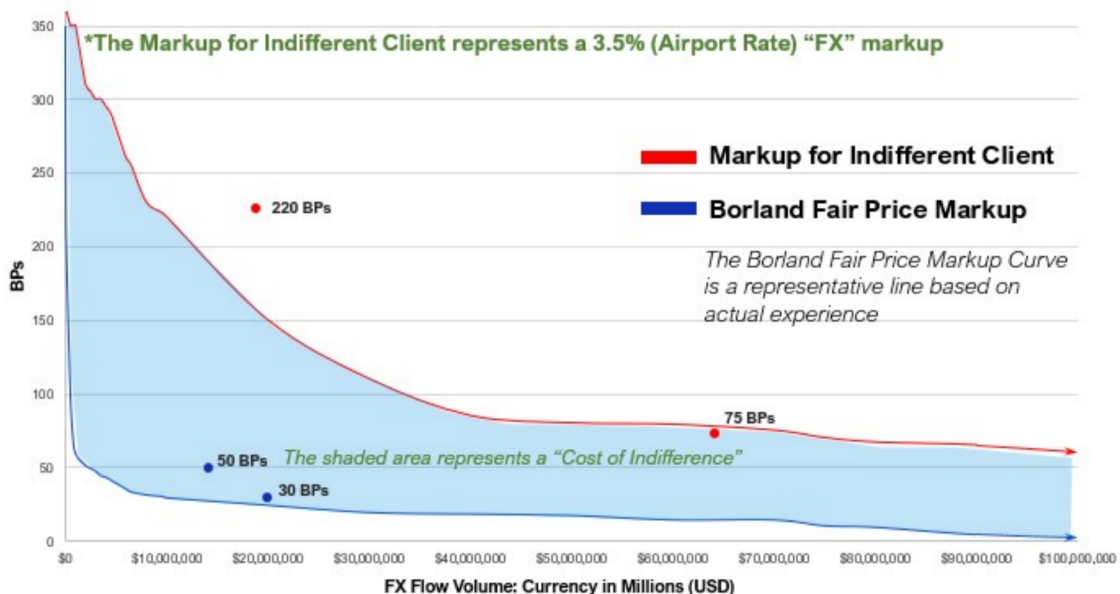


The Borland Curve Axioms for FX Pricing

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The Borland Curve charts a way to look at the fair markup pricing for FX transactions. Further, the Borland Curve Axioms outline key factors influencing foreign exchange (FX) markups, providing a comprehensive framework for understanding pricing in FX Transactions.

Understanding the Borland Curve Axioms empowers clients to navigate the complexities of FX trading more effectively, enabling them to negotiate better terms and minimize costs.



1. Size & Trade Number. Size and number of trades is the next most important factor, behind Gross Aggregate Volume, in determining the FX markup, and thus the First Axiom. Obviously, one large trade a month would be easier for a bank than 50 small trades. When there are fewer trades, there are less operational issues. Accordingly, a flow with a high number of small trades would have a higher expected markup.

2.Types of Currency. The major developed market currencies are very liquid and have deep markets. Therefore, there should not be markup due to a challenge in getting the currency. However, Emerging Market and Secondary Market currencies that are less liquid and have a range of market characteristics can entail more markup.

3.Credit Issues. Credit can be a key issue. However, often there is no credit risk. For example, most platform spot purchases involve a client being debited on the deal date, when the money is taken from the account when the trade is done. If a client buys spot and their account is debited in 2 days— which is the regular way— there is delivery risk that the bank will pay the funds on day two, but the client will go bankrupt on day two, and not be able to deliver. There is also FX Rate Risk when a client does a forward transaction, and this Rate Risk is on top of Delivery Risk. A forward trade might be cancelled during the life of the forward, and if the client reneges it could mean a loss for the bank. Sometimes a bank can over emphasize the issue of credit risk to increase the markup.

4.Operational Issues. If a client has regular trades to the same beneficiary there is less chance of an operational glitch. However, if there are a number of new small FX payments each month where the beneficiary instructions are not correct—and take a resolution—then the operational issues to be dealt with require a higher markup.

5.Off Hours Trading. If a client trades an emerging market currency, or any currency when it is not actively being traded during that time of day, that can cause a higher markup.

6.Trade Methods. Bank internet banking system platforms can be set with algorithms. Clients can call a trading desk for routine large transactions. An AP department can send a daily bank file to make small routine FX payments. Each method, if not managed properly, can lead to a higher markup. For example, trades on a platform may simply have an algorithm that sets high markups. A voice trader may be able to manipulate the deal in their favor as the market is constantly moving and bank traders do not let it move against the bank. A standard daily file will have some type of formula, or algorithm, for set markup pricing and if not negotiated and checked for compliance it can be high.

7.Relationship Issues. The length and depth of the bank relationship can be a key. If a bank syndicates a credit, they may feel they need the ancillary revenue to come from FX trading to meet their ROE hurdles. Some bankers argue in today's environment you pay for your services “distinctly” and should not over pay for FX trading. If a bank does investment banking work, they may justify higher FX Markups to compensate for the use of the investment bank talent.

8.Competitive Bid Issues. Overall, the most important determinate in the markup is what the market will do and what can be negotiated. Research and practical experience show that the more quotes taken, or the larger the range of banks to bid on trades, the lower the markups. However, this needs to be balanced with operational and relationship issues. In summary, the more sophisticated an FX buyer, with multiple options, the lower the markups should be.

