

The Foreign Exchange Report 2011:

Developing Best Practices

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Barrington Partners
RESEARCH

WE KNOW THE DETAILS

The Foreign Exchange Report 2011



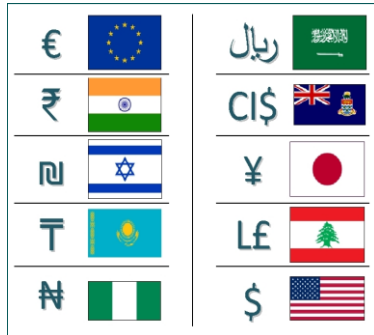
Foreign Exchange trading is required to convert base currency into a local currency when trading foreign securities. Foreign Exchange trading has long been a common activity in the mutual fund industry.

Now, however, due to a number of recent lawsuits, FX trading has moved to center stage. This research was undertaken to examine the FX market from an operations and technology perspective. Our approach was to interview a full range of market participants including FX traders, investment managers, technology/system providers and custodians.

Key issues addressed include Standing Instructions, Netting Trades, Restricted Currencies and Repatriation of Interest and Dividends.

While our research has found that firms with considerable global assets are concerned with FX trading costs and have organized their practices in certain ways to reduce or control costs, it is also clear from the recently filed lawsuits that some institutions have only just begun to understand how FX trading impacts their portfolios.

UNDERSTANDING HOW INVESTMENT FIRMS TRADE FX



Interviews with Investment Managers provide insight into daily trading activities and how these firms with a large amount of international holdings address the issue of converting currency to settle trades and repatriating dividends and interest payments while controlling costs.

While there are similarities in areas, the firms interviewed have a range of approaches to managing the FX trading process.

Among the issues this research addresses are:

- Procedures for trading FX
- Standing Instructions
- Netting Trades
- Restricted Markets
- Time Stamps
- Trading Away
- Repatriation
- Cash
- Technology/ Trading Platforms
- Developing Best Practices

The FX market is the largest and most liquid market in the world, estimated by the Bank for International Settlements (BIS) as averaging approximately \$4 trillion in daily trading volume as of April 2010.¹ The BIS estimates that this current transaction volume has more than doubled since 2004, and the expectation is that this volume will continue to grow as participants increase their trading activity in support of investment, business and speculative goals.

¹ Bank for International Standards Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in 2010 - Final result December 2010



USA	USD	0.9978
UNITED KINGDOM	GBP	0.7822
CANADA	CAD	0.9978
CHINA	CNY	0.1512
EURO	EUR	0.6268
JAPAN	JPY	111.1111
SINGAPORE	SGD	1.3355
HONG KONG	HKD	0.7822
NEW ZEALAND	NZD	1.3247
MALAYSIA	MYR	0.3333
THAILAND	THB	32.670
INDONESIA	IDR	1512.26

INSIGHTS ON TECHNOLOGY

Information in this section was gathered from each of the firms listed below. Where possible, Barrington Partners viewed a demo of a system and conducted in-depth interviews with representatives from each of the participating firms to gain an understanding of each platform’s capabilities. Barrington Partners did not interview clients of these firms to verify any of the information provided.

Firms Offering Multi-Bank FX Trading Platforms

- Bloomberg Professional FXGO: Bloomberg L.P.
- FXall: FX Alliance International, LLC.
- FX Connect: eExchange Solutions
- TEX®: 360T Trading Networks
- Thomson Reuters: Reuters Trading for FX (RTFX)

Transaction Cost/Execution Quality Analysis and Benchmarking Firms

- Amaces Ltd.
- FX Transparency, LLC.
- Global Trading Analytics, LLC.
- Investment Technology Group, Inc.

INSIGHTS FROM CUSTODIANS

Participating custodians (we asked all major global custodians operating in the mutual fund industry to participate) provided Barrington Partners with written responses to the same questionnaire. Each of these Custodians signed off on their respective questionnaire responses as accurate.

Custodial Banks FX Service Offerings

- BNY Mellon
- Citibank N.A.
- J.P. Morgan
- RBC Dexia
- State Street

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- Overview of the FX Marketplace
- Regulatory Environment
- Asset Managers in the FX Marketplace
- Role of Custodians in Transacting FX
- Standing Instructions
- Issues Affecting Buy-Side Participants
- Lawsuits and Investigations
- Can Best Execution for FX be Defined?

Interviews with Investment Managers

- Introduction
- Process for Unrestricted Currencies Negotiated Trades
- Process for Unrestricted Currencies 'Standing Instructions'
- Process for Restricted Currencies

Developing Best Practices: Recommendations

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Glossary

ABOUT BARRINGTON PARTNERS

Founded in 1995, Barrington Partners specializes in providing research, consulting, and investment banking to the financial services and investment management industry. The firm's activities are international in scope, with engagements undertaken for clients in the US, Canada, the UK, Luxembourg, Ireland, France, Germany, Switzerland, Denmark, India, South Africa and a number of offshore locations.

Our professional staff have an average of over 20 years of direct industry experience each, enabling them to quickly and thoroughly understand and address the complexities presented by each assignment.

BARRINGTON PARTNERS RESEARCH: Surveys & 'Best Practices'

- Fund Accounting Cost Survey 2011
 - Transfer Agency Cost Survey 2011
 - How Investment Firms Evaluate Middle Office Outsourcing 2011
 - Understanding Intermediary Fees 2011
 - Intermediary Fee Survey 2012
 - Intermediary Fee Payment Recon 'Best Practices' 2012
 - Global Mutual Fund Markets: Operations & Technology
-

BARRINGTON PARTNERS RESEARCH: Systems/Service Reviews

- Portfolio Accounting Review (early 2012)
 - 'Next Generation' Transfer Agency Systems Review (early 2012)
 - Middle Office Outsourcing Service Provider Review 2009
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BARRINGTON PARTNERS CONSULTING

- Operations and Service Effectiveness Reviews
 - Outsourcing Selection: Middle Office, Back Office, Offshore
 - Systems Gap & Functionality Analysis
 - Vendor Evaluation & Selection
 - Project and Implementation Management
 - Research and Development of Product Distribution Strategies
 - Development of Business, Product and Market Plans
 - Objective Analysis of Board-Level Decision Presentations
 - Client Feedback and Satisfaction Surveys
 - Fee Negotiations
-

BARRINGTON PARTNERS INVESTMENT BANKING

- Buy / Sell Side Search and Evaluation (Advisors, Brokerages, Mutual Funds, Hedge Fund Administrators, Service Providers)
 - Mergers / Joint Ventures / Liftouts
 - Fairness Valuations
 - Due Diligence
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FOR MORE INFORMATION, CONTACT:

The price of The Foreign Exchange Report is \$3,500. The Report can be delivered in watermarked electronic form or in hard copy.

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