



AFP® Education Marketplace

WEBINAR

Developing Best Practices in FX Trading Execution

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Developing Best Practices in FX Trading Execution

- Overview of the FX Market
- Why FX Execution Matters to the Treasurer
- Best Practices in FX Execution

Overview of the FX Market

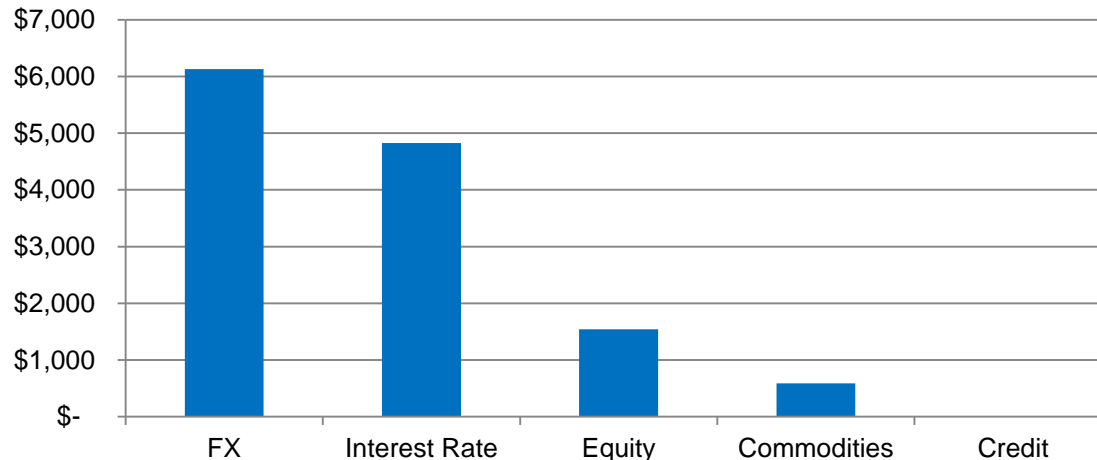
....The Wild West



Overview of the FX Market

- The Largest Source of US Bank Trading Profits for the past 14 Years

Average Annual Trading Revenue Since 1996 (\$ Millions)



CPE VERIFICATION KEY TERM

Required for CPAs Only

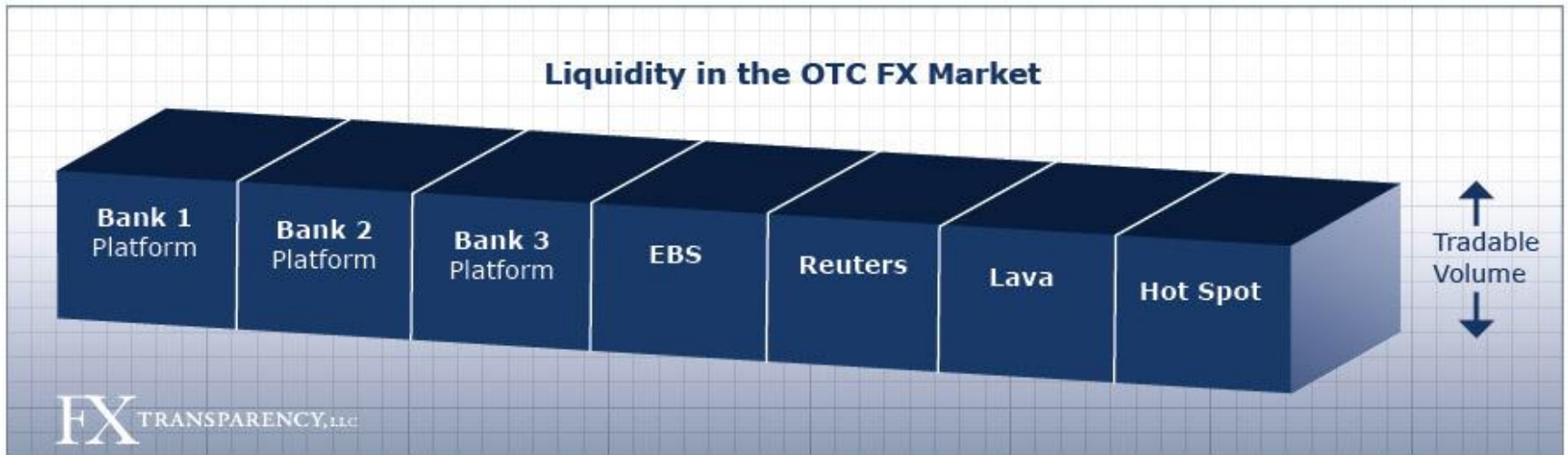
FX Market

Overview of the FX Market

- Why Are FX Revenues Consistently High?
 - Banks Act as Principal, not Agent, on Currency and Interest Rate Trades
 - No Regulation
 - Reg NMS Does not protect against uncompetitive FX rates
 - ERISA law allows 300 bps mark-up to interbank rates

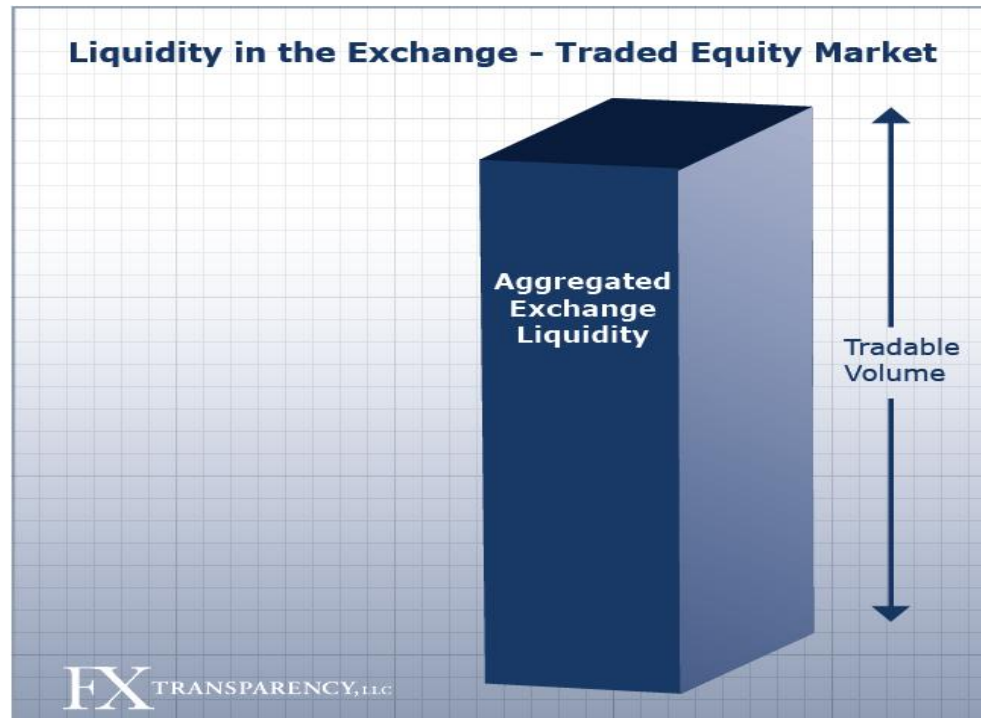
Overview of the FX Market

FX Execution Overview – Credit Required



Overview of the FX Market

Equity Market Execution Overview



Overview of the FX Market

Catalyst for Change – October 2009



State of California vs. State Street Litigation

Why FX Execution Matters to the Treasurer

- FX Trading Costs Hit the Company's Bottom Line
- Impacts Hedging Performance
- Managing Banking Relationships
 - How much did we pay our banks last quarter?
 - Cost / Benefit Analysis

Why FX Execution Matters to the Treasurer

The True Cost of FX Execution

→ Banks' Currency Trading Profit + Wire Fees

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Execution

What Should Treasurers Pay for FX Execution?

<u>Tier I</u>	<u>Tier II</u>	<u>Tier III</u>	<u>Tier IV</u>
Investment Grade Credit & Volume > \$100 million	Investment Grade Credit & Volume < \$100 million	High Yield Credit & Volume > \$100 million	High Yield Credit & Volume < \$100 million
3 BPS	5 BPS	10 BPS	25 BPS

Recent Success – Tier IV went from 90 BPS to 25 BPS and Saved \$380k in Year 1

What Treasurers May Not Know About the FX Market

- Why Banks LOVE when Treasurers trade FX Options
- The Large Markup in “Forward Window” or “Drawdown” Contracts
- “Front Running” Orders and Forward Market Price Discovery
- If Currency Hedging is outsourced, we must be getting the best price, right?

Establishing Best Practices in FX Execution

- FX Transaction Cost Analysis (TCA)
- Multiple Bank Relationships
- Price Discovery Process
- Education

FX Transaction Cost Analysis (TCA)

- Established practice in Equity Markets for 25+ Years
- State Street / California Lawsuit
- Peer Cost Data Available – are your costs too high?
- Facilitates calculation of Total Bank Fees

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Cost Analysis

Steps to Perform FX TCA

1. Download FX Trade History from Treasury Workstation
 - Trade Date
 - Value Date
 - Currency Bought / Sold, Amounts
 - Bank
2. Send FX Trade Data to FX TCA Vendor on a Regular Basis (Annually, Quarterly, etc.)
3. Do Not Use Banks for FX TCA (Conflict of Interest)

Multiple FX Bank Relationships

- Compete FX Trades for better pricing
- Improve Liquidity
- Diversify Credit Risk

Price Discovery Process

- Bloomberg
- Reuters
- Single and Multi-Bank Platforms
- SuperDerivatives

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SuperDerivatives

Education: How to Battle the Hidden Markup

- Market Conventions
 - Spot value-date time cut-offs (NZD 1pm, etc)
- FX Forward Pricing
 - NPV and Setting Spot on FX Swaps
 - Day Counts and Basis Swap
- FX Option Pricing
 - Always Exchange Delta!
 - Option Premium Discount Rate

Q & A

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