# The Power of Transaction Cost Analysis for SMEs

TCA is becoming the industry standard for companies with FX exposures, but

**78% of corporates**

**say they lack the ability to perform TCA effectively, with 47% rating their ability as ineffective. That's a costly problem!**

*Source: Coalition Greenwich 2022 Market Structure & Trading Technology Study*

BASTION CURRENCY MANAGEMENT

## What is Transaction Cost Analysis?

Transaction Cost Analysis (TCA) is a process of measuring the costs associated with executing an FX transaction. For SMEs, some of the main relevant factors analyzed are: markups applied to the bid/ask price, trade timing, effectiveness of external advice, and market volatility.

**+60%**
**Reduction** in total transaction costs

**1-3 trade**
**Payback** period, dependent on the markup of a transaction

**+500%**
**ROI** on nominal investment equal to markup on 1-3 trades.

*Figures based on monthly transactions of 100k USD

## Why do I need it now?

Maybe you don't. If you're content with not knowing the spread you're paying, don't mind the difficulty of budgeting for transaction costs, and trust that your bank or broker always has your best interests at heart, then perhaps TCA isn't for you.

But if you want to maximize your profits and minimize your foreign exchange costs, TCA is a powerful tool to achieve that.

As a small or medium-sized enterprise, you can't afford to pay inflated markups to your banks or brokers for a commoditized service

With TCA, you can analyze your FX transactions and identify hidden costs, saving potentials, and competitive deal prices. By having a clear understanding of your costs, you can negotiate better rates with your banks or brokers and hold them accountable for fair treatment, ultimately leading to significant cost savings.

Investing in TCA means you're investing in the growth of your business. Don't miss out on the opportunity to benefit from data-driven insights and make informed decisions that will positively impact your bottom line.

### Initial Consultation

We collaborate with you to understand your company's specific strategy to executing its foreign exchange deals and your current **cost control processes and procedures.**

### Transaction Cost Analysis First Steps

Every TCA analysis starts with a consultation on the 5Ws of your FX Transactions because TCA for companies is a convoluted, but necessarily manual affair.

### Data Gathering & Preprocessing

Collect your FX transactional data (often from suboptimal trade confirmations), then clean and normalize it in preparation for analysis.

### Benchmarking Your FX Trades

Establishing a benchmark to compare your FX transaction costs against a custom-built Interval Time Average Price (ITAP).

### Analysis & Review Trade Execution

Examine the data to identify patterns and trends to highlight areas where cost savings could be made.

### Implementation & Optimization

Implement changes to FX strategies & brokers/banks you use. Ongoing monitoring to ensure cost optimization and improve results.

## Benefits of FX Transaction Cost Analysis

TCA is a powerful tool for EVERY company dealing in FX, especially for those with limited bank or broker relationships, and who are also transacting via the phone. There are many benefits to implementing TCA, including, but not limited to:

### Protection in an unregulated market

TCA safeguards transparency in an asymmetric relationship and helps you assess the quality of your FX execution.

### Identification of saving potentials

TCA benchmarks FX costs, identifies saving potentials, and helps you negotiate better rates with current FX providers.

### Risk Management

TCA can help companies identify and manage risks associated with foreign exchange transactions, such as market volatility and counterparty risk.

### Cost transparency

TCA compares your executed trade price against the actual exchange rate, finding those hidden costs and spotlighting your FX provider's attitude toward your business based on their "adjusted" spreads.

### Assessing deal price competitiveness

TCA isolates cost impacts from deal size, deal type, currency, and FX counterparty to help you assess the competitiveness of your dealing prices.

### Data-Driven Decision Making

TCA provides companies with data-driven insights into their foreign exchange transactions, enabling them to make informed decisions and optimize their execution strategies.

## Are You Doing Enough?

### Ensure your FX transaction process isn't costing you

Most Small Medium Enterprises lack the resources and specialty Foreign Exchange expertise, which allows banks and brokers to **charge FX sales markups** that can be up to **26 times higher** than what they charge their more sophisticated clients, which is compounded if bilateral voice execution is used to trade (i.e., trade over the phone).

- Companies in the bottom 80% of the sophistication distribution pay a higher sales markup than more sophisticated firms. Only very sophisticated clients obtain a relationship discount to pricing.
- Captive clients, those engaging in bilateral transactions with a single bank or broker, face even more exorbitant overcharging. This clear evidence highlights the systemic exploitation of relationships in the OTC FX market by banks and brokers.
- Companies trading online using Request For Quote (RFQ) systems can alleviate price discrimation.

Source: IMF Working Paper WP/19/100 (May 2019) on discriminatory pricing in the unregulated FX market against non-financial clients


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