FXTransparency

Measure. Manage. Monitor.

Founded in 2009

Asset Owners' Gap in Fiduciary Duty Created by Foreign Exchange

Whether large or small by any scale, most pensions and endowments are exposed to a "fiduciary loophole" in foreign exchange as a result of using external managers and the pension's custodian to execute currency trades.

The Problem - Two Bad Assumptions

- When external managers are hired, most asset owners assume they have outsourced 100% of the fiduciary duties related to foreign exchange. This is not the case because:
  - 98% of external managers do not trade restricted currencies in house (Korea, Brazil, Taiwan, etc.)
  - Those trades are left with the asset owner's custodian, whom likely has language in the custody agreement that the bank acts as *principal* to FX trades, not fiduciary.

- Internal Traders and Transaction Cost Analysis (TCA)
  - Upon hearing the news about a possible gap in fiduciary duties on FX trades, the first place the general counsel or chief compliance officer may turn to is their internal trading team if they are large enough to have such resources. At this time, the trader will likely tell the folks from legal and compliance, "we are not exposed, we use BestX or ITG/Virtu to measure all of our trades."
    - This gives some oversight to trades done in-house, but no oversight to trades done by external managers or the custodian of the pension, only trades done through the platform on the internal trader's desk.
    - Further, both of these commonly used TCA firms are owned by a custodian (BestX) or a high frequency trading firm (Virtu) both of whom have been heavily fined by regulators for using client trade information for their own financial gain.
  - If no internal trading team exists, that means all the FX is done by some combination of external managers, whose trading skills in FX vary widely, and the custodian, who has every incentive to give the asset owner the worst rate possible because they are acting as principal not agent/fiduciary.

The Solution – Comprehensive and Independent FX TCA

To cover all aspects of foreign exchange from a fiduciary perspective, measuring *everything* that affects the asset owner's bottom line rather than measuring only internal trades is the solution. This also includes:

- External Manager Trades
- Custodian Trades in Restricted Markets
- Comingled Funds and Pooled Vehicle Investments that likely reside outside of the custodian's FX record system

Is currency oversight part of your fiduciary governance responsibility? To learn more about our offering please contact us:

North America & Europe

Joe Conlan
Head of Business Development
161 Worcester Road
Suite 604
Framingham, MA 01701
+1 508 282 5852
jconlan@fxtransparency.com

Australia

Brett Elvish
Suite 140
585 Little Collins Street
Melbourne 3000
Australia
+61 4 1317 6164
asia@fxtransparency.com