing partner:

• Full transparency at each stage of the execution process.

• Real-time reporting.

• Independent TCA.

• Complete visibility of execution costs.

• The ability to demonstrate best execution.

At MillTechFX, we're leading the charge on outsourced execution in FX. By combining multibank execution, independent advisory and operational program management with strong governance and full transparency, we're helping firms significantly reduce both FX costs and operational burdens, while enabling them to maintain control and oversight of their FX execution.

Part 10:

What impact is the ESG trend having on FX?

What impact is the ESG trend having on FX?

Driven by pressure from investors, governments and consumers, Environmental, Social and Governance (ESG) factors have become a key priority for the financial services industry and are now at the heart of multiple decision-making processes within many businesses.

The growing policy and regulatory momentum towards ESG means that it is now a fundamental precept of investing and a huge area of focus for the financial sector. Investors are looking to align themselves with fund managers who, at the very least have a clearly defined ESG policy.

There is growing evidence to suggest that ESG investing will be a genuine lasting shift rather than a short-term fad. A **survey** of more than 1,000 investment professionals revealed that 77% of institutional investors plan to stop buying non-ESG products this year and assets are poised to reach **$41 trillion** by the end of 2022.

ESG in FX

The answer is simple: Much of the emphasis on ESG in FX to date has been on the first two letters of the acronym – 'E' (environmental) and 'S' (social), while the 'G' (governance) has often been left lagging behind as an afterthought.

In our view, establishing strong governance in areas such as regulatory compliance, transparency and implementation of industry best practices, are the bedrock for any business seeking to be a good corporate citizen.

Strong governance can manifest itself in different ways, depending on the nature of an organisation and its priorities. For corporates, asset managers and other institutions trading currencies, improving the cost, quality and transparency of their FX execution should form a central pillar of their governance.

Organisations should also assess the ESG credentials of its partners, service providers and those operating within its network.

Supporting the ESG drive in FX

As ESG continues to influence decisions over investment strategy, corporate treasurers and asset managers should look to all the possible ways to which they can fulfill their ESG commitments.

As an independent FX marketplace, we help our clients achieve this through a two-part process. Firstly, we allow our clients, many of whom rely on a single bank or broker for execution, to compare institutional-grade rates from more than ten counterparties and execute with the provider offering the best price. This offers an unprecedented level of price competition and stops them from being overcharged for their currency execution.

Secondly, our independent transaction cost analysis (TCA) helps clients to assess the broader quality of execution. This is an important part of governance and is in line with MiFID II, the FX Global Code and other industry best practices.

We are strongly committed to our own ESG responsibilities. In addition to our pinpoint focus on improving execution quality and reducing operational burdens, we are officially carbon neutral and committed to further reducing our carbon footprint by ensuring our business practices are aligned with internationally recognised standards.

We are also an official signatory of the Principles for Responsible Investment (PRI), contributing to a sustainable global financial system. Dedication to these principles and access to PRI's knowledge base helps to ensure we are ESG compliant.

Part 11:

What is the FX Global Code?

What is the FX Global Code?

The FX Global Code of Conduct is a set of principles of good practice in the foreign exchange market developed by a partnership between central banks and market participants.

The BIS Foreign Exchange Working Group (GFXC) **published the FX Global Code of Conduct** on 25 May 2017 with the aim of providing a common set of guidelines to promote the integrity and effective functioning of the wholesale FX market.

It published an **updated version of the code in 2021** after a public request for feedback and extensive review process with foreign exchange committees around the world.

It's vital that buy-side firms and corporates are aware of the FX Global Code as it exists for their protection. The code enables them to scrutinise liquidity providers and partners' processes against best practice, ensuring they achieve best execution and get the transparency they deserve.

The challenge of managing currency risk

The FX Global Code is organised around **six leading principles:**

1. Ethics: Market participants are expected to behave in an ethical and professional manner.

2. Governance: Market participants are expected to have a sound and effective governance framework to provide comprehensive oversight and define clear responsibilities for their FX activity. .

3. Execution: Market participants are expected to exercise care when negotiating and executing transactions.

4. Information Sharing: Market participants are expected to be clear and accurate in their communications and to protect confidential information to promote effective communication.

5. Risk Management and Compliance: Market participants are expected to promote and maintain a robust control and compliance environment to effectively identify, manage, and report on the risks associated with their engagement in the FX market.

6. Confirmation and Settlement Processes: Market participants are expected to put in place robust, efficient, transparent, and risk-mitigating post-trade processes.

Who does the code apply to?

A diverse range of firms engage in the FX market in a multitude of ways and across a range of FX products. The FX Global Code is written with this diversity in mind and applies to all participants that engage in the FX market.

This includes an organisation (and includes personnel that carries out the below on behalf of their organisation) that:

• Is active in the FX market as a regular part of its business and is engaged in the activity of trading FX instruments either directly or indirectly through other market participants.

• Operates a facility, system, platform or organisation through which participants have the ability to execute trades.

• Provides FX benchmark execution services.

• Is not considered a retail market participant in the relevant jurisdictions.

How many market participants have signed up to the code?

One of the most important features of the FX Global Code is that is does not impose any legal or regulatory obligations on market participants. Instead, it's a voluntary code of conduct designed to set out best practice and processes.

So, when it was first introduced, the big question was whether market participants would sign up and adhere to a voluntary code.

The BIS and many central banks took on the responsibility of driving adoption among key market participants. Some even **required counterparties** to sign the code and threatened to cut ties with those that didn't comply.

Combined with a general feeling that the industry needed to do better by standardising best practice and promoting transparency, this led to widespread adoption and there are now over 1,100 signatories on the **global register.**

MillTechFX is proud to be a signatory of the FX Global Code

MillTechFX, as part of the **Millennium Global** group, is a proud signatory of the FX Global Code and we continue to implement best practices to enable our customers to achieve best execution with full transparency.

The Millennium Global group also participated in creating the FX Global Code by participating on the Bank of England's Foreign Exchange Joint Standing Committee, so it's safe to say the FX Global Code is in our DNA.

Part 12:

What is FX-as-a-Service (FxaaS)?

What is FX-as-a-Service (FxaaS)?

FX-as-a-Service or FXaaS represents the evolution of currency management through automation, integration and validation.

FXaaS involves a tech-enabled integrated solution which provides FX market participants with better market access and improved pricing power, while delivering transparency, reducing costs and minimising operational burden.

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.

The old way of transacting in FX

Many asset managers and corporates rely on manual FX processes which are time-consuming and can increase the likelihood of errors.

Price discovery alone can often involve multiple phone calls and e-mails, and logging into different online platforms just to get a quote from counterparties. As the market moves by the half second, this requires a team of people carrying out each of these tasks simultaneously before collectively deciding which quote to go for.

After a trade is booked, confirmations usually arrive by email, settlement must be processed, payment details entered and checked and approval from different layers of seniority can be required. In some instances, trade information needs to be shared with third parties such as administrators or regulators.

All this internal, manual and siloed communication can be extremely inefficient and may give rise to human error. 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 can be a huge drain on time and resources.

Digitise your FX processes with FXaaS

An increasing number of asset managers and corporates are now moving away from traditional, cumbersome FX processes and instead are working with FXaaS providers which digitise the FX process from initial price discovery right through to reporting at the end of the trade lifecycle.

Benefits of FXaaS include:

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 multiple counterparty banks.

Cost savings

This model has been proven to save clients up to 80% on their execution costs.

Best execution and hedging management

Firms benefit from multi-bank access without having to manage multiple relationships and processes. Firms 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.

Transparency

FXaaS is a fixed fee service, including third-party Transaction Cost Analysis (TCA) to ensure total cost transparency.

How can MillTechFX help?

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

Our end-to-end solution automates the entire FX workflow and ensures transparent **best execution** – saving clients time and costs. We also offer a fixed fee service model, including third-party transaction cost analysis to ensure total transparency.

MillTechFX harnesses the purchasing power of **Millennium Global**, one of the world's largest currency managers with c. $17.3 billion AuM, which transacts over $760 billion in annual FX volume*. Via the MillTechFX marketplace, clients can directly access preferential FX rates and credit terms from up to 15 Tier one counterparty banks.

With FXaaS, trades can be executed in minutes rather than hours within an automated end-to-end solution with transparent best execution. Get in touch to find out more **here.**

Learn more at:
https://milltechfx.com

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*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. This does not include passive hedging amounts linked to active management mandates. 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 Ltd.

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