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RESHAPING FOREIGN EXCHANGE

As the foreign exchange markets have evolved, asset owners and asset managers are taking a more proactive approach to foreign exchange—one where choice and desire for transparency dominate. BNY Mellon's Mike Curran, head of FX Global Services, Craig Messinger, head of Global Trading and Risk Management, and Jorge Rodriguez, head of Global FX Sales, tell GC's Alexandra DeLuca how the custodian is restructuring its offering to address evolving needs as FX moves from a by-product into an asset class of its own

Alexandra DeLuca: Recently, BNY Mellon has made changes to the Foreign Exchange business. Tell us about those changes.

Mike Curran: As a company, we're interested in serving our clients across the entire investment lifecycle from trading, execution, clearing and settling, to holding, managing and servicing assets. So, providing our clients with broad access to foreign exchange markets and to related foreign exchange services is a natural fit for our company. Within Global Markets, we continually assess new products, services, and markets at the request of our existing clients, and providing foreign exchange services continues to be important to meeting clients' needs.

Jorge Rodriguez: To add to that, BNY Mellon has a global client base across its businesses, such as corporate trust, depositary receipts and asset servicing. As these clients grow their business beyond domestic borders, it is important that we continue to broaden our FX capabilities and offerings in various locations.

Craig Messinger: Our client-focused philosophy has also driven us to invest heavily in technology for both improved straight-through processing (STP) and better trade execution, as well as a variety of tools that allow our custody clients to find the best service for their needs.

DeLuca: Foreign exchange touches a broad client base within BNY Mellon. How does that affect the services you offer?

Curran: Yes, that's true. Our company holds over \$26 trillion in assets under custody and/or administration, and our client base is global and encompasses all client segments. We recognize

our FX clients as asset owners or asset managers. Our foreign exchange offerings are moving more towards a service-oriented business model as opposed to the traditional custody FX model. We're investing in technology; we're investing in people; and we're listening to our clients. This has resulted in more product and service choices for our broad and diverse client base.

DeLuca: As you reshaped your offering at BNY Mellon, how has the foreign exchange market changed on a macro level?

Rodriguez: The market has evolved beyond the actual growth that we all know of. Foreign exchange has moved more into an electronic age, and today we are importing many of the services that have been in existence in other markets, predominantly the equities market. When I call on clients, I've found that frequently well over 50% of their business is being executed electronically. That is only going to grow as clients continue to streamline the process, control their costs, and make use of new services that can provide the transparency desired in today's marketplace.

Historically, clients have viewed foreign exchange in one of three ways: as a cost, as an alpha generation opportunity or somewhere in the middle. Currently, we're finding fewer clients in the middle. For those who have viewed it as a cost, they now have more choices available than they've ever had before with enhanced transparency, multiple independent observations and client-driven products.

Clients no longer wish to stand back and delegate the FX responsibility to the managers that

they've hired. They want to be actively involved to ensure that their business is being executed at maximum efficiency across their entire portfolio. For instance, the average pension plan employs eight to 12 managers, most of whom act independently and trade only the assets for which they've been hired. Today, there are new products and services that allow centralized supervision by asset owners which can be used to minimize costs and reduce overtrading by facilitating netting of foreign exchange exposures across managers.

DeLuca: So, in light of the new products and services, is there a certain level of awareness around FX for asset owners?

Rodriguez: Asset owners have a fiduciary responsibility to understand all the risk inherent in their business. In the past, FX was just a by-product of an underlying investment decision, but that's no longer the case. Now, it's many times the driver of an investment. Therefore, it's important that the end-user stay informed and keep pace with the developments and evolution taking place in the FX marketplace.

Curran: Information is critical in this market. As our clients continuously transact in emerging and highly regulated foreign exchange markets, we need to understand and communicate the various complexities around execution. It is crucial for clients to be cognizant of the complexity of regulations, restrictions and access to all currency markets. The markets, as well as our clients' needs, are dynamic and we need to stay ahead of the curve. We need to provide our clients with the necessary information so they can



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Mike Curran



Craig Messinger



Jorge Rodriguez

make decisions about how best to gain access to certain FX markets.

DeLuca: How have technological advancements, both at a marketplace level and at BNY Mellon, affected foreign exchange and your offering?

Messinger: The entire marketplace has invested a lot in technology over the past eight years, as streaming quotes and requests for quotes are becoming commonplace needs for clients. Interoperability between Electronic Communication Networks (ECNs), clients, and a dealer is critical for STP purposes and, as Mike said, various forms of transparency. We're investing heavily in our trading technologies, our sales interface technologies and making sure our backend can scale to the volumes that clients need us to service.

Speed of delivery is huge now. The big thing is to be as responsive as we can be to the needs of clients, and that's anything from delivering a price quickly and efficiently, to ensuring competency in all of the operational aspects of FX, which are very much underweighted in most discussions. Payments and movement of money are not simple things, particularly when you get into these restricted markets, which are highly complex. There are certain things that people have to outsource. It's too complicated. You need an institution like ours that has that global expertise.

Curran: On the global services side, we are building new technology that enables us to capture data in such a way that we can measure execution versus markets so we can deliver that data back to our clients and provide them with

the additional transparency and market information now available to make decisions about methods of FX execution.

DeLuca: Tell us about your iFlow® product.

Rodriguez: As one of the world's largest custodians, we're in the unique position that we're able to monitor the cross-border movement of funds. iFlow allows us to recognize where certain aspects of the world's investment flows are going from as little as the previous business day in a scrubbed and aggregated fashion.

DeLuca: Is foreign exchange becoming an asset class in its own right?

Messinger: Some investors have viewed FX as a more passive part of their business, but it's now becoming a more active part of the investment management process. As Jorge and Mike have said, people are looking at a more diversified FX portfolio, which requires an increased knowledge of currency and more outsourcing where appropriate. I don't think you go into an investment in a market without having a sense of where underlying currency could be going as well.

As the flow of funds continues to move around the world and into new markets, we need to be ready to provide access to those currency markets. The marketplace continues to see movement outside of the G10, and that obviously fosters more currency activity. It starts with what investments you can make in stocks and bonds, and then follows with currency. As you become more mature, more dedicated or interested in different economies, currency becomes an important component of that investment decision.

Rodriguez: The real key is what you heard from

Mike at inception. At BNY Mellon, historically these were just sales and trading businesses, and everyone was in the sales and trading business. Foreign exchange goes beyond just sales and trading; it's about the services side and how you provide those services to clients and address their needs through continuous innovation and new offerings as the market advances.

For more information on BNY Mellon Foreign Exchange capabilities, please visit bnymellon.com/forex, or contact Dave Green at dave.green@bnymellon.com.

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