



FX Transparency
Measure. Manage. Monitor.

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FX Transparency Asset Owner Survey

The following survey was conducted during 2020 by FX Transparency (FXT) staff. The objective was to determine how prevalent the use of FX Transaction Cost Analysis (FX TCA) is amongst the Institutional Asset Owner community.

FXT surveyed asset owners with \$1 billion or more in assets under management via direct marketing using both phone calls and email. Responses were received from 375 firms that included Pension Funds, Sub-Advisor Complexes/Mutual Funds, and Endowments.

FX TCA is used by Buy-Side firms to comply with fiduciary responsibilities as well as regulatory requirements such as MiFID II, PRIIPs and the FX Global Code of conduct. FX TCA helps fiduciaries demonstrate efforts to achieve best execution in foreign exchange, as well as improve operational efficiencies.



Survey Results

Types of Institutions	Total Contacted	No FX TCA	Using FXT Competitors	Using FXT	% Not Measuring FX Costs
Pensions Funds	308	204	84	20	66%
<i>Geographical distribution</i>					
US	154	108	38	8	70%
UK	61	38	19	4	62%
Canada	31	22	5	4	71%
Europe	62	36	22	4	58%
<i>Types of Pension funds</i>					
Government / Public	192	120	59	13	63%
Corporate	59	42	14	3	71%
Labor Union	45	33	9	3	73%
Religious	12	9	2	1	75%
<i>AUM of Pension funds</i>					
Over \$50 Billion	55	33	16	6	60%
\$10 - \$50 billion	93	68	18	7	73%
\$2 - \$10 billion	83	55	24	4	66%
Under \$2 billion	77	48	26	3	62%
Sub Advisor Complexes	28	15	7	6	54%
<i>Geographical distribution</i>					
US	17	9	4	4	53%
UK	4	2	1	1	50%
Canada	3	2	1	0	67%
Europe	4	2	1	1	50%
<i>Types of Sub Advisor Complexes</i>					
Mutual Funds	12	7	3	3	58%
Insurance Companies	16	8	4	3	50%
US-based University Endowments	39	38	0	1	97%

Summary

Regardless of the amount of assets under management, the overwhelming majority of Buy-Side participants are still not actively measuring the cost of executing FX. Roughly one-third of the Pension Funds, less than half of the Sub-Advisor Complexes, and an insignificant number of Endowments that were surveyed are currently using FX TCA to measure FX execution costs. Europe and UK participants were slightly more likely to employ FX TCA than their US or Canadian counterparts.



Without FX TCA Asset Owners Face a Gap in Fiduciary Duty

Whether large or small by any scale, most asset owners 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.
- Assuming an Internal FX Trader ensures fiduciary oversight on all trades.
 - 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 FX 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 FX 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 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
+1 508 283 5852
jconlan@fxtransparency.com

Australia

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