Blades International, Inc.

A PRIMER FROM BLADES INTERNATIONAL, INC.

The Future of Integrity and Data Analytics in Foreign Exchange

Best practices for understanding and better managing the rates you pay on foreign currency exchanges.

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INTRODUCTION

Banks Caught Overcharging

The Foreign Exchange market is the largest and most liquid financial market in the world. With approximately $9.6 trillion[1] in activity per day, commercial banks, hedge funds and multi-national corporations generate a majority of the FX market volume and FX Providers/Banks assess mark-ups — which can vary by institution.

Most organizations do not truly understand how much they can save through diligent monitoring of their bank's FX fee markups, making them susceptible to higher FX costs. Most finance executives at international organizations do not regularly review the transaction fees they are charged and rarely even consider that they can, in fact, negotiate preferential rates.

In this primer, Blades International, Inc. provides best practices to understanding and better managing the rates you incur conducting foreign currency exchanges.

The Blades International team

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1. Bank for International Settlements, Triennial Central Bank Survey of Foreign Exchange and Over-the-Counter Derivatives Markets, April 2025.

WHY IT MATTERS

The Cost of Indifference

While companies can benefit from lower FX markups and greater market transparency, there are some that stand out as being "indifferent" to their FX costs. This "indifference" can result in higher FX costs, therefore an FX markup review can help reduce costs and educate companies on how to better manage their FX business.

Indifference is caused when Treasury teams are too busy and preoccupied. Overcharging can often be overlooked by FX clients who are learning and developing their FX experience; these clients can either be inexperienced in FX payments or may simply be stressed, understaffed, or simply not care enough to monitor their FX costs. Some executives feel it is okay to let their bank take whatever FX markups they want and just allow them to have "rich FX markups".

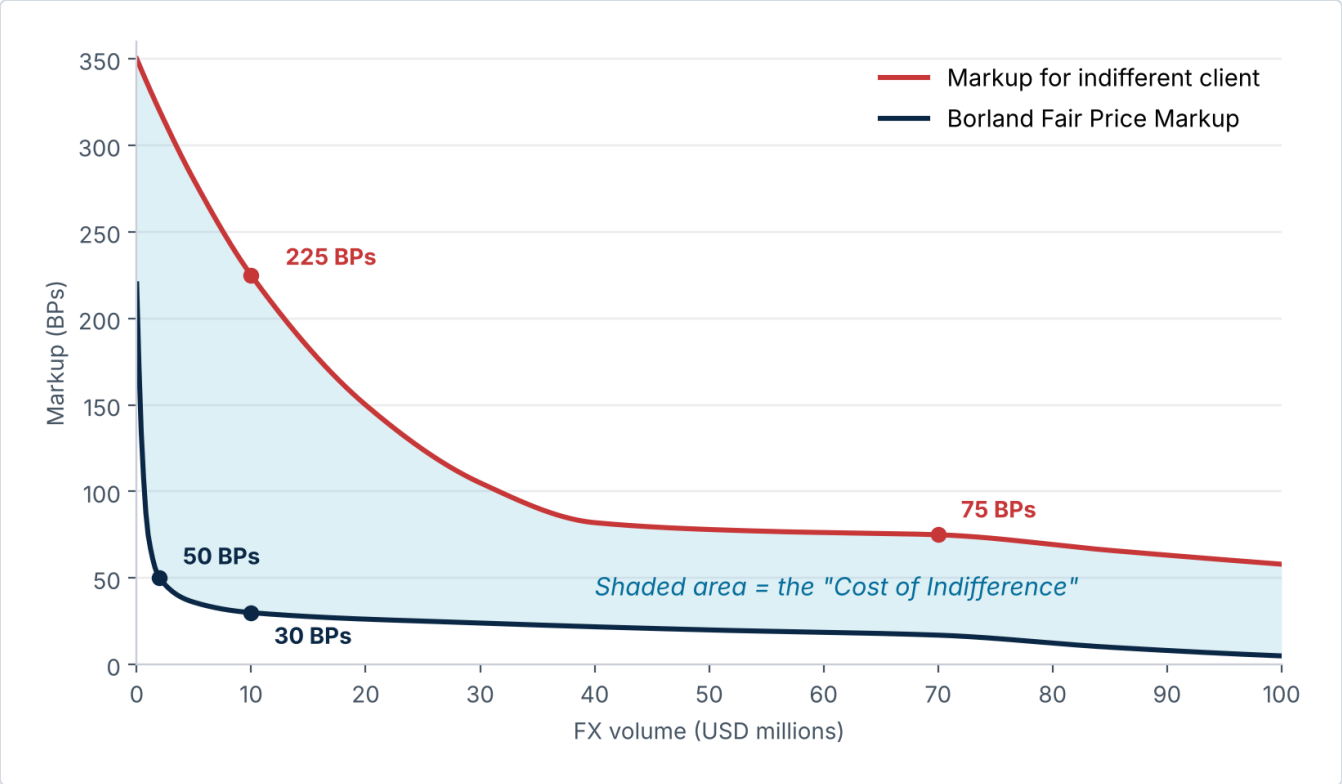
> *"Dealers systematically and consistently overcharge clients who don't have currency trading expertise..."*
>
> **Harald Hau**
> University of Geneva School of Economics

> *"Rates can be 25 times higher [for smaller corporate clients] than for bigger, more sophisticated customers."*
>
> **Eva Szalay**
> Financial Times

Borland Curve

The Borland Curve is a way to look at the fair markup price for foreign exchange transactions. It is based on empirical data and decades of FX management experience. There are two basic outlooks on FX pricing by financial providers:

- The first, and most common outlook, is to charge rich or excessive markups until questioned, then tighten pricing until you feel you can start moving it up again. For the banker, the key to the success of this practice is client indifference or inexperience. Inexperience can be cured by time, but indifference usually requires an intervention!
- The second outlook on pricing balances the costs of the overall pattern of activity against the value of that pattern. FX flows have value to institutions and clients are wiser when they learn about that value. Clients with significant FX flows can leverage the value of their flows to negotiate more favorable markups. It is important to note, however, that a lower FX flow should not translate to egregious FX markups and fees.



The Markup for Indifferent Client represents a 3.5% (Airport Rate) “FX” markup. The Borland Fair Price Markup Curve is a representative line based on actual experience.

WHAT DRIVES THE PRICE

How FX Mark-ups Are Determined

The size, currencies, and method of trading all affect markups. Of course, costs are a key factor and include the following:

- **Administrative costs:** These costs are largely mandated by regulation—including "know your client" processes, anti-money laundering reviews and blocked recipients of various kinds. Banks have developed automated systems to provide a basic review, but a staff review is necessary to ensure these compliance issues are managed.
- **Operational costs:** Incoming and outgoing payments for non-financial clients usually must be delivered. Most of this is managed by computer and 99.99% go through without issue. When they go wrong finding and recovering these payments can be time-consuming and expensive—particularly if the currency is considered exotic and the regulatory client in the receiving country is arcane. Technology is lowering costs and improving services.
- **Credit costs:** This is the most cited cost, but it is easily managed and only rarely requires intervention.

These costs must be balanced by the value of the client's pattern of activity.

The most valuable client is well known to the institution, has a large regular flow of market size transactions in major currencies, has been a client for several years, delivered to known clients with repeated delivery sets and transacted through the bank's proprietary systems. So, high value and low costs.

Oddly enough, even valuable clients with sophisticated FX teams are often overcharged for FX transactions. These transactions are delivered via the cash management or subsidiary systems. Often, no one monitors these deals because they are of lesser value. That is not always true for individual deals and is never true for the aggregate. This is another form of indifference.

The costs of FX transactions have been coming down with increased transparency, efficiency and competition, and likely will continue. But to take advantage of this trend a client must take steps to be aware of the total value of all their FX activities.

Best Practices

Executives who want to reduce their FX costs and maintain a consistent, competitive FX markup, and achieve rate integrity, should implement the following practices:

TRANSPARENCY

You need market transparency and cooperation from your FX providers to get the right FX data. You should use this data to complete a "back testing" and "benchmarking" process. This process will help you better understand your FX markups and historical costs, helping you learn the value of your FX flows.

NEGOTIATE

Once a client knows their existing FX costs, they can more readily understand what they deserve. Banks would rather not talk about set FX pricing; however, clients can readily negotiate a Fair FX markup arrangement and agreement. The negotiation is best backed up by the client's analyzed historic FX data and empirical market data. Often, the data highlights if the bank has had a history of "rich markups" for years and if it's time for the client and institution to develop a customized and competitive arrangement. When negotiations are done, have your new FX arrangement codified with a written agreement, which can be simple.

AUDIT

Once you have negotiated mutually acceptable terms, you should have a process for continuous automated auditing of your FX costs on a regular basis and be aware of any changes. This additional FX data will help you manage your FX activity and FX providers. This will help you achieve consistent, lower FX costs, and assure Foreign Exchange Rate Integrity®.

→ Consistent, lower FX costs

Key Questions to Ask Your Banker About Your FX Rates

- How much do you typically charge on FX flows similar to mine?
- How do you determine your FX markups (pricing grid, computer generated algorithm, etc.)?
- Aside from the FX markup, are there any additional transaction or banking fees associated with FX activity?
- How do you deliver confirmation time stamps? (email confirmations, one-page PDFs, account summaries, etc.)
- Can I get my agreement in writing?

GETTING STARTED

Information Needed for a Rate Review

A review of your foreign exchange transactions does not need to be complicated, labor-intensive or time-consuming. A review simply requires six fields for each trade:

Trade date	**Time stamp**	**Time zone**
Amount and currency sold	**Amount and currency bought**	**Currency pair**

While knowing the bank-given exchange rate is nice, it is not necessary. The exchange rate can be calculated using the amount sold and amount bought.

The information above is all that is needed to successfully complete an FX markup review. The access you have to your own data is critical. The basic FX transaction data will enable you to precisely "Back Test" based on the exact time a transaction was completed.

It is important to stress, however, that to successfully complete a Foreign Exchange Rate Integrity® review you DO NOT need to provide any sensitive or identifiable data. Blades International, Inc. will never ask for sensitive information such as beneficiaries, or bank account numbers.

Once the required information is collected and an FX markup review is complete, you will receive the precise Interbank Market Rate at the exact time your transaction was completed, as well as the amount it costs your FX provider to provide the currency at the Interbank Market Rate. You should also be provided with the markup cost—this is the difference between the amount you paid and the cost for the FX provider, and the cost in basis points—which is your FX "markup".

Sample format (illustrative)

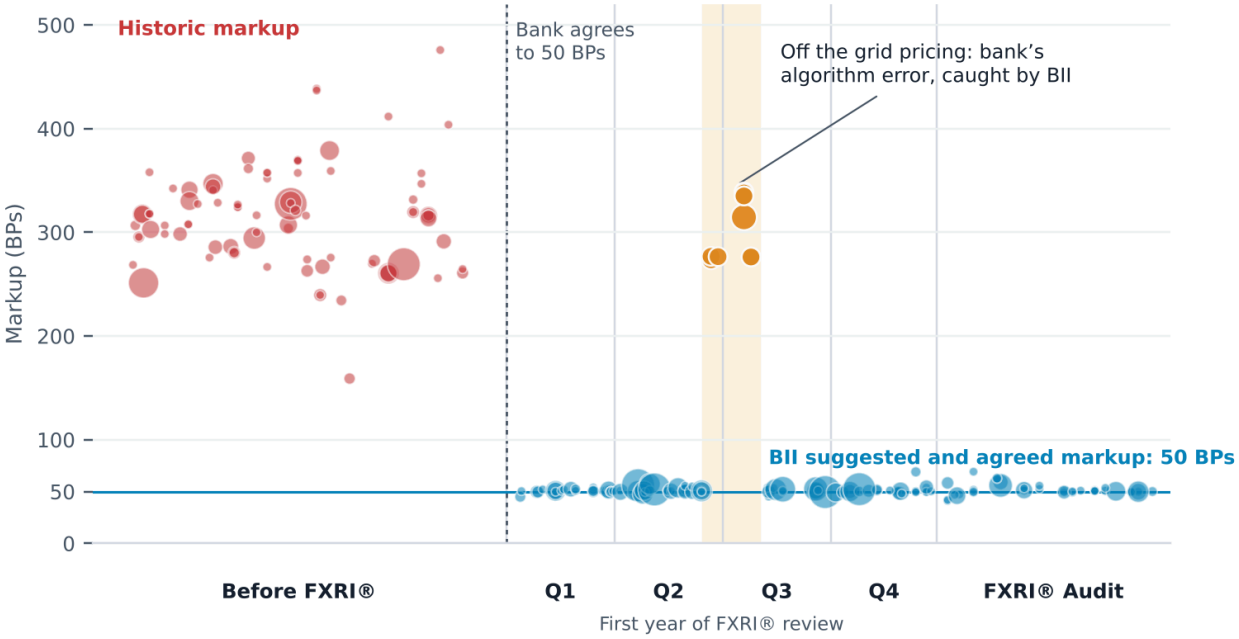
Trade date	Time stamp	Time zone	Amount sold	Ccy sold	Amount bought	Ccy bought	Pair
mm/dd/yyyy	10:51 AM	CT	3,455.20	USD	2,500.00	GBP	GBP/USD
mm/dd/yyyy	2:36 PM	CT	53,920.00	USD	50,000.00	EUR	EUR/USD
mm/dd/yyyy	9:21 AM	CT	27,110.00	USD	500,000.00	MXN	USD/MXN

The FX Rate Integrity® Trade Template (Excel) is available from BII Insights & References on bladesintl.com.

WHAT A REVIEW SHOWS

Before and After a Foreign Exchange Rate Integrity® Review

A transportation company was receiving an Excessive Markup averaging 318 BPs. Once its bank learned the company had mandated BII for FX Advisory using the FX Rate Integrity® process, the bank agreed to lower the markups to 50 BPs.



Defining a Timestamp

Your "timestamp" is evidence of the exact time of your trade. Banks should provide this information or make it readily available. If a bank is hesitant, or resistant, to making this FX data available, it is a red flag and represents a deliberate lack of transparency.

Typically, clients can readily download this data (including timestamps) and receive it in Excel format. Many clients also receive a simple one-page confirmation of their FX trades, sent electronically or by mail.

WHO IT HELPS

Who Benefits from a Foreign Exchange Rate Integrity® Review?

The Foreign Exchange Rate Integrity® process can benefit clients who do not have the time or resources to consistently monitor every FX transaction. Companies that use multiple banks or a multi-bank automated competitive bid process to manage any FX activity can also benefit from an FX markup review.

Additionally, companies with global ventures or subsidiaries can greatly benefit from knowing how to routinely monitor their FX markups in foreign countries. Corporates with a global presence are likely to have "Pockets of FX activities or FX flows" in multiple regions. They can often go ignored, and therefore, it is important to also successfully manage those FX markups.

While obtaining competitive bids can result in good FX markups, this strategy can lengthen the process and complexity and FX markups might inch up. This process can also systematically ignore the small treasury FX payments. We suggest a written, fair FX agreement, with one, two, or more banks, can be most efficient and effective in managing all FX costs in the long run.

Foreign Exchange Rate Integrity® — how the data reaches BII

1

Standing instruction

The client signs one instruction to its bank or FX provider.

2

Sanitized trade data

The bank sends the six trade fields — no account or payee details.

3

Secure FXRI® portal

Data arrives each month in BII's secure FX Rate Integrity® portal.

4

FXRI® report

BII measures every markup against the interbank market rate and reports back.

Your FX trade data is yours. A single standing instruction means no collection effort on your side, and evidence that cannot be questioned.

LOOKING AHEAD

The Future of Foreign Exchange Markups

In the coming years, the FX market will become even more transparent, competitive, and efficient. But perhaps more interestingly, and not unexpectedly, FX will become more technology-driven.

With the use of big data and advances in technology, FX markups will continue to compress. While the fintech's have developed new FX platforms, data analytics and bank automation will ultimately result in cost competitive FX arrangements to drive down FX costs.

As AFP's Editorial Manager, Andrew Deichler, writes, "technology is still new and will still take some time before it becomes mainstream in treasury and finance" and, in our case, foreign exchange banking.

Efficient companies will seek to understand how automation plays a role in their bank-produced FX costs and furthermore, seek out a solution to excessive costs that involves data analytics.

An interesting area, and one Blades International continues to monitor, is how cryptocurrencies will factor into cross-border payments in the future. We believe Central Bank digital currencies and stable coins will increase the need for Currency Transaction Cost Analysis.

In Conclusion

We still see an "inefficient FX market" for both corporate and commercial clients, but increased data analytics and technology capabilities will bring more focus, transparency, and attention to FX markups.

The key to ensuring your financial institution is providing you with the most competitive rates is to not be indifferent about your transactions. Insist on transparency, negotiate fair pricing and implement regular checks and audits to ensure you are getting the best rates possible.

If you would like assistance with monitoring your foreign exchange transactions and markups, or simply need some advice on how to negotiate with your financial institution, contact the Blades International team today: **fxri@bladesintl.com** or **(713) 977-7400**.



GET IN TOUCH

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