MillTechFX
by Millennium Global

Transparent **Best Execution** is vital for **Private Equity Firms**

In our opinion, access to competitive pricing and operational efficiency will always be critical factors for private equity firms when it comes to trading currencies. **But for many firms, one particular concern has risen to the forefront: a lack of transparency.**

Consider this scenario. A private equity firm wants to invest in an overseas technology business. It has several currency matters to consider:

1. How to physically buy foreign currency (i.e. perform a spot FX trade)

2. Whether to consider FX hedging at the portfolio level

3. If hedging is required: how to minimize margin (i.e. collateral) payments

In addition, regardless of the investment in this company, the private equity firm may have FX hedging needs at the share-class level to consider.

To check prices from two liquidity providers, it must phone both individually, ask for a quote, compare the two, then go back to the best one and place the trade (assuming the market hasn't moved in the intervening period).

We speak to private equity firms set up like this all the time and there are a couple of problems with it in our view. It's unlikely that the private equity firm has been able to achieve best execution. They simply don't have:

- The operational set-up in place to access multi-bank best execution.
- Strong enough pricing power to drive down their execution costs.
- Little visibility on what their costs actually are.

It's worth remembering that fund managers are fiduciaries. They are responsible for their investors' money, which brings with it the duty to put into place best practices for transparency.

The trouble is that FX has been notorious for its lack of transparency. This is thankfully now starting to change though.

The FX Global Code provides a global framework for good practice and processes around transparency, but many firms who are trading in FX not because they want to (i.e. speculating) but because they have to (i.e. hedging or simply buying foreign currency for a payment or investment), and are often not set up in a way that makes following the FX Global Code's framework feasible.

So the question is: **Does implementing a solution that looks to provide transparent best execution always have to lead to an increased operational burden?**

Achieving transparency without operational headache

MiFID II requires investment firms to take all "sufficient" steps to obtain the best possible result for the client. In addition, the FX Global Code applies principles for dealing with market participants in a consistent and appropriately transparent manner.

There are many factors to consider in achieving best execution; one of those is the best available FX exchange rate.

To get an order executed at the best available rate, fund managers commonly look to diversify their pool of FX liquidity providers. With multiple prices to choose from, private equity firms can then pick the best rate for them and demonstrate best execution.

However, the quest for best execution raises many questions:

· How many FX counterparties do you need to achieve best execution?

· What's the best process for price discovery – should it involve multiple inputs from streaming rates, quotes in an e-mail, or calling around, as in our example of the private equity firm?

· What's the operational process involved, and does ease of use become a factor?

· How should a private equity firm demonstrate best execution to its investors on an ongoing basis?

Before reviewing their current price discovery process, a fund manager must first understand how much they are being charged for executing their FX transactions. Transaction Cost Analysis (TCA) was explicitly created to provide transparency on these hidden costs: they are hidden because they are usually contained within the spread as opposed to being charged separately as an explicit cost. But the issue is many private equity firms still don't have access to this kind of analysis.

The goal of TCA might not just be to gain a competitive advantage when trading FX but potentially to comply with best execution policy that is reported back to partners and investors alike.

To perform **TCA**, historical trade data is required – currency pair, volume, timestamps and more. If a private equity firm is considering TCA to measure the quality of execution, they must first ensure they are collecting the necessary FX data from their counterparties. This should be fully transparent and broken down according to product, price, currency pair and include as accurate a timestamp as possible.

But how can this critical step towards **transparency** be achieved without introducing additional operational burden?

Use technology to stay ahead of the curve

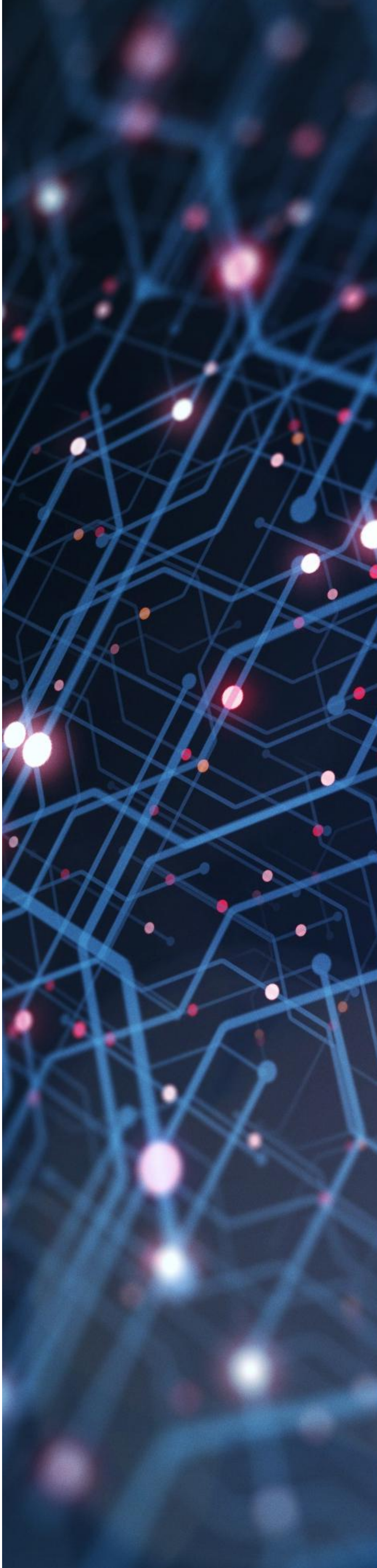
The opaque nature of currency markets places great responsibility on private equity firms to put the processes, practices, and systems in place to ensure the best result for their investors. In our view, the current situation is far from ideal.

Therefore, private equity firms are turning to technology to help implement best practices and increase the overall transparency of the execution process – it is only with complete visibility of FX execution costs that they are able to evidence best execution.

Centralising multi-bank comparison and embedding TCA into the process avoids creating a time-consuming, team-wide operational burden.

We believe private equity firms need a simple, operationally efficient, tech-enabled solution that delivers the transparency that's been available to the largest market participants for years.

This seemingly straightforward – but until now, elusive – premise enables them to gain a transparent view of their execution setup, streamline their operational workflows and execute FX trades at the best possible rate. It's becoming increasingly critical for private equity firms that want to stay ahead of the curve in a steadily evolving FX marketplace.



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How MillTech FX **can help**

MillTechFX by Millennium Global is the FinTech affiliate of **Millennium Global Investments**, one of the largest specialist currency managers globally. Our multi-bank market helps private equity firms significantly reduce both FX costs and operational burden associated with FX execution and rolling hedging requirements.

We provide access to a **transparent marketplace** for comparative FX execution from up to 10+ counterparty banks, while harnessing a unique and significant pricing efficiency for our clients.

If you would like to get in touch with us and find out how our FX marketplace can help you and your FX business needs, please get in touch on:

info@milltechfx.com or
+44 20 8164 1200

For more information please visit **https://milltechfx.com/**