

MillTechFX
by Millennium Global

The MillTechFX North America CFO FX Report 2023

The intensifying FX challenges
for corporates



Summary

Foreign exchange (FX) risk management has risen to the top of the agenda for senior-finance decision makers at corporates across North America over the past year.

Driven by a combination of rising interest rates, high inflation, geopolitical uncertainty and well-documented turbulence across the banking sector, US dollar volatility, in particular, has posed a mounting threat to North American firms.

Having reached a two-decade high against other major currencies in September 2022, it slid to a nine-month low in February 2023 before slightly rebounding. This backdrop, in addition to the wider macro environment, can ultimately create **greater uncertainty for CFOs on their bottom lines**.

As a result, the FX challenges for CFOs are intensifying with the rising threat of currency movements negatively impacting their bottom lines. According to Kyriba's May 2023 Currency Impact Report, North American companies reported \$28.94 billion in earnings impact from FX headwinds in Q4 2022, up 84% year on year.

This uncertain landscape has added to **the importance of having a robust FX strategy** in place. However, many corporates have traditionally struggled with two main problems when it comes to FX.

The first is a **lack of transparency**. Transaction costs can be hidden in the FX spread, typically calculated as the difference between the traded rate at the point of execution and the mid-market rate at that time. Moreover, corporates tend to only work with a small number of counterparties for their FX due to the **operational complexity of setting up multiple banking relationships**, making it harder for them to compare prices.

The second problem is **inconsistent pricing**. Banks and brokers usually reserve their most competitive rates for institutions that transact the highest volumes, meaning small and **mid-sized corporates struggle to get the best possible deal**. This is no secret. The European Central Bank produced a report in 2019 that found that banks were overcharging their smaller corporate customers for FX services with hedging rates as much as 25 times higher than for their larger clients.



With this in mind, MillTechFX surveyed 250 senior finance decision-makers at North American corporates to review where they are on their FX journey and where they would like to get to.

The 'MillTechFX CFO FX Survey 2023: The intensifying FX challenges for corporates in North America' explores how many resources they dedicate to FX, the challenges they face, solutions they are exploring, how they have adapted their FX risk management in the face of heightened volatility and the importance of ESG.

The persistence of legacy systems: There is still a reliance on inefficient, manual processes and this has forced many corporates to dedicate significant time and resources to their FX operations.

Barriers to best execution: Corporates are struggling to achieve and demonstrate best execution. Their biggest challenges are forecasting exposure and cost calculation because of a lack of transparency over costs and poor visibility on whether they are getting a good deal.

Turning to technology-driven solutions: The vast majority of CFOs are exploring new technology and seeking to embrace digitization in a bid to streamline

operational processes. Some are also exploring outsourcing to free up resources, but lack of control and trust remain significant barriers.

The rising importance of ESG: The bulk of respondents said that ESG has grown in importance over the past year and that ESG credentials impacts their selection of FX counterparties.

The changing face of FX hedging: Against a backdrop of market volatility, most corporates who previously didn't hedge are now considering doing so, whilst those that do hedge are now hedging a higher amount of their exposure compared to this time last year.

Counterparty diversification: The recent banking crisis involving banks such as Silicon Valley Bank, Credit Suisse, First Republic Bank and Signature Bank has highlighted the potential risks associated with having only one or two banking partners. As a result, nearly all corporates surveyed said they are looking to diversify their FX counterparties.

Ultimately, the research has highlighted that it is more important than ever that North American corporates gain a transparent view of their FX execution, streamline their operational workflows and implement a carefully thought-out risk management strategy to manage their currency exposures throughout the rest of 2023 and beyond.

Part 1

The persistence of legacy systems

For many North American corporates, FX processes are manual, cumbersome and time-consuming.

FX price discovery can often involve multiple phone calls, e-mails or online platforms to log in to just to get a quote from your counterparties. If its best rate wins, because the market moves by the half second, price discovery requires a team of people; calling, e-mailing and logging in simultaneously before they can collectively decide who offered the best quote.

Price discovery is just the first step in the FX booking process. After a rate is booked in, trade confirmations usually arrive by e-mail, settlement must be processed, payment details entered and checked, approval from different layers of seniority can be required and, in some instances, trade information needs to be shared

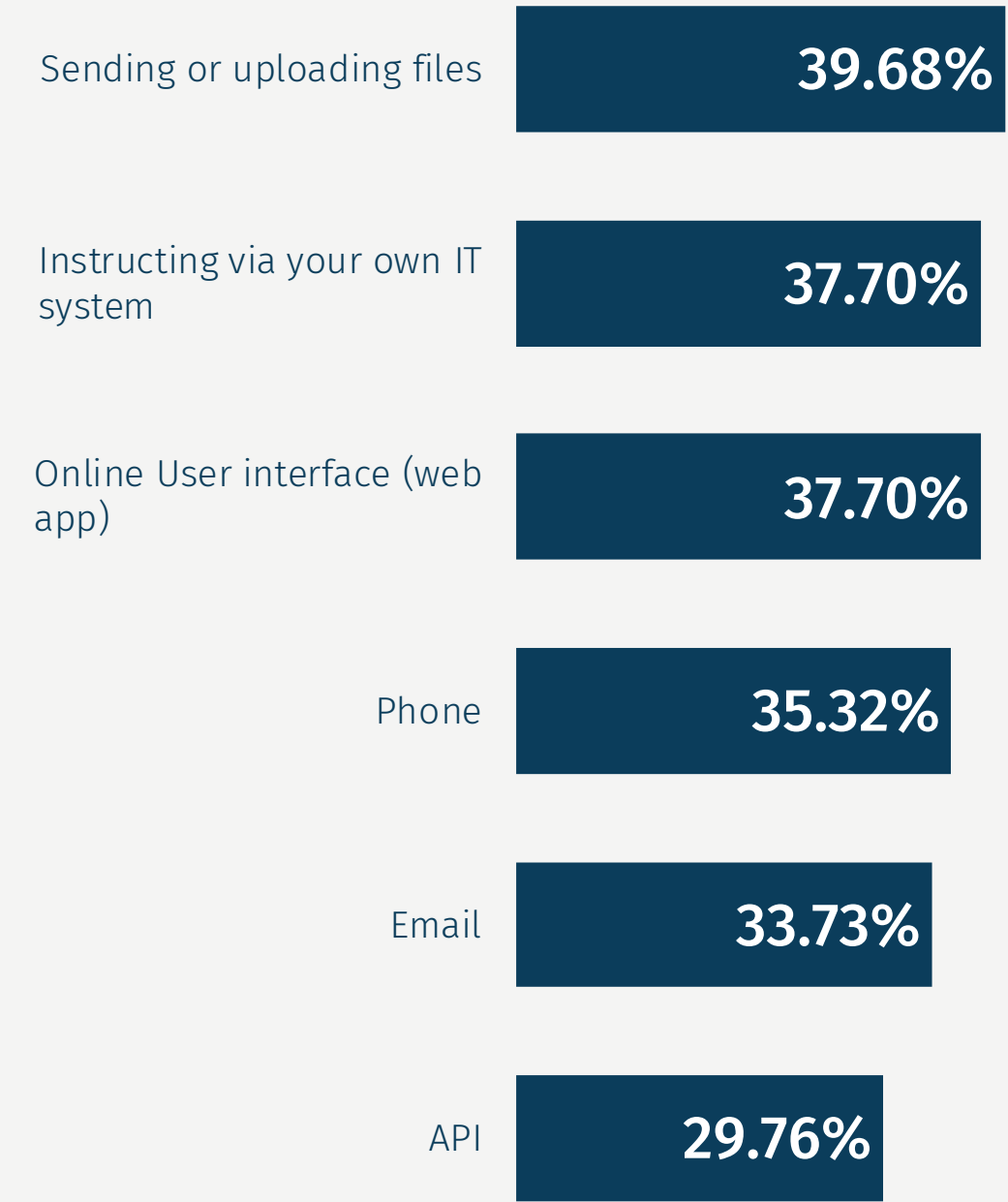
with third parties such as administrators or regulators.

Our research found that there is still a reliance on manual processes, with 40% of CFOs having to manually send or upload files for instructing financial transactions, while 35% rely on phone and 34% use email.

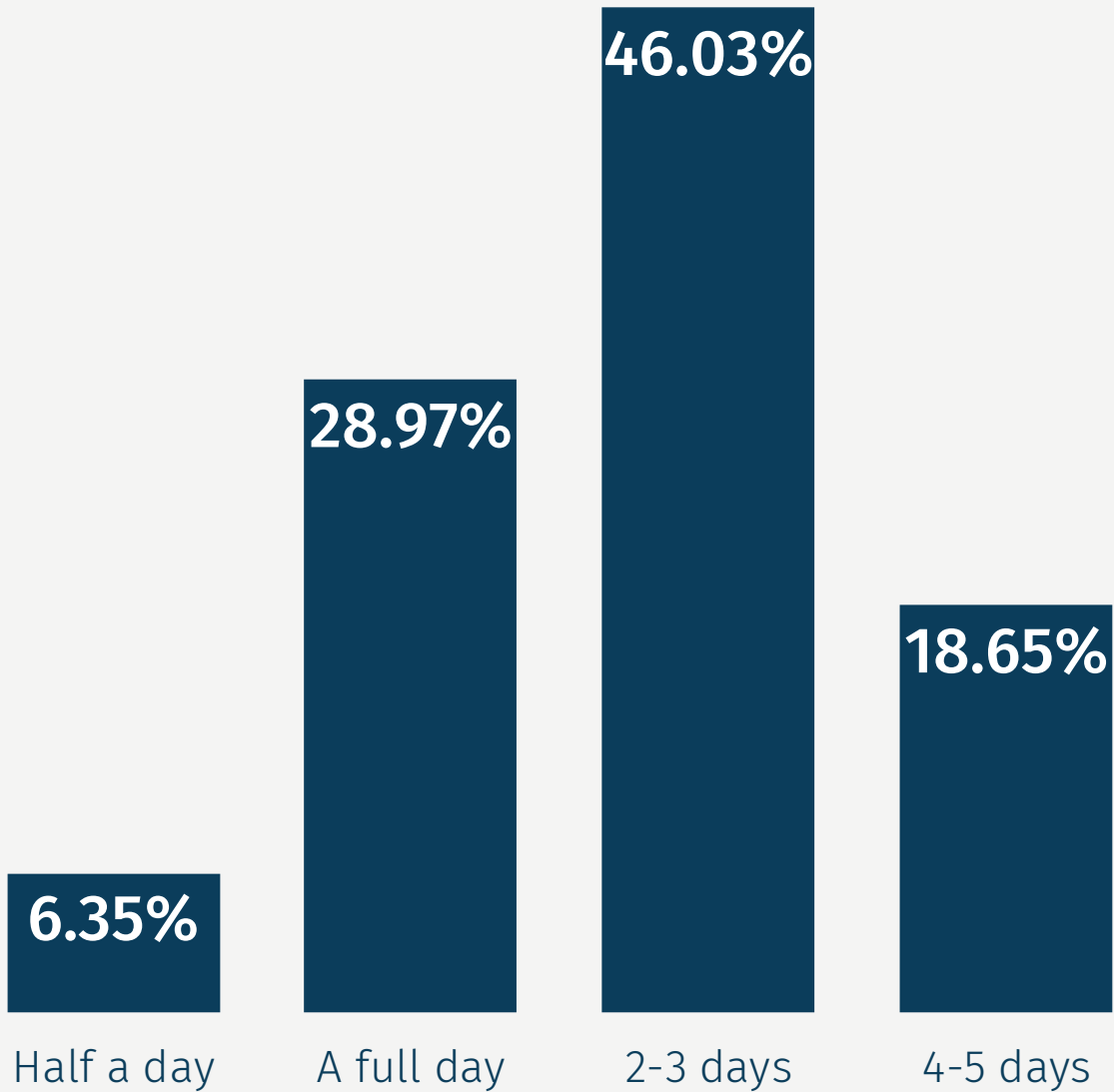
This entire process is a huge drain on time and resources, with our research finding that corporate treasury teams spend on average 2.31 days per week on FX-related matters, while nearly one in five of those surveyed (19%) said they spent 4-5 days. **72% of treasury teams have three or more people tasked with FX activities.**



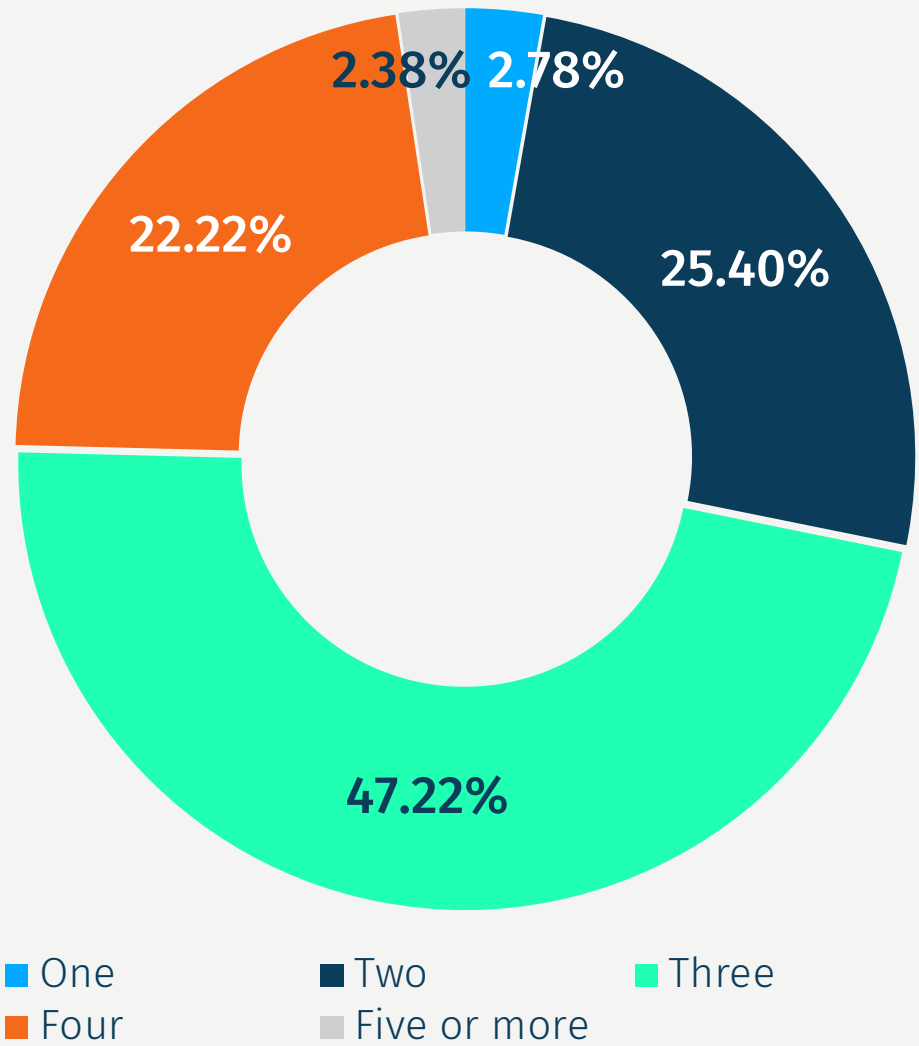
How do you currently instruct financial transactions?



How much time per week does your team spend on FX-related matters?



How many of your team are tasked with FX related activities?



Part 2

Barriers to best execution

After reviewing how much resource they currently assign to FX matters, we then asked corporates to rate their setups and share their biggest challenges and priorities in their FX operations.

Hidden costs and the search for transparency

Unsurprisingly, when we asked corporates what the most important aspects of their FX operations are, transparency of costs came out on top (37%).

This is a direct result of the top **two most challenging aspects of corporates' FX operations**: forecasting exposure (35%) and cost calculation (34%). The opaque nature of FX execution means that corporate treasurers may often be plagued by hidden costs, particularly those that are hidden in the spread.

For example, if a corporate buys €5m of USD at 1.0982 and the mid-market rate at the time was 1.0961, the transaction cost on the trade would be 0.19%, or €10,500. This is not an explicit cost as the treasurer won't receive an invoice for this amount; rather, it's a hidden implicit cost. Let's make no mistake though: it's just as much of a cost.

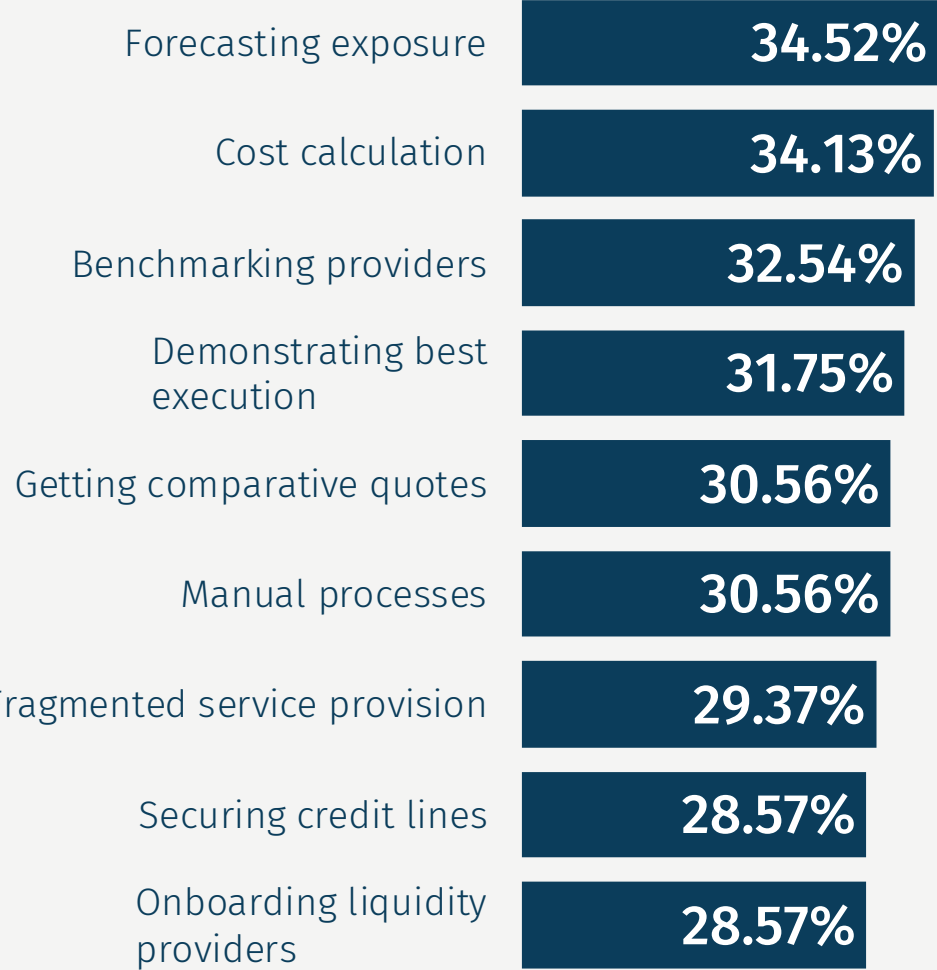
Other big challenges included benchmarking providers (33%) and demonstrating best execution (32%). One of the main issues about the FX market is that clients are provided rates in different capacities depending on what kind of client they are – a concept called “tailored pricing”.

As a result, the **best rates are reserved for the largest institutions that transact the highest volumes**. This makes it difficult for corporate treasurers at mid-sized firms to benchmark providers and therefore demonstrate best execution.

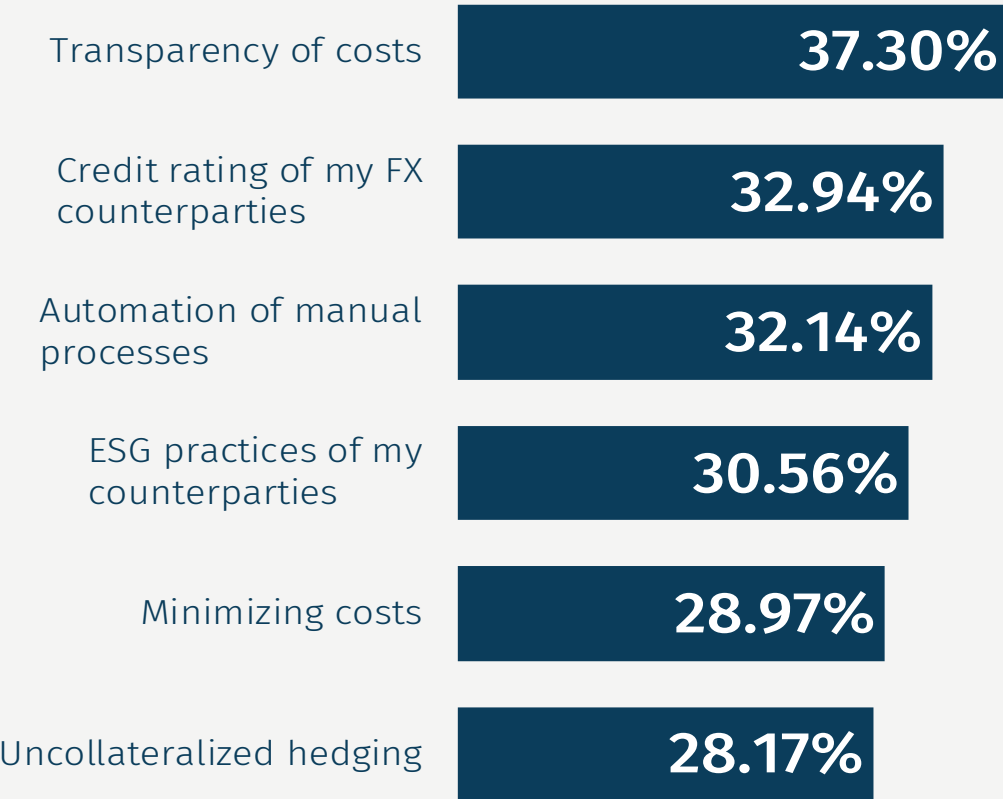
Despite the considerable amount of time and resources that corporate treasury teams put into their FX operations, a third rate their FX set up as below average or worst in class.



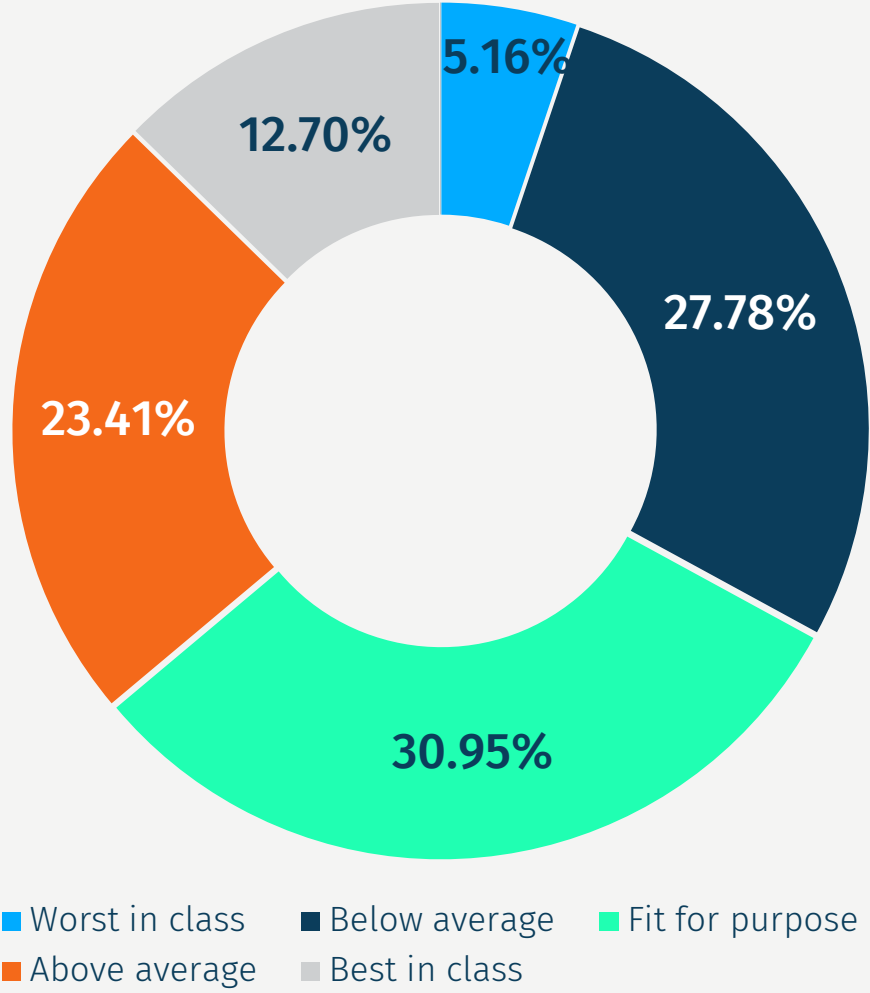
What are the biggest challenges you face when handling your FX operations, if any?



Which of the below, if any, are the most important?



How would you rate your current FX set up?



Part 3

Turning to technology-driven solutions

Automation and Digitization

As a result of the challenges mentioned above, many CFOs at corporates are beginning to consider moving away from traditional providers and legacy infrastructure. Instead, many are embracing tech-enabled solutions which digitize the FX process from initial price discovery right through to reporting at the end of the trade lifecycle.

81% of those surveyed said they were looking into new technology and platforms to automate their FX operations, while 32% said automation of manual processes was one the most important factors in FX.



The benefits of automated digital solutions include:

Centralized price discovery - Automated solutions enable firms to compare prices from multiple liquidity providers on a single marketplace. Not only does this bypass the onerous phone call and email exchanges, but it also allows firms to get **the best available price** and lock it in with the simple click of a button.

End-to end-workflow - Post-trade execution processes can be fully automated, from settlement to onward payment, regulatory reporting or sharing trade data with third parties. This **saves much-needed time and resources**, enabling firms to focus on core business matters.

Transparency - By embracing digitization, firms can benefit from complete transparency through real-time reporting and FX transaction cost analysis (TCA). **TCA** can be used to help firms **understand how much they are being charged** for the execution of their FX transactions, in addition to demonstrating good governance to internal stakeholders.

Fast onboarding - Rather than spending months (even years) setting up multiple FX facilities with different counterparties, a digital FX marketplace enables firms to begin transacting within weeks.

Outsourcing

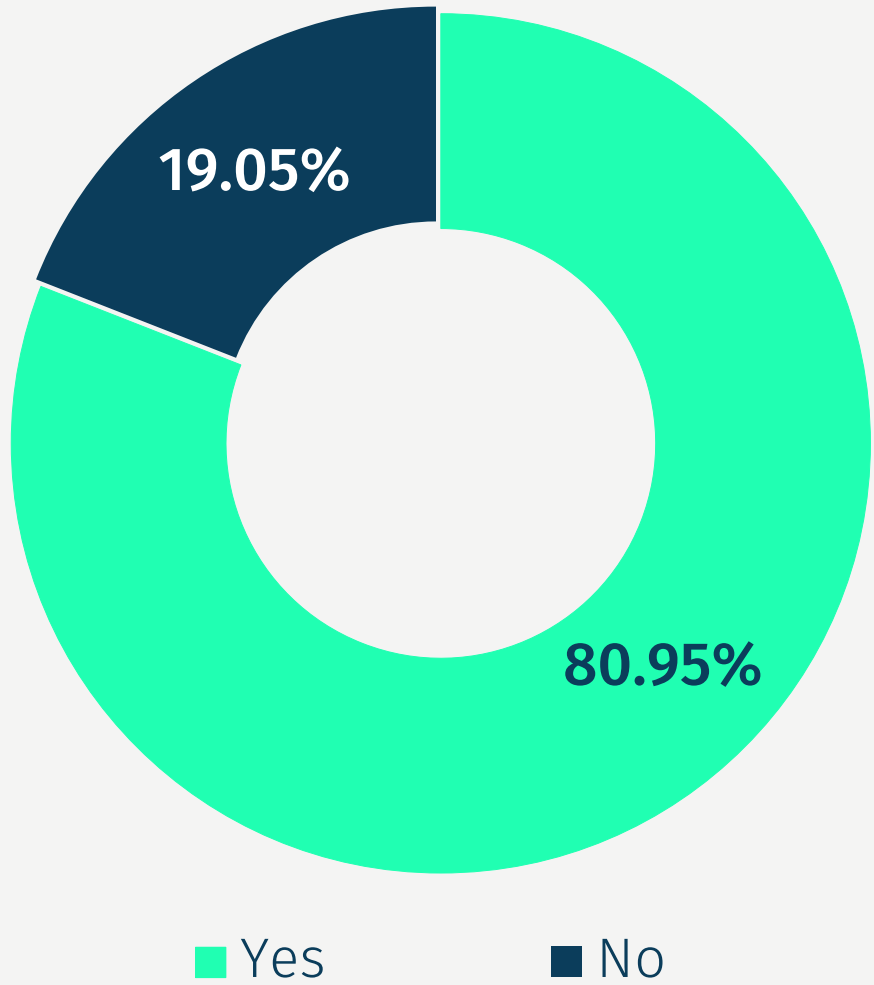
We're also seeing an increasing number of firms looking to outsource their FX workflow, from calculating the FX position to execution, margining and settlement.

The numerous parties involved combined with the opaque nature of the execution process often create huge administrative burdens for corporates, eating up time and resources. Likewise, the time-consuming and costly nature of onboarding new liquidity providers can outweigh the benefits that these partnerships bring.

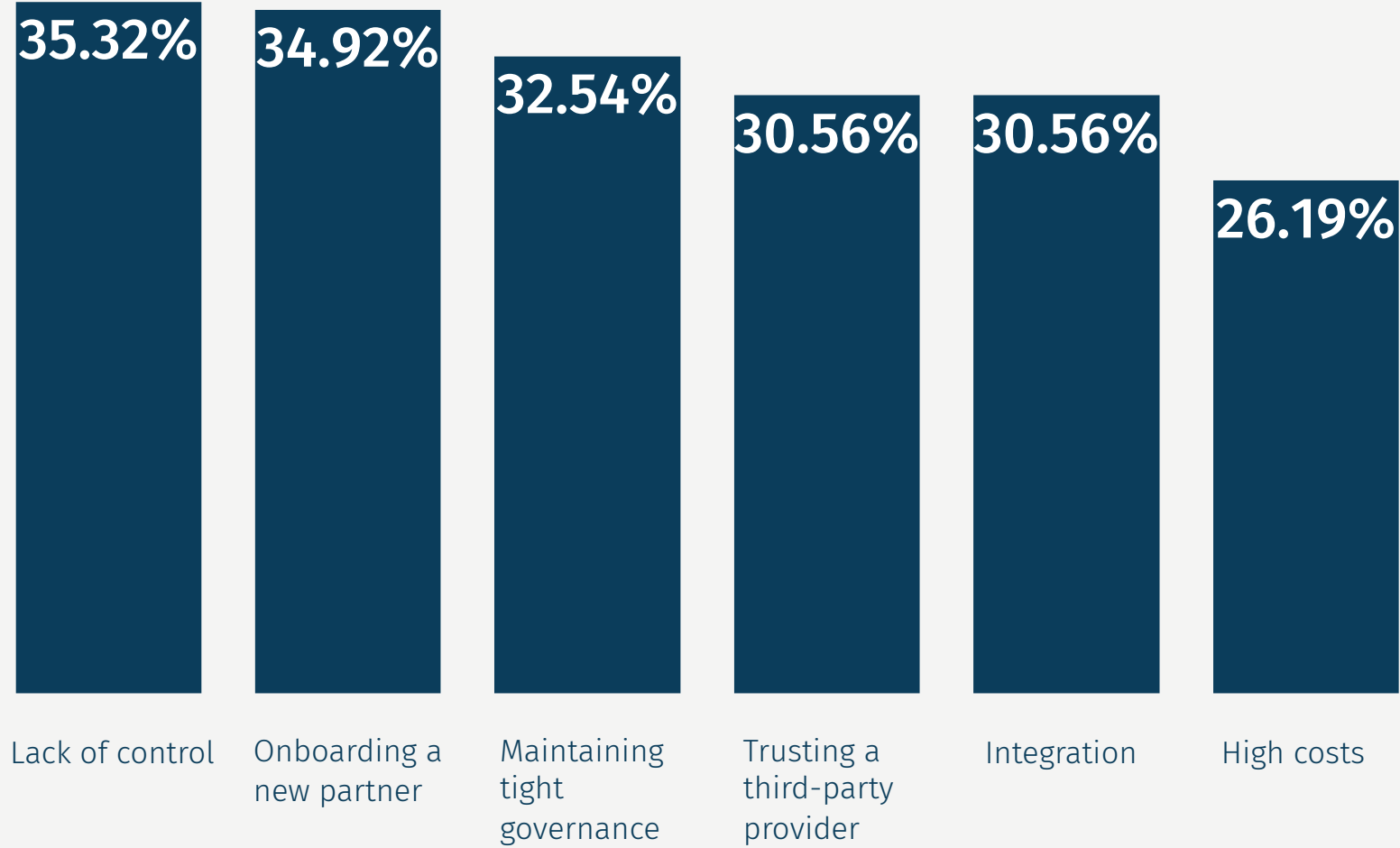
Outsourcing frees up resources for more effective use elsewhere, enabling firms to dedicate more time to core business matters. The end product is also more likely to be of higher quality, leading to improved execution, saving money in the long run.

However, there are still some barriers to outsourcing for many corporates. These include lack of control (35%), onboarding a new partner (35%), maintaining tight governance (33%) and trusting a third-party (31%).

Are you looking into new technology/platforms to automate your FX operations?



What are the biggest barriers to outsourcing your FX execution?



Part 4

The rising importance of ESG

Driven by pressure from investors, governments and consumers, ESG criteria are now central to the decision-making process for many businesses. Our survey found that the trend has also begun to play an increasingly important role in FX.

90% of those surveyed said that ESG has grown in importance to their business over the past year, whilst 31% said that the ESG practices of their counterparties were the most important factor in FX. Over half (54%) said that their FX counterparties must have strong ESG credentials.

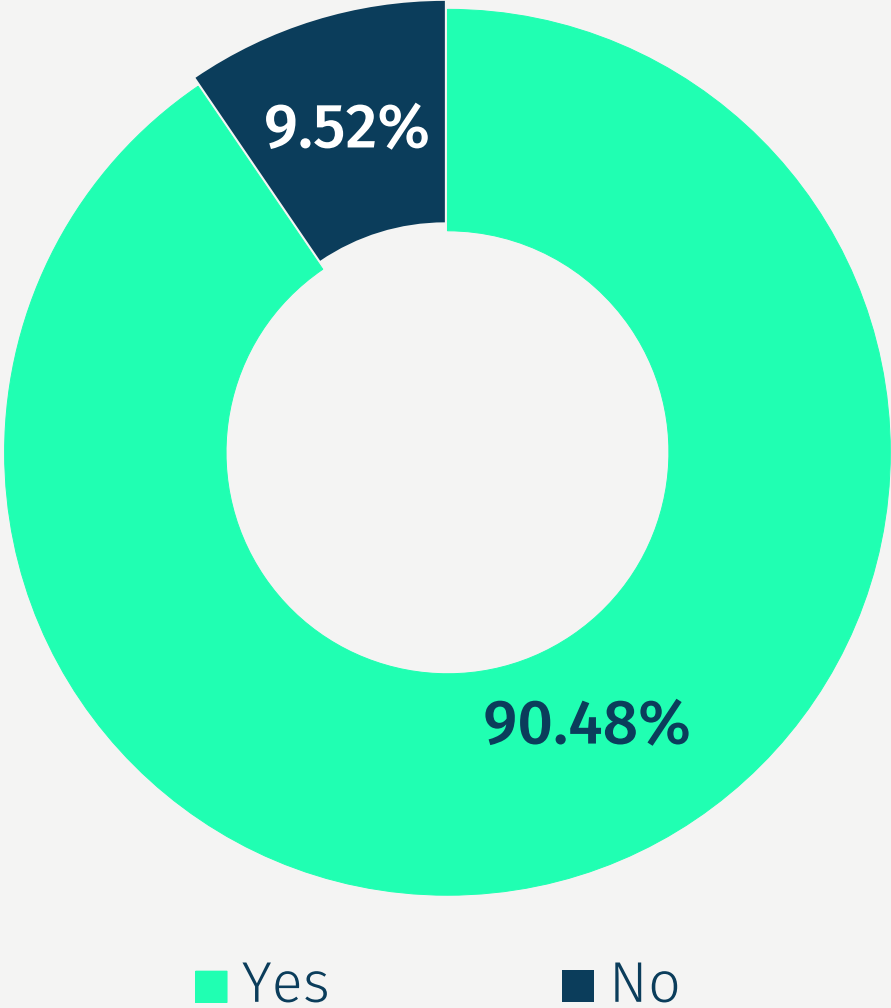
As businesses become increasingly driven by ESG criteria, it is vital that corporates have the right processes in place to meet this demand. When transacting in FX, firms can take the following steps to enhance their ESG credentials:

Adopting the Global FX Code (GFXC) - The BIS Foreign Exchange Working Group published this in 2017 to set out best practices across the wholesale FX market and is beginning to embed the code into firms' ESG practices. Its members recently supported the possibility of a partnership with rating agencies so that anyone who signs the code can be recognized as having fulfilled the governance element of their ESG commitments. Signing up to the code is therefore a key step for firms seeking to be a good corporate citizen and demonstrate their ESG credentials.

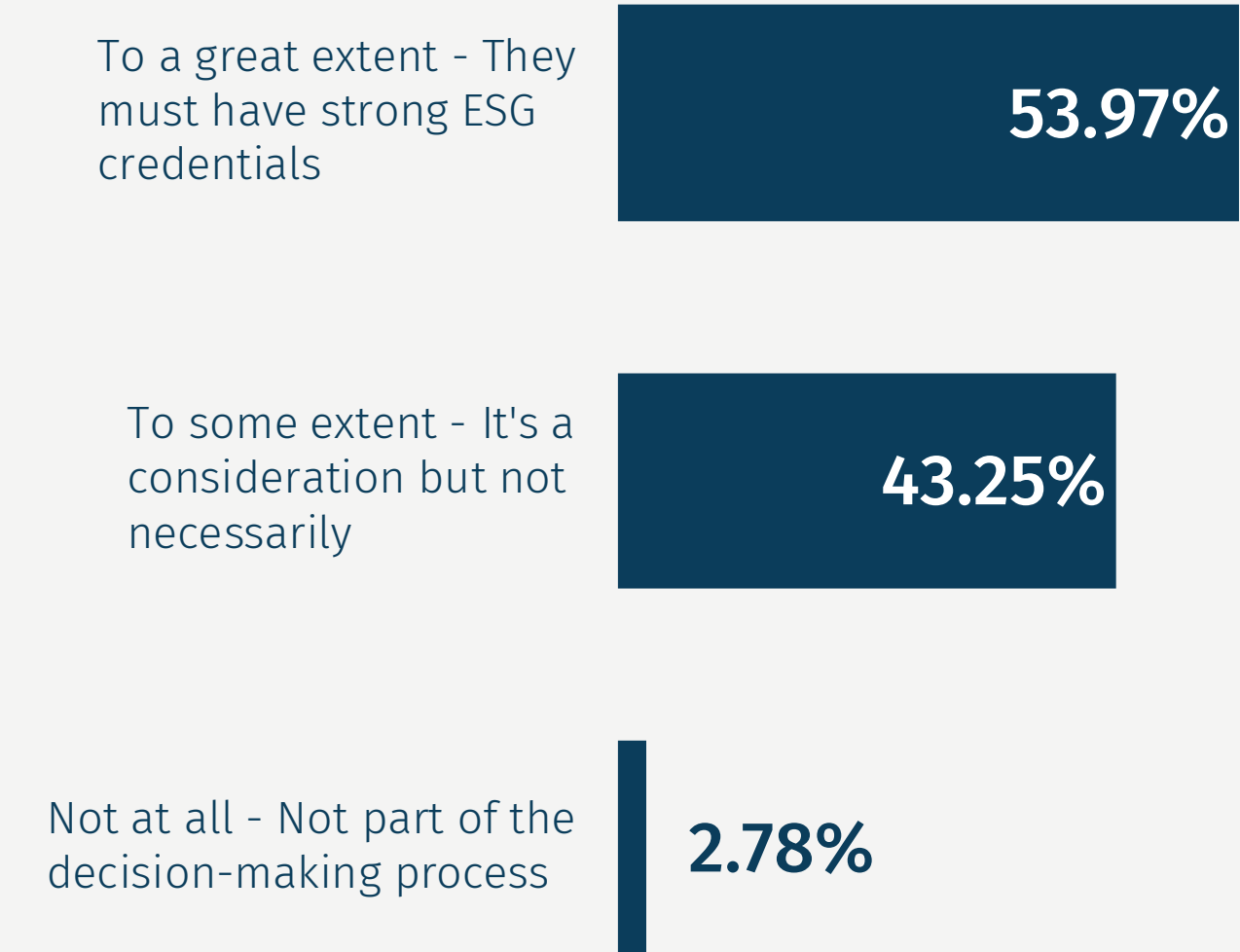
Consider ESG credentials of partners - It's not just a company's own infrastructure that reflects strong ESG credentials but also that of any partner or affiliate organization. When transacting in FX, firms should seek to use FX providers which adhere to internationally recognized ESG standards, such as the Principles for Responsible Investment (PRI).



Has ESG grown in importance to your business over the past year?



To what extent does ESG credentials impact your selected FX counterparties?



Part 5

The changing face of FX hedging

Volatility across currency markets is expected to persist throughout 2023 and beyond, and if managed ineffectively, has the potential to erode corporates’ profit margins.

This is a particular risk for North American firms transacting in the US dollar, with nearly **seven out of ten (68%) of those surveyed having experienced increased FX risk as a result of US dollar volatility.**

FX risk management has therefore become a top priority for CFOs with many renewing their focus on hedging. 81% of corporates already have a hedging program in place, and out of the 19% that do not, 69% are considering doing so given market volatility.

Our research also found that the average hedge ratio was between 60-69%, with eight out of ten (79%) corporates citing their hedge ratio as higher compared to this time last year. The average hedging length was five and a half months.

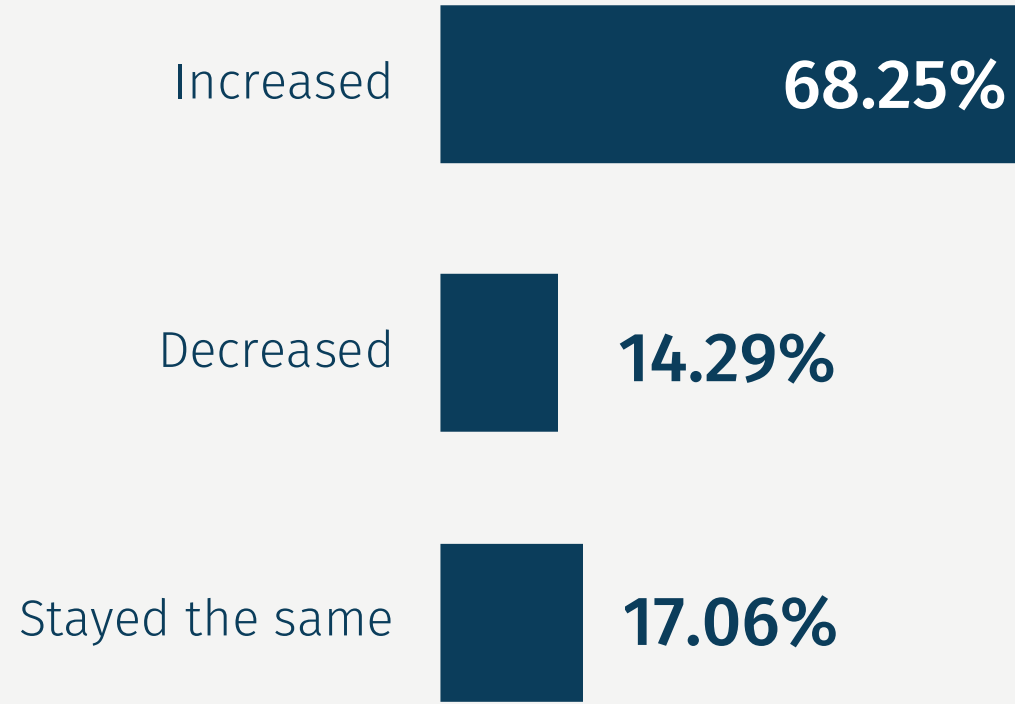
This suggests that **CFOs are moving to hedge more of their FX risk to protect their bottom lines from currency movements.**

Interestingly, the vast majority (75%) said the cost of hedging had increased in the past year.

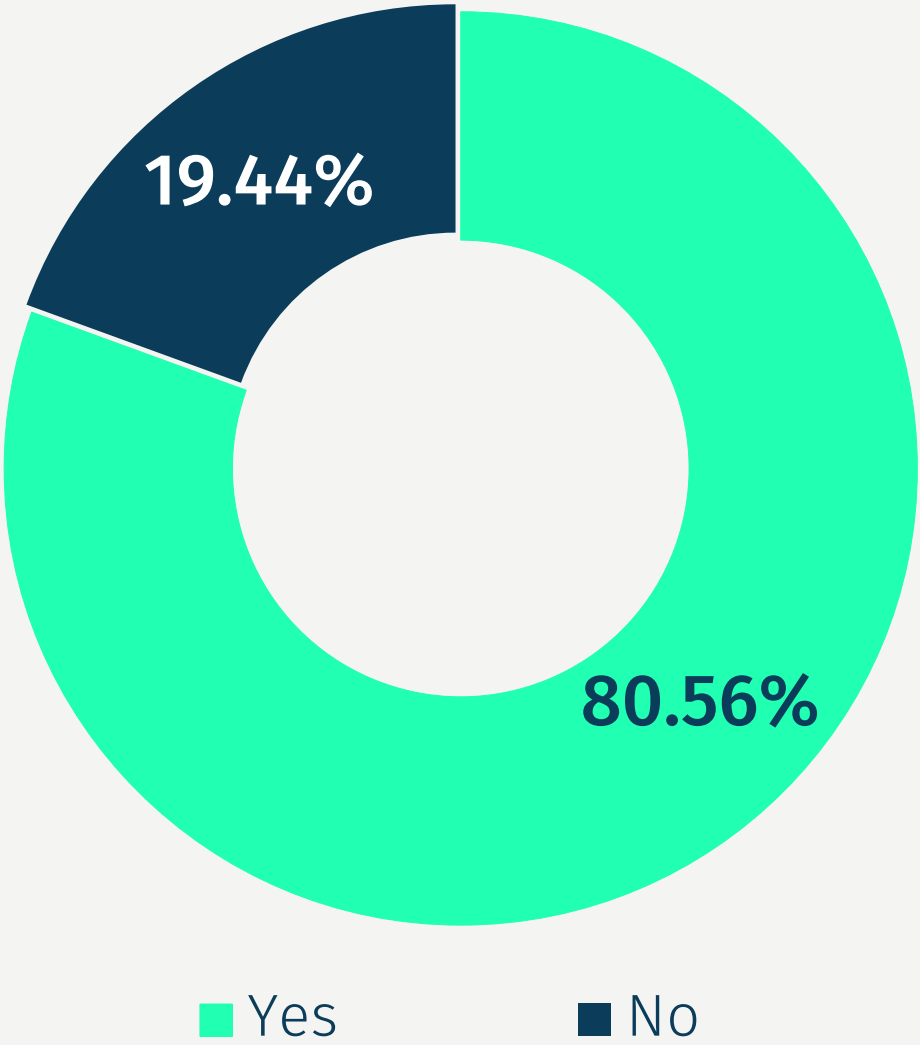
Looking ahead, half of corporates plan on increasing their hedging ratio over the next 12 months, while 43% plan on lengthening their hedge window.



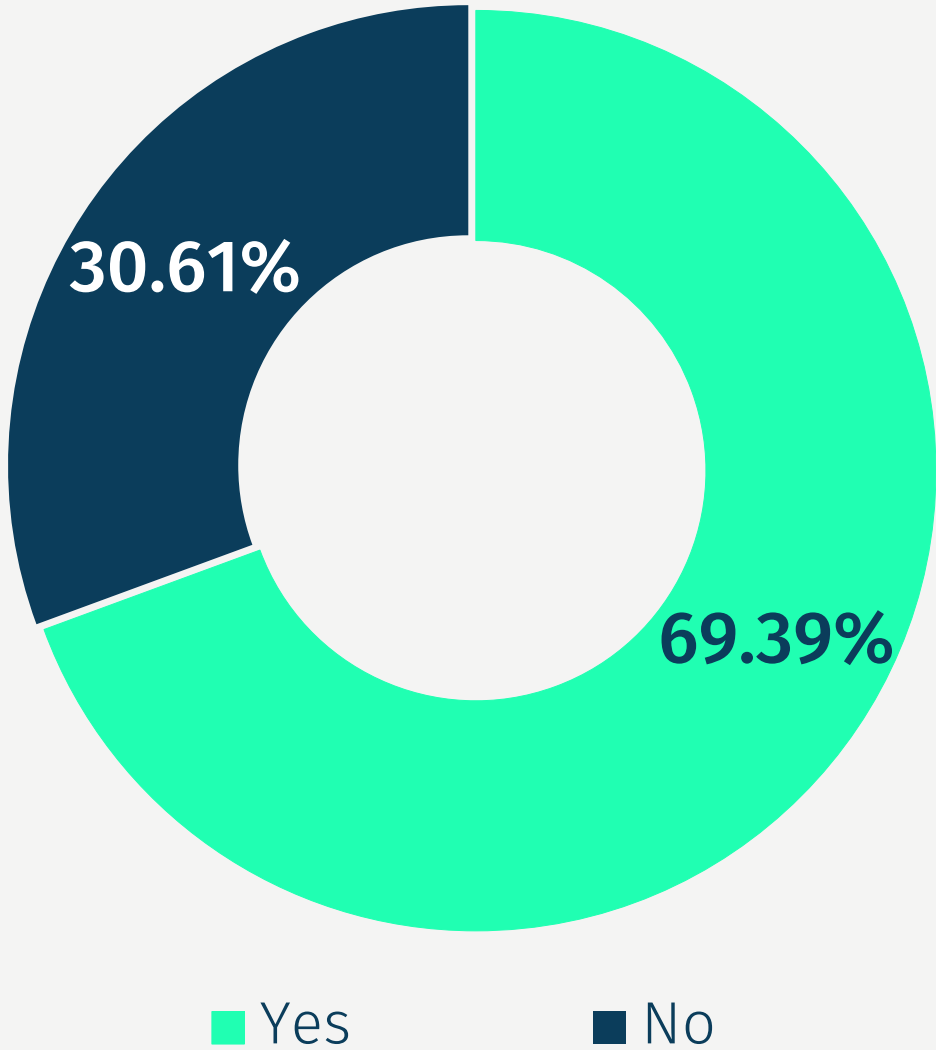
What impact has increased USD volatility had on your firm’s FX risk?



Do you hedge your forecastable currency risk?

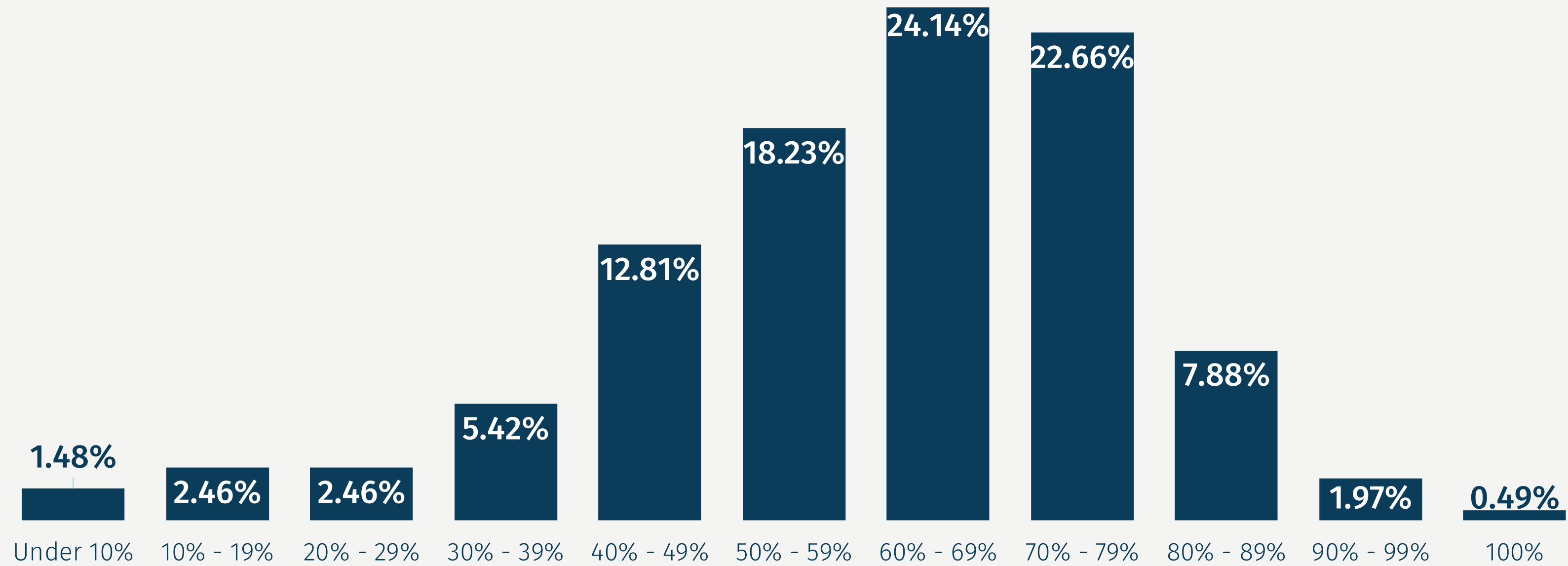


Are you now considering hedging given market volatility?



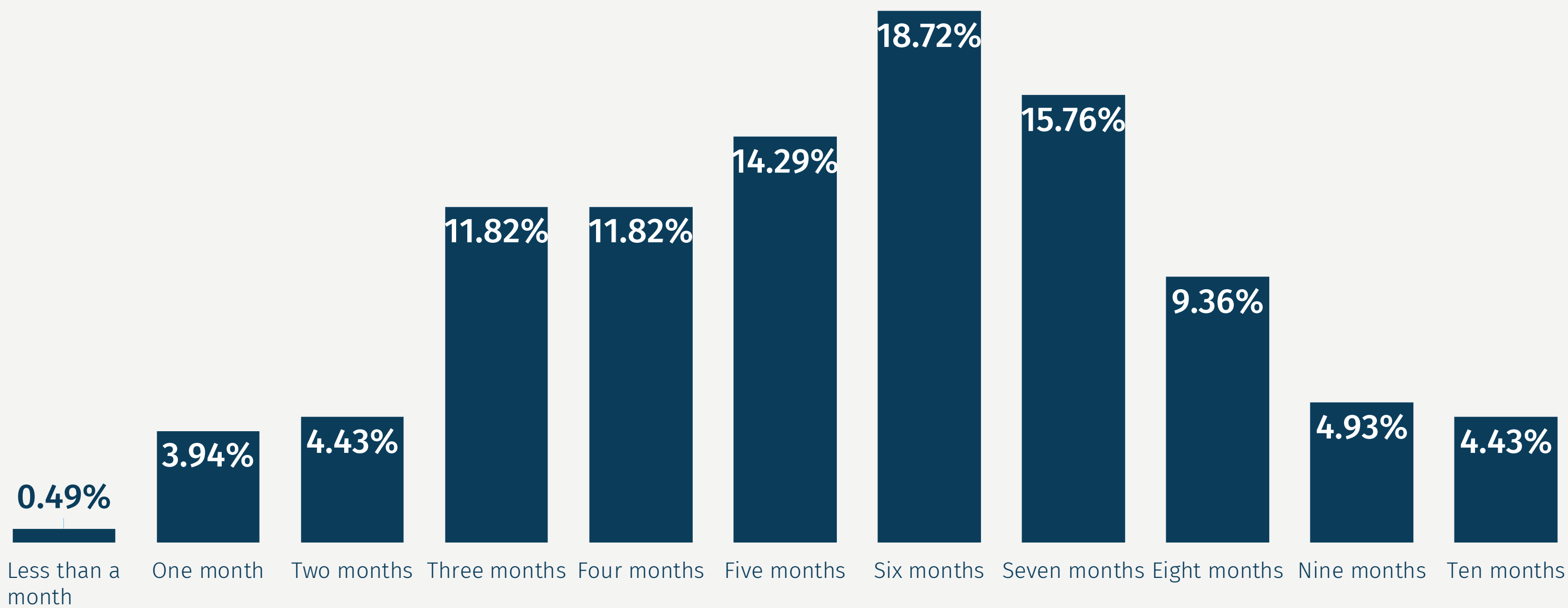
*Respondents who do not hedge their forecastable currency risk

What is your current hedge ratio?



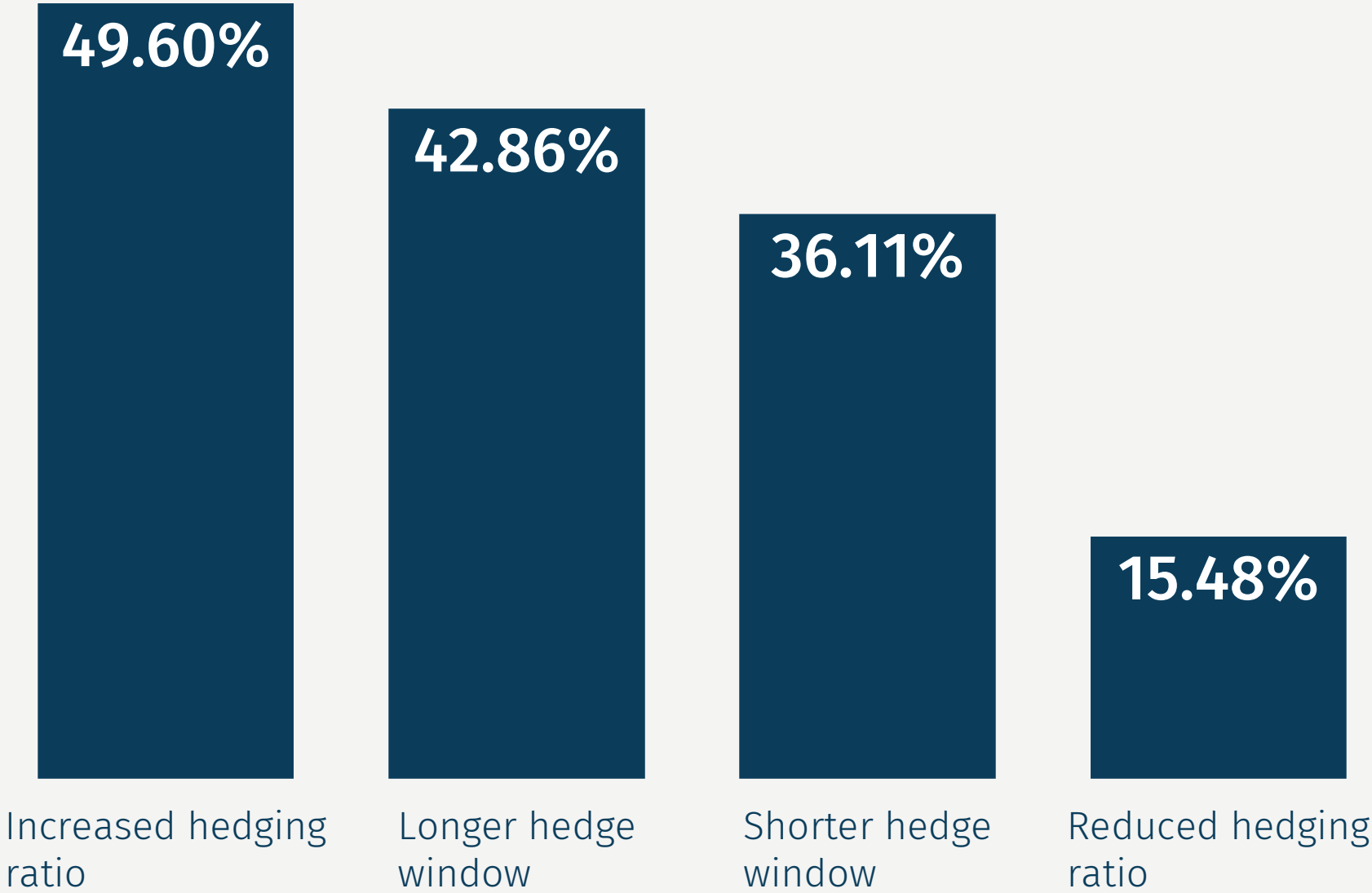
*Respondents who do hedge their forecastable currency risk

How far out, on average, do you currently hedge FX risk?

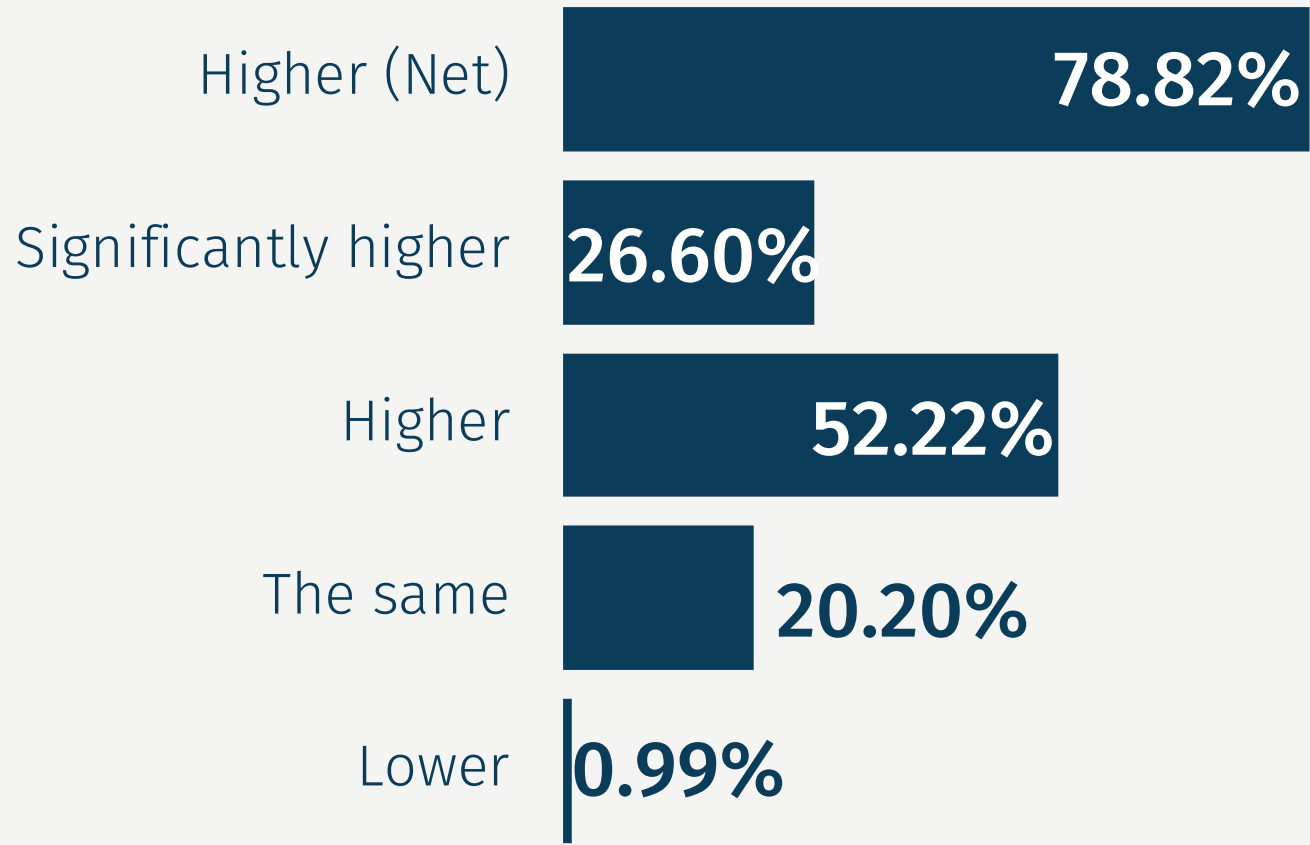


*Respondents who do hedge their forecastable currency risk

What changes are you planning on making to your hedging strategy over the next 12 months?

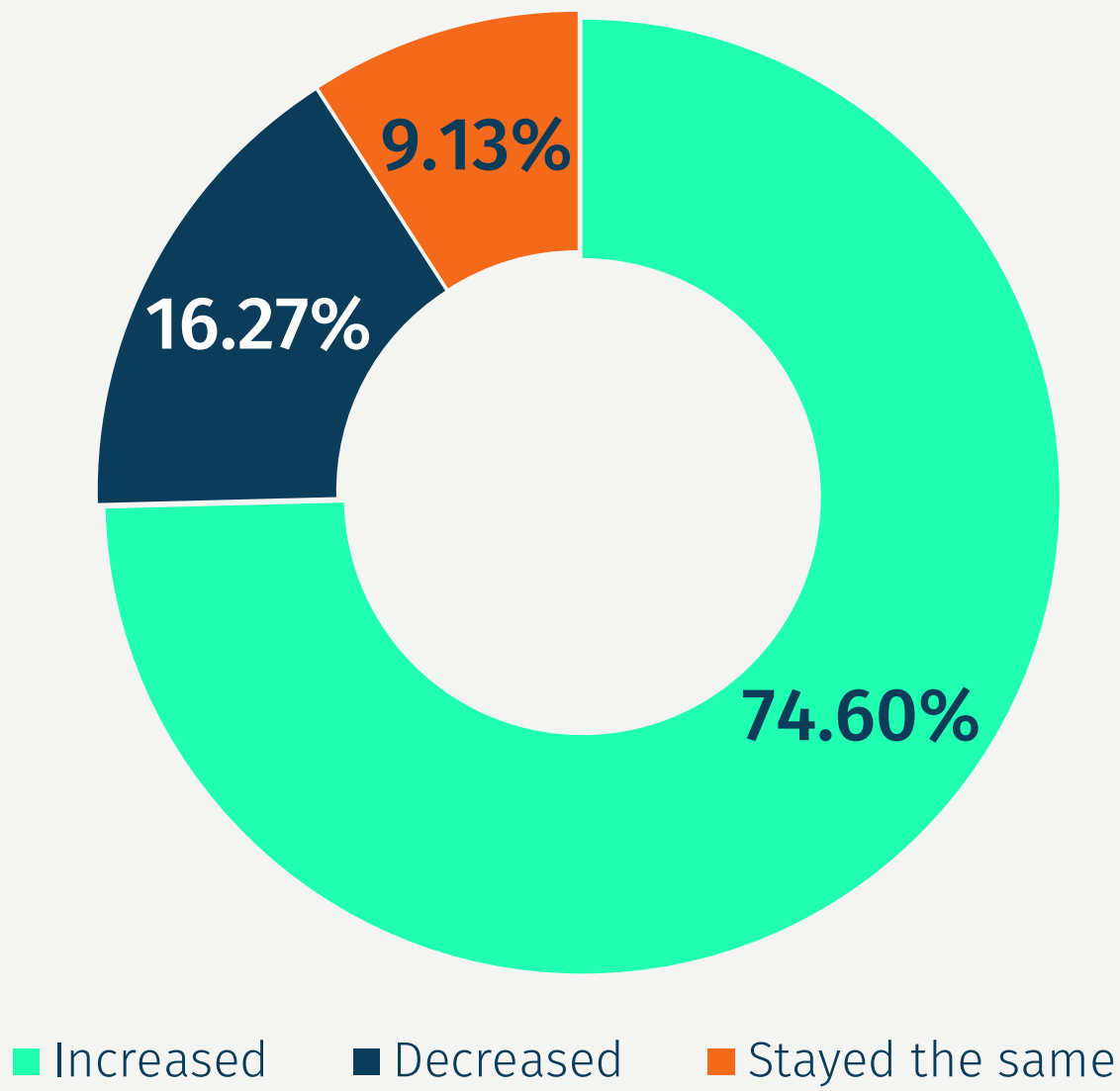


How does your hedge ratio compare to last year?



*Respondents who do hedge their forecastable currency risk

Over the past year, the cost of hedging has:



Part 6

Counterparty diversification

One of the big lessons for corporates from recent events in the banking industry is the importance of having access to multiple counterparties.

It is now widely known that a bank’s failure can cause serious short-term liquidity issues which can affect vital expenditure such as payroll and supplier invoices, even if it’s only for a few days. Many CFOs have taken this lesson onboard and are now looking to diversify their deposits across more banks.

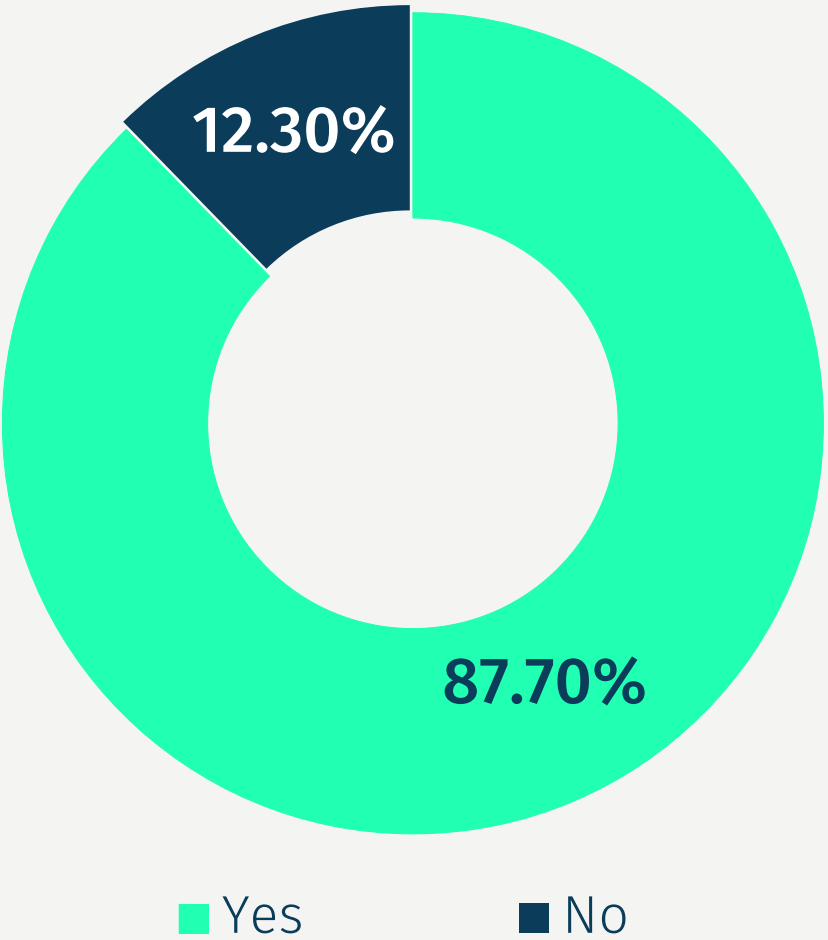
This lesson also applies to FX operations. If **a counterparty becomes unavailable, a firm should be able to quickly and efficiently manage the existing FX trades** (such as through novation or close-out) and implement new FX trades as the business requires.

Our survey found that 88% of corporates are now subsequently looking to diversify their FX counterparties.

As well as **enhancing risk management**, having multiple counterparties can also have a positive impact on pricing. Due to the opacity of the FX market, it can be incredibly difficult to compare prices without having access to multiple banks. At any given time, they may not be able to trade at the best available rate as they have no other access points to the market.

Getting competitive quotes from multiple counterparties can enable corporates to compare the market so they can ensure they get the best rate and achieve best execution.

Have you looked to diversify FX counterparties since the recent banking crisis (involving banks such as Silicon Valley Bank, Credit Suisse, First Republic Bank and Signature Bank)?



Conclusion

It is likely currency volatility will be prevalent over the next year, meaning the management of FX currency risk should be considered a top priority for treasurers across North America.

Fortunately, there are several ways corporate treasurers can improve their FX risk management infrastructure and protect their firms' bottom lines in these turbulent times:

Transaction Cost Analysis (TCA) – TCA was specifically created to **highlight hidden costs** and enables firms to understand how much they are being charged for the execution of their FX transactions. Ongoing, quarterly TCA from an independent TCA provider can be embedded as a new operational practice to ensure consistent FX execution performance.

Comparing the market - having the ability to put trades up for competition is central to ensuring access to the best price – which is key to effective hedging. However, many treasurers are hampered by their inability to access Tier 1 FX liquidity, meaning they often rely on a single bank or broker to meet their hedging

requirements. A new generation of fintechs is tackling this problem, enabling treasurers to **access rates from multiple banks whilst reducing the operational burden** associated with this kind of market access.

Outsourcing - There is a growing recognition that outsourcing does not necessarily mean a loss of control, less transparency or reduced quality of FX activities, but when using the right partner outsourcing can improve transparency and execution quality. Outsourcing can therefore enable firms to **dedicate more time to core business matters**, which is all the more important amidst inflationary and volatility pressures.

We believe that **CFOs should seek alternatives to the traditional single bank-based approach**. Instead, they should look for solutions that enable them access to live rates from multiple banks and execute at the best rate, all whilst reducing the operational burden traditionally associated with this kind of market access.

Strong governance - FX is one of the largest and most liquid markets in the world, but also one of the most complex. Setting up and onboarding new FX counterparties, centralizing price discovery and navigating the post-execution phase require a team

of people and often have their own complications. Harnessing solutions which can enhance transparency and governance can help corporates **improve the cost, quality and transparency of their FX execution**.



Diversification of liquidity providers – Recent events in the banking sector show that reliance on one or two counterparties can be an extremely risky strategy, as the **loss of a major FX counterparty could render firms unable to trade**. We believe corporates should begin exploring technology-driven alternatives to the single bank-based approach that enable them to transact in FX in a way that addresses risks associated with a single point of failure.

Automation - Despite the rising threat of currency movements, many firms continue to rely on manual processes like phone and email to execute FX trades which may make it harder to mitigate the impact of currency volatility. Harnessing automated solutions can offer **end-to-end workflow, greater transparency and faster onboarding**, helping finance departments streamline their FX functions.



How MillTech FX can help

MillTechFX is an FX-as-a-Service (FXaaS) pioneer that enables corporates to access multi-bank FX rates via an independent marketplace.

MillTechFX’s market access, pricing power and operational resource enable it to deliver a tech-enabled integrated solution that delivers transparency, cost reduction and operational burden reduction for senior finance decision-makers at corporates.

It is end-to-end at no additional cost, offering easy and quick onboarding, multi-bank best execution and hedging management, and connectivity into clients’ bank accounts, internal systems, administrators or custodians.

FXaaS represents the evolution of currency management through automation, integration, and validation:

Easy and quick onboarding – Rather than spending months (even years) setting up multiple FX facilities with different counterparties, firms can sign up to a multi-bank marketplace and transact within weeks with up to 15 Tier 1 counterparty banks.

Best execution and hedging management – Clients benefit from multi-bank access without having to manage multiple relationships and processes. They can transparently compare and execute FX rates from multiple providers on a single marketplace and ensure best execution with a simple click of a button.

Cost savings – MillTechFX has saved clients up to 70% on their execution costs

Transparency – MillTechFX offers a fixed fee service, including third-party Transaction Cost Analysis (TCA) to ensure total cost transparency.

To speak to us directly please reach out to our Head of Corporate Solutions, Jason Gaywood at JGaywood@milltechfx.com or request a free TCA [here](#).

Find out more on <https://www.milltechfx.com>

*The AUM, managed by Millennium Global Investments Ltd as at 31st December 2022, is a combination of USD 17,869 million in notional AUM for unfunded managed accounts, and USD 115 million AUM in funded vehicles. **The 2022 annual traded volume refers to all Millennium Group activity. Millennium Group comprises Millennium Global Investments Limited, Millennium Global (Europe) SAS and Millennium Global Treasury Services Ltd.

*This white paper examines the data and results of a survey conducted by Censuswide on MillTechFX’s behalf conducted in May 2023 based on a survey of 252 CFO’s, treasurers and senior finance decision-makers in mid-sized corporates (described as those who have a market cap of £50mil up to £1 billion), in North America.

*The full list of job titles surveyed and included within this report is as follows: Accountants, Chief Financial Officers (CFO) Financial Analysts, Financial Accountants, Financial Consultants, Financial Manager, Analysis Managers and Treasurers.

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