

Enhancing Transparency and Efficiency Through Transaction Cost Analysis

Executive Summary

A large asset manager decided to fully outsource its FX execution to an external manager but needed to maintain effective oversight.

Challenge

With execution now handled externally, the client required a dependable way to ensure transaction costs remained within pre-agreed limits—supported by clear accountability and a rapid path to remediation when limits were breached.

Solution

NCFX deployed its Transaction Cost Analysis (TCA) platform with automated intraday ingestion of trade files. In collaboration with the client and the external FX manager, transparent and fair tolerance thresholds were set for each currency pair.

Trades within tolerance passed the in-flight TCA check and were cleared for settlement. When a trade breached tolerance, the system triggered an immediate alert—visible in the NCFX interface and sent via email to both parties. Breaches were investigated in real time, with the external manager empowered to reprice when necessary. Every action was captured in a full audit trail, and the client could annotate trades directly in the NCFX interface.

How it works

For GBPUSD, tolerance was set at 1.5 basis points from the NCFX benchmark mid-rate—an independent, regulated rate reflecting the prevailing clearing level every 50 milliseconds.

At 11:15, an order to buy £5,000,000 was filled at 1.34289, 2.5 bps from the NCFX mid of 1.34255, triggering an alert to both the client and the manager. Within 45 minutes, the external manager confirmed a replacement fill at 1.34275 (1.5 bps from mid), bringing the trade back within tolerance. The client then annotated the record to document the repricing.

Outcome

The workflow established a shared, objective standard, accelerated issue resolution, and reduced disputes—while giving the client continuous oversight of outsourced execution quality.