

**MORGAN STANLEY**

**Quantitative Solutions and Innovations (QSI)**

**Fixed Income Sales & Trading**

# FX TCA and Benchmarking

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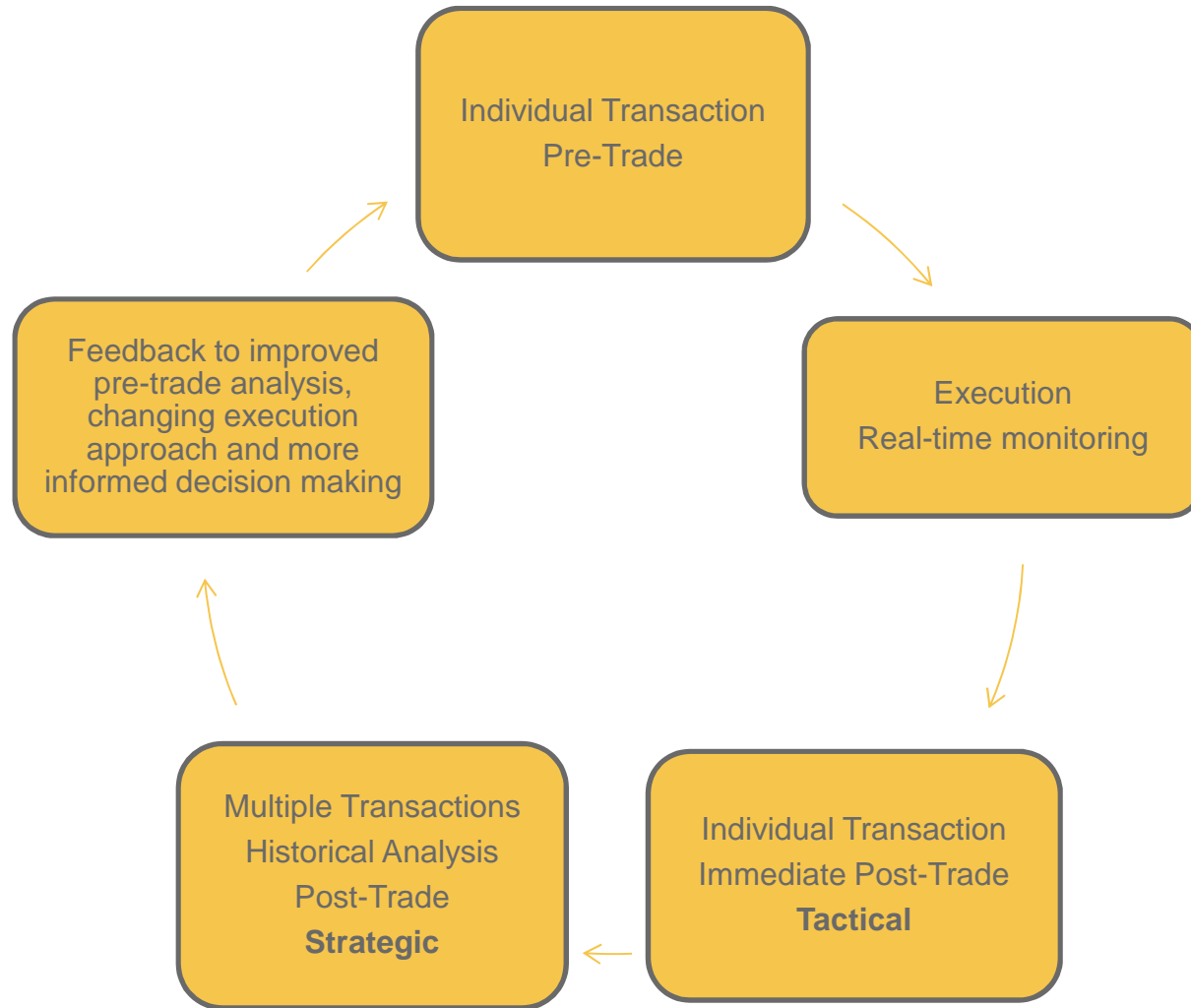
# Agenda

- TCA overview
- Role TCA plays in the execution lifecycle
- Benchmark overview
- Benchmark developments

# FX TCA Overview

- Why is use increasing in FX ?
  - Investor pressure responding to market developments e.g. WMR
  - Aggregation of central dealing desks, often managed by Heads of Trading with equity backgrounds
  - Pressure on returns
  - Response to potential regulatory developments
- What is available in the market ?
  - 3<sup>rd</sup> party independent providers, e.g. ITG, FX Transparency, New Change FX
  - Platform providers, e.g. Bloomberg, Trading Screen
  - Bank services
- N.B. main focus is on post-trade TCA, limited availability of pre-trade analytics

# Role of TCA in Execution Lifecycle



Source: Morgan Stanley QSI

# Benchmark Overview

## 1. Theoretical

- Fair value risk transfer

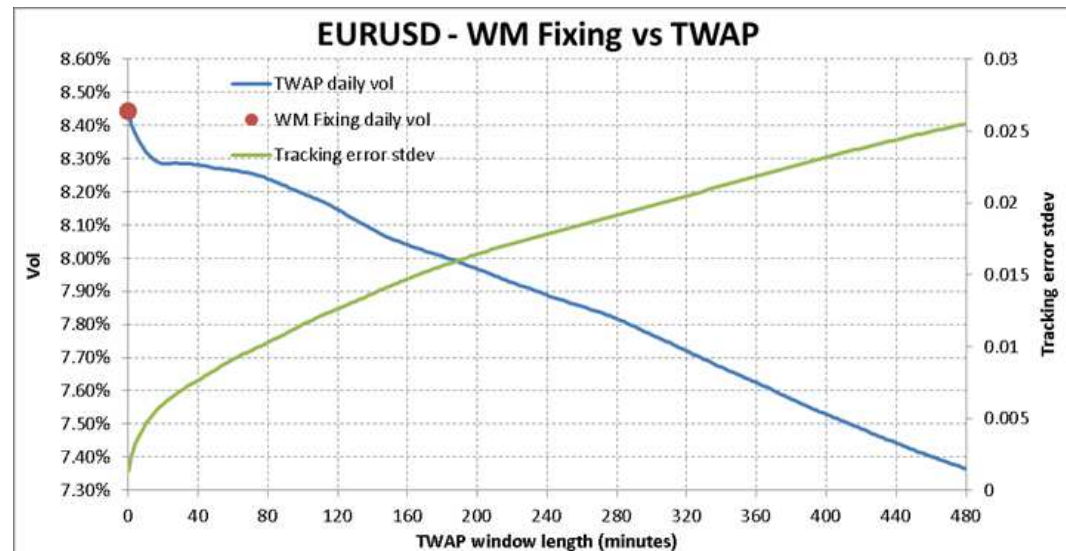
## 2. Observed

- Interval based, e.g.
  - TWAP
  - VWAP
- Point in time, e.g.
  - WMR
  - Arrival Price

## 3. Experience based

- Peer group analysis

- Issues:
  - Data source
  - Underlying trade objective
  - Representative
  - Independence
  - Revaluation point vs execution benchmark



Source: Morgan Stanley QSI

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Please see additional important information and qualifications at the end of this material.

# Benchmark Developments

- Key to align benchmark with trading objective
- No one size fits all solution, multiple benchmarks required
- Clients broadly segmented as follows:
  - 1) **WMR** with limited or no discretion (i.e. passive managers who are tracking indices such as MSCI which use WMR)
  - 2) Asset managers trading FX as a utility to buy/sell international securities, increasingly moving towards benchmarks such as **TWAP/WAP** where the interval approximately matches the trading period of the underlying security
  - 3) Asset managers trading FX as an asset class, increasingly using **Arrival Price** as key benchmark

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