



TRADING TECHNOLOGIES

BRINGING IN FX: EMS CONSOLIDATION IN A COMPLEX TRADING ENVIRONMENT



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INTRODUCTION

Foreign exchange (FX) occupies a unique place alongside other members of the big four asset classes. It is much less likely to be traded for alpha generation than equity, credit or rates. Instead, many approach the market as a mechanism for access, as investors and proprietary trading firms use it to rotate into non-domestic markets.

As such, the FX function has often sat separately from other trading desks. A common setup for listed derivatives desks, for example, has been to call a separate floor when they need the currency to trade non-domestic equity and fixed income markets.

However, recent trends in buy-side operations and market dynamics have been pushing change in these assumptions. More firms are starting to integrate FX into a multi-asset approach to trading. The motivations for doing so range from the rise of multi-asset trading models at buy-side firms, to more firms seeking alpha in FX itself.

For many firms, the move to multi-asset trading is driven by cost efficiency. Firms that previously hired a trader for each asset class are often moving towards a more lightly staffed and centralized trading desk where traders have responsibility for more than one asset class. This consolidation has been supported by the rise of electronic trading protocols.

Whether it is a European hedge fund seeking dollars to access U.S. equity markets or a proprietary trading firm looking to add FX as another asset class to trade, FX is increasingly coming into the fold of other trading desks.

This trend is running at the same time as a gathering buy-side wide focus on controlling trading costs, both to fine-tune strategies that rely on fine margins and to boost shareholder returns through an optimized cost structure around functions such as margin.

Such efficiencies are not being pursued in the front office. Synergies are much more likely to be sought further along the trade life cycle by consolidating systems and workflows where possible.

Any consolidation project of that scale will be a substantial one, however.

In order to better understand the challenges involved, as well as the potential payoffs, we commissioned research company Acuiti to survey 65 trading firms on their current approach to FX and how they view its integration with other asset classes.

Firms participating in the survey comprised a roughly even split between hedge funds, proprietary trading firms and asset managers.



THE KEY FINDINGS OF THIS REPORT ARE:

- For 69% of survey respondents, a unified real-time view of risk is the greatest benefit of full execution management system (EMS) consolidation between FX and other asset classes
- Basis trades are at a particular risk of EMS complexity, with leg synchronization across venues proving to be a prominent pain point
- Trade reconciliation across venues as well as position and P&L reporting latency were cited as the two greatest post-trade challenges of running separate systems
- Migration risk was pointed to by 43% of survey respondents as the biggest single obstacle to EMS consolidation of FX and other asset classes



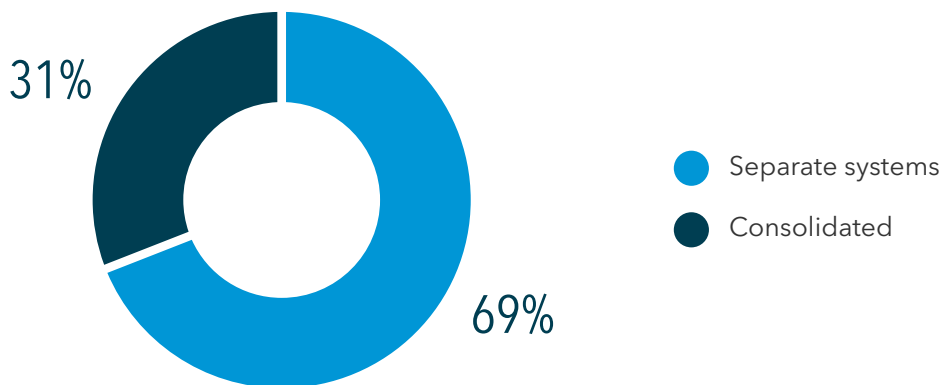
Section One:

HOW FIRMS TRADE FX

FX market participation was widespread among surveyed firms, with 61% saying that they trade the asset class. Of these, the majority run their

FX trading activity through order and execution management systems (O/EMSs) that are separate from other asset classes.

DO YOU CURRENTLY HAVE A SEPARATE O/EMS FOR FX AND LISTED DERIVATIVES?



This separation is to be expected, given the legacy of siloed trading operations, the relative nascency of the multi-asset trading trend and the FX market's distinct structure.

While cash equities or futures and options are typically executed on lit, tightly regulated venues, the FX market is over-the-counter (OTC), unregulated, and made up of competing primary venues and large bank market makers. These are where the market's heavyweights trade—global systemically important banks (G-SIBs), central banks and large non-bank market makers. FX secondary markets are where liquidity is then distributed to the corporates, asset managers, hedge funds and retail aggregators that constitute client flow.

Different market structures naturally require different trading infrastructure. Focusing

on OMS and EMS needs, this manifests in prioritizing order books, exchange connectivity and central counterparty clearing house (CCP)-based post-trade workflows among listed derivatives market participants.

The OTC FX market, on the other hand, is driven by bilateral execution. Pricing is more relationship-driven and credit risk is managed between counterparties. Confirmation and netting are handled by continuous linked settlement (CLS).

Despite these differences, there are strong motivations in today's markets to find synergies wherever possible. Amid lower latency execution and higher volumes, the screen real estate, let alone workflow real estate, required to run a separate system for each asset class can become not only costly but burdensome.

Section Two:

THE OPERATIONAL COST OF FRAGMENTATION

Modern markets have become a complex ecosystem, with trading taking place on a mixture of lit venues and off-book channels in most asset classes. Spot FX is no exception, with complexity emerging from its highly decentralized market structure that involves multiple liquidity pools.

Somewhat atypically when compared to other markets, this fragmentation is not always seen as a bad thing. A range of trading venues offering bilateral execution protocols can reduce the noise and market impact risk of trading on public venues, according to a supportive view of this market structure.

Operationally, however, this infrastructure poses challenges. As more firms become interested in understanding transaction costs and execution quality, this analysis becomes harder when organizing the data of multiple dealer feeds.

For firms running FX alongside trading lines in other asset classes, the number of different

venues and protocols to manage will be even higher. Beyond creating bloated workflows and missed synergies, such infrastructure is vulnerable to miscommunication between systems and incorrect data snarling up operations.

This can lead to challenges around trade reconciliation, which firms running separate trading systems flagged as their top challenge.

Different systems processing the same asset class often create this problem, a challenge that is compounded when a single desk trades two different asset classes.

Reconciling the records of distinct systems serving distinct markets carries a higher risk of manual intervention. Not only does this consume operational resources, it also creates risks as manual processes elevate the chance of trade breaks. For firms trading at scale, with multiple credit lines in the billions, this is a significant operational risk.

WHICH POST-TRADE CHALLENGES ARE MOST ACUTE WHEN RUNNING SEPARATE FX AND LISTED DERIVATIVES SYSTEMS?

- 1 Trade reconciliation across venues
- 2 Position and P&L reporting latency
- 3 Margin and collateral management across CCPs
- 4 Managing multiple drop copies
- 5 Cost of running two O/EMS platforms
- 6 Duplicate data entry / keying errors
- 7 End-of-day settlement / confirm matching
- 8 Regulatory reporting

Linked to the challenges posed by reconciliation is position and P&L reporting latency – another highly ranked concern. With two separate systems throwing off different data sets, the potential for time gaps in trading feeds increases.

For the trading desk, gappy latency of this kind impedes sight of a net position and real-time P&L until after reconciliation has taken place. In a world where more firms are pushing towards achieving a real-time view of risk, this poses a problem for firms and potentially puts them at a competitive disadvantage.

Issues were also flagged in the interaction between managing margin and collateral requirements across different CCPs. The greater the number of CCPs being traded at, the lower the capacity to net. This dynamic can increase the risk of excessive collateral holdings as firms have to plan for the possibility of higher gross margin calls.

Multiple connections can also be an issue for administering drop copies, which are needed for risk, compliance and reconciliation functions. If trader activity pulls on multiple feeds, the workflow can quickly become cluttered.



Section Three:

RESOLVING PAIN POINTS THROUGH CONSOLIDATION

The extra costs of running separate trading systems make consolidation worth exploring for many firms.

Not only does this open the door to potential synergies that can simplify workflows and reduce overall costs, but it can also create room for more auditable, standardized benchmarks that serve as the base for a more streamlined multi-asset trading operation.

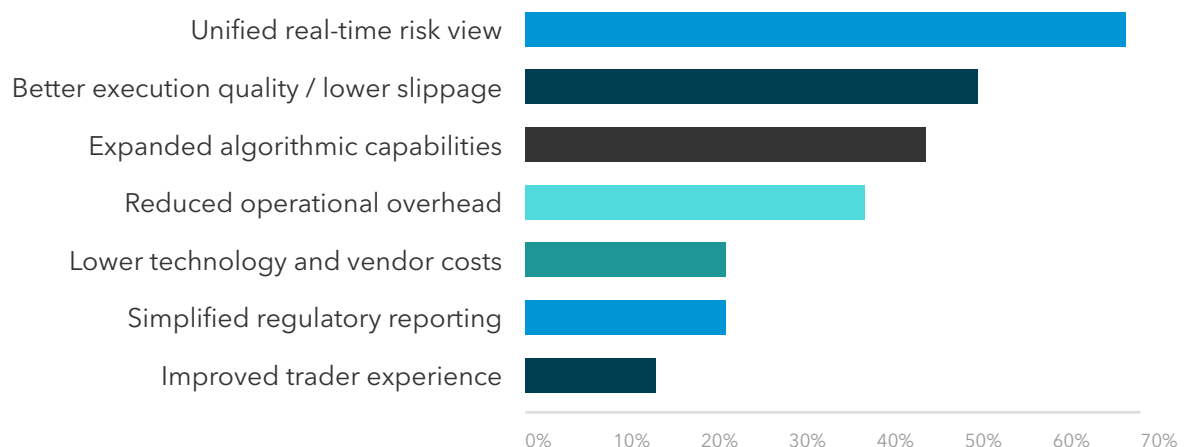
A real-time view of risk was the greatest benefit of full EMS consolidation with FX and other systems cited by survey respondents. This focus on cross-asset risk has increased in the wake of several events in equity markets since

2020, including severe losses on dividend-linked structured products and the collapse of Archegos Capital.

Those concerns have also dovetailed with an ever-growing focus on margin management. With volatility becoming a more constant feature of markets in the post-quantitative easing era and margin calls concurrently becoming more frequent, demand for real-time monitoring of risk positions has risen.

As such, a unified view of risk has become highly desirable, especially one that crosses asset classes to provide the broadest possible oversight of a firm's trading activity.

WHAT WOULD BE THE MOST IMPORTANT BENEFITS OF FULL EMS CONSOLIDATION ACROSS FX AND LISTED DERIVATIVES FOR YOUR FIRM?



Survey respondents also commonly cited better execution quality as a key benefit of EMS consolidation. Here, the ability to create a more unified view of trading positions can reduce timing gaps (see basis trade boxout) as well as more consistent order controls and routing logic.

Similarly, a trading operation that is able to bring greater standardization across systems also stands to improve algorithmic capabilities across the asset classes they trade. This is, again, an advantage for firms seeking to improve spreading tools for strategies like the basis trade.

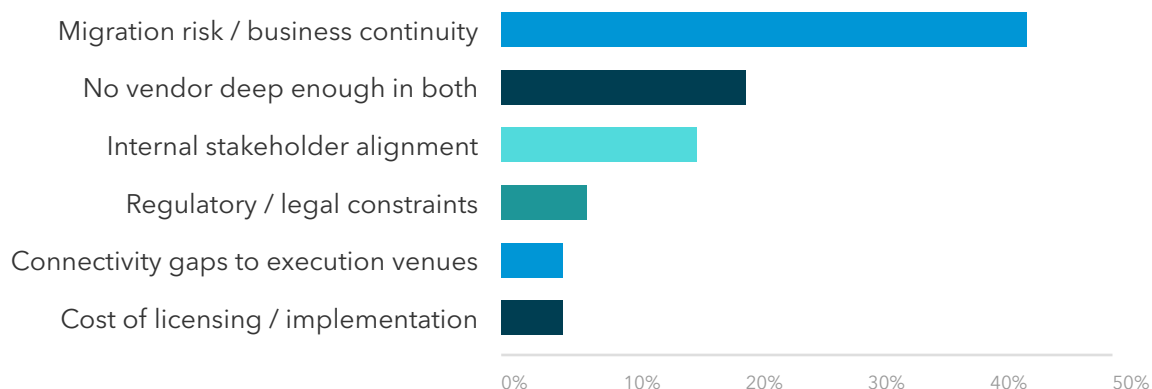
Notably, improved trader experience ranked bottom of the list. This highlights the primacy of middle and back-office operational considerations over “pure” front-office

improvements at many institutions. Internal sign-off on new technology is often much more likely when it is a platform offering durable efficiencies across trading workflows, rather than front-office functionality that gives a trader an edge in the markets.

Any substantial technology investment project is likely to involve considerable scrutiny though, due to its consumption of internal resources.

Indeed, migration risk ranked as the single biggest obstacle for firms considering EMS consolidation. The cost of displacement for firms that already trade FX, even if inefficiently, can often result in corporate inertia. Internally, teams are often wary of the resource drain and career cost that a long and onerous transition to another system can entail.

WHAT IS THE SINGLE BIGGEST OBSTACLE TO CONSOLIDATING YOUR EMS TODAY?





OPERATIONAL CHALLENGES IN THE BASIS TRADE

Basis trades that capture the price differential between FX and listed derivatives are becoming increasingly popular. Given that the trade relies

on pocketing the profit on a small spread, execution quality and operational cost are very important factors in the trade's success.

WHICH OPERATIONAL CHALLENGES DOES YOUR FIRM FACE WHEN EXECUTING BASIS TRADES BETWEEN LISTED DERIVATIVES AND FX?

- 1 Leg synchronization across venues and asset classes
- 2 Unified margin and haircut visibility
- 3 Execution timing slippage between legs
- 4 Cross-asset risk netting
- 5 Spread pricing and auto-quoting
- 6 Real-time basis P&L monitoring
- 7 Roll management across contract expirations
- 8 Regulatory reporting of multi-leg trades
- 9 Other challenges

Survey respondents reported leg synchronization across venues and asset classes as the biggest challenges when executing basis trades with FX as one leg of the transaction.

Executing and managing each leg of the trade on different systems opens up two distinct workflows and reduces traders' ability to align them. Getting filled on one leg but not the other would quickly turn a market-neutral trade into a directional one.

This also relates to the risks created by execution timing and slippage between legs, where a delay in executing either leg of the transaction can see the basis move, with the risk of a material effect on P&L.

Similarly, unified margin and haircut visibility were also cited as a big issue.

Each leg of the basis trade being executed with a product hosted by a different CCP carries different margin methodologies, adding to the complexity and cost of the strategy.

Running each leg in different trading systems also prevents a netted view of exposure.

While the basis trade should be low-margin by nature, the lack of visibility that comes from running the trade through two different systems could result in overallocation of collateral for potential margin calls.

CONCLUSION

Attitudes to trading FX are changing, driven by many large buy-side and proprietary trading firms' desire to either incorporate the market into a multi-asset trading model or add an FX trading line alongside their activities in other markets.

Whatever the motivation, an adoption project that runs an FX trading system separately from other asset classes risks introducing unnecessary complexity to workflows. Unifying the OMS and/or EMS of other asset classes with FX is therefore an option that deserves consideration and is indeed being explored, with 28% of firms saying that a unified O/EMS would make them more likely to trade FX.

Who wins the greatest benefits of such an exercise will vary by firm type. However, for large firms processing billions in trades, consolidation of workflows makes a lot of sense. The high level of flow represented by a market sized at

\$9.6 trillion in average daily volume in the Bank for International Settlements' (BIS) 2025 triennial survey will by itself create a high level of trade life cycle administration. When integrating FX trading functionality alongside high-volume participation in other asset classes, the case for consolidation, where possible, becomes much greater.

Historically, firms accepted separate technology stacks because FX and listed derivatives were traded by different teams with different objectives.

Today, however, the rise of centralized execution desks, cross-asset trading strategies and heightened pressure on operational efficiency is driving demand for a more unified approach. Firms increasingly want a single workflow spanning futures, options, OTC FX and precious metals, allowing traders, risk managers and operations teams to operate from the same source of truth.

To see how TT FX brings OTC and listed markets together within a unified execution environment, [contact us](#) today for a free demo of the TT platform.

