GFMA's Global Foreign Exchange Division (GFXD)

"Optimising the FX Trade Allocation Process"

January 2026

Executive Summary

- **Wholesale Foreign Exchange (FX) dealers continue to service a broad, global spectrum of corporate and institutional clients, providing them with reliable, efficient and cost-effective hedging and funding services**
- **Despite recent periods of increased market volatility and activity, FX dealers are facing persistent long-term margin compression and structural cost pressures with the resultant impact on profitability**
- **Analysis shows that costs for liquidity providers have risen by 17 percent since 2020, pushing market participants to optimise the delivery of services**
- **The FX trade allocation process (TAP) touches all the above dynamics at scale and can suffer from a number of inefficiencies, creating market fragility and resulting in increased settlement, compliance, credit, capital, operational and market risks**
- **These risks can be reduced by *advising the specific trade allocation details pre-trade* vs post-trade notification to middle office or operations**
- **This whitepaper will highlight the challenges and risks created from notifying allocations post-trade, and provides a series of recommendations to:**
  - **Raise the level of awareness on how this process has evolved, highlighting the challenges, risks, and inefficiencies**
  - **Highlight the points of friction and identify areas for improvement to promote greater efficiency and transparency**
  - **Provide a list of recommended practices to improve the TAP process for market participants and supervisors**

Introduction

The Global FX Division (GFXD) recently completed analysis looking at the "Future of FX" to assist members in identifying the future trends and drivers of change within the FX market. The work has identified several evolving themes, including the changing FX market structure and the nature and role of market participants, noting a persistent trend of increasing costs even within periodically volatile markets.

FX dealers are responding to the changing market structure by prioritizing investment into new technologies to increase the efficiency of their operations. The role of market participants is also evolving, where the unbundling of the FX value chain is attracting increased specialisation and re-consideration of the full end-to-end service provision.

This structural evolution is occurring while costs are increasing. The GFXD analysis highlighted several areas across the FX lifecycle that are responsible for a 17% increase in costs since 2020[1], driving FX dealers to optimise their service models further.

The end-to-end FX businesses of today include a variety of features that cumulatively increase costs for banks such as:

- Regulation (multi-jurisdictional)
- Transaction (venue) costs (almost entirely borne by the pricing provider)
- Capital costs
- Technology
- Operations (incl. Settlement Risk)
- Risk Management (compliance, credit, and market risks)

The combination of the persistent trend of spread/margin compression and the increasing rate and number of costs are both challenging the long-term profitability of FX offerings. This is forcing market participants to constantly re-evaluate what products to offer to which clients and how to deliver those products and services - including the optimisation of the trade allocation process.

Key Challenge Area: The Trade Allocation Process

Our analysis highlighted key challenge areas and rising costs encountered in the post-trade functions of the FX trade lifecycle, specifically identifying trade allocation inefficiencies as a major issue.

This is especially evident when executing 'block trades' for real money clients, that require a high number of allocations across the underlying fund accounts - the trade allocation process (TAP) - as the nature of these trades can have high variable costs (e.g., transaction, capital costs) and are typically short-dated FX trades (1–3-month forwards/swaps) executed at ultra-competitive pricing at no or low bid-offer spreads.

[1] GFXD Future of FX analysis – includes front office direct & transaction costs, tech & operations, risk & compliance costs

'Block trading' is a vital process that supports fund manager FX trading. A single FX (block) trade is *allocated* into the many underlying fund accounts (often numbering into the 100's), managed by each fund manager.

- These FX trades support significant equity and fixed income transactions, by either funding the transaction or acting as a rolling forward-hedge to help protect the portfolio against adverse FX movements.
- These trades are typically material in size and are directly tied to the real economy – for example supporting U.S. 401(k) retirement plans and other global pension plan portfolios that are invested into international capital markets.
- Banks and vendors have actively sought to support this FX flow, given the substantial number of global fund managers, the notional size/volume of trades[2] and the transactional nature of these asset/securities-related flows.

By nature, any inefficiencies in the trade allocation process are therefore a shared challenge, requiring joint ownership and accountability for developing a more resilient solution to be owned by all market participants. Specifically, it is the practice of providing **post-trade notification of allocations** as a recurring market practice that is problematic; it lowers transparency and increases a series of risks across the entire FX trade lifecycle - including Settlement, credit, capital, compliance, market, and operational risks.

By highlighting the points of friction and identifying areas for improvement, the goal is to promote greater process efficiency for the collective benefit for FX market participants.

Specifically, this whitepaper calls for market participants to:

- *Advise the specific trade allocation details pre-trade, prior to execution* versus
- The practices of providing post-trade notification of allocations to middle or back-office functions.

This whitepaper therefore seeks to:

- Raise the level of awareness on how this process has evolved, highlighting the challenges, risks, and inefficiencies
- Highlight the points of friction and identify areas for improvement to promote greater efficiency and transparency
- Provide a list of recommended practices to improve the TAP process for market participants and supervisors

[2] Inst Investors represented 13% of FX Turnover ~$1.2480bn per day - BIS Triennial Central Bank Survey - OTC FX turnover in April 2025

Key Recommendations

1. **Trading & Execution -** Market participants should provide full details of trade allocations pre-trade and *prior to execution*, to allow for executing bank to accurately price for related costs and risks of the trade

2. **Align with FX Global Code** – Work with market participants and supervisors to highlight TAP inefficiencies, challenges, and risks, raising awareness of process deficiencies to market participants and establishing a list of best practices that align with the Principles of FX Global Code

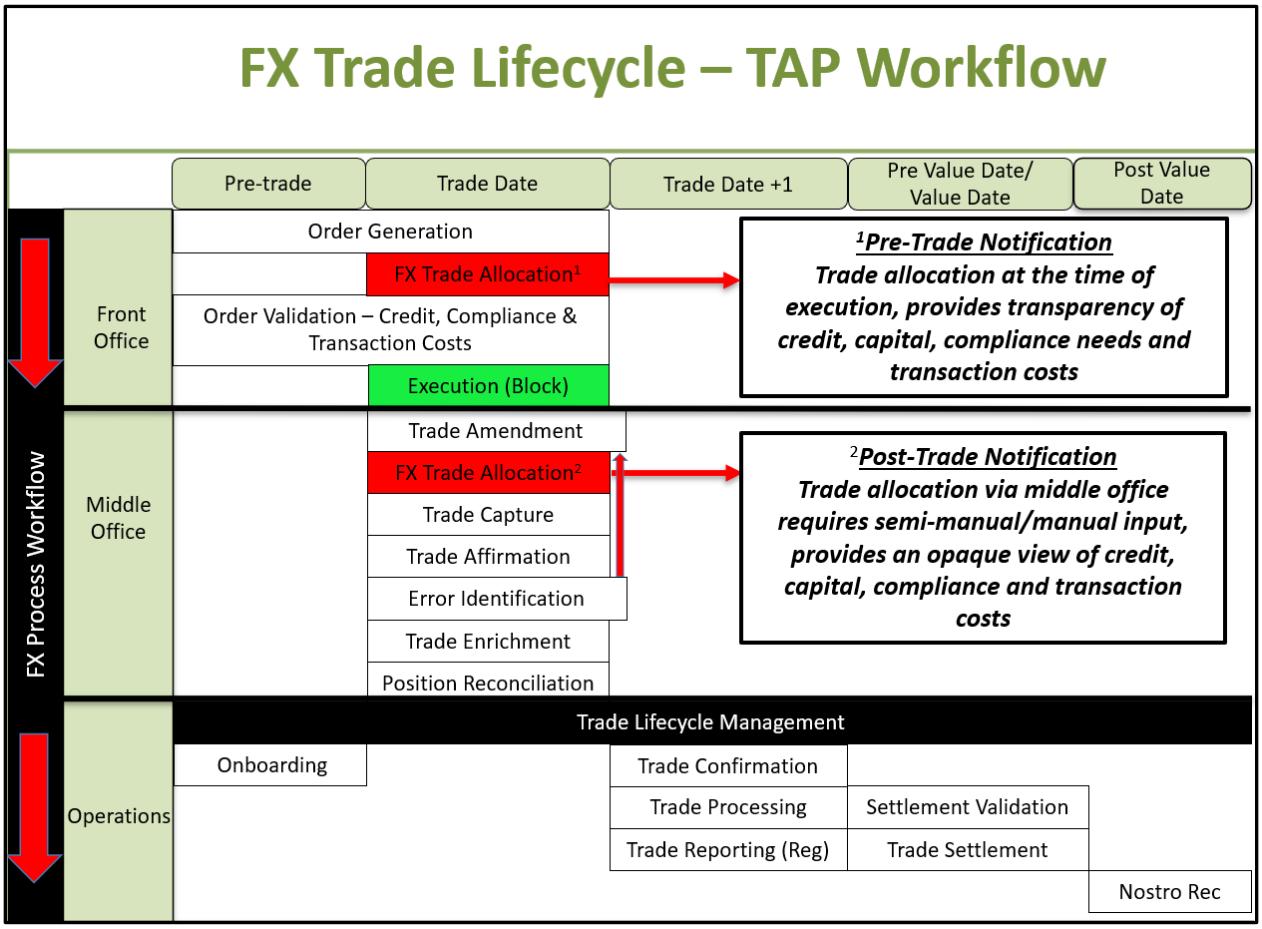
3. **Transaction Cost Evolution** – With evolving industry structure and dynamics, ensure industry participants are increasingly aware of the transaction costs and impact of inefficiencies across the trade life cycle

4. **Onboarding –** Prioritization of new account opening/onboarding prior to trading, to assist in mitigating the incidence of trade breaks. Post-trade account set-up challenges are heightened by accelerating settlement cycles and can result in payment and settlement delays.

5. **Operations –** Reduce settlement, credit, operational and compliance risk by providing pre-trade allocations**.** Automated pre-trade allocations processed via straight-through-processing help to mitigate these risks and align with Principles 35 and 50 in the FX Global Code for reducing Settlement Risk.

Undertaking the FX Trade Allocation Process – Workflow

Figure 1: Trade Allocation Process Workflow



The full FX trade lifecycle process is outlined in Figure 1 above and identifies the sequence and workflows required to execute, confirm, report, and settle an FX trade.

- For each trade, the allocation travels through the steps from "execution" through to "nostro reconciliation."
- Once the single FX 'block trade' has been executed, the trade needs to be allocated across multiple sub-accounts as designated by the fund manager.
- Two flows are shown: details of trade allocations are either notified pre-trade, FX Trade Allocation,[1] or post-trade FX Trade Allocation.[2]

1) **Pre-trade notification** of allocations (the majority of trades) provides full trade transparency over credit – including Settlement Risk, and compliance requirements, capital, and transaction costs. Trades are allocated via the front office predominantly via straight-through-processing (STP) at the time of execution. Front office trading and allocation is supported via several

vendor platforms, where the full allocation is pre-loaded when the order is generated, the 'block trade' is then competitively priced, and once executed, the allocations are processed into integrated trading and settlement systems.

2) **Post-trade notification** of allocations (a meaningful percentage) are advised after execution to the middle office, often via a semi-manual or manual process to allocate and upload trades into the trading systems and requiring dedicated business support. This practice provides limited transparency and heightens a series of risks – including Settlement, credit, capital, and compliance as the processing occurs often hours after execution.

The following section will discuss the functions most impacted by the practice of post-trade allocations, highlighting the challenges and risks, offering a series of recommendations to improve process efficiencies.

Trade Allocation Process – Challenges and Recommendations

a. Trading & Execution

Pricing FX block trades requires full pre-trade transparency to ensure market-makers are aware of the complete trade dynamics ***prior*** to pricing. This provides better trade transparency and enables visibility of costs - incl. capital and related transaction costs, and to better manage for the associated risks.

Post-trade allocations, by nature, are unable to provide the full trade transparency required to ensure the trade is priced "consistent with the risk borne in accepting such transactions" [3] at the point of execution.

The trade example shown in Figure 2 below highlights how the practice of post-trade allocations inhibits full-trade transparency and can result in a series of increased risks:

Trade Request: Competitive quote for 1mth FX swap – Notional EUR3bio (net)

Trade Allocation: Actual Notional (gross) EUR 33bio (bought) vs EUR 30bio (sold)
Middle office receive trade allocation 1-3hrs post-trade

[3] Foreign Exchange Benchmarks - Recommendations FSB October 2015

Figure 2: Example Post-Trade Allocation - Risks and Challenges

Post-Trade Allocation Process - Risks and Challenges		
Risk Considerations	**Key Challenges**	**High/Med/Low**
1. Market	Competitively priced at mid-market/inside mid-market (at execution)	Medium
2. Credit	Opaque view of credit exposure to underlying accounts. e.g., Block trade (net EUR3 bio) at execution, post trade allocations received gross (+33bio-30bio) may exceed credit limits.	**High**
3. Capital	Opaque view of capital cost and exposure to underlying accounts	**High**
4. Settlement	Unknown trade volumes booked inside/outside CLS increases Settlement Risk	**High**
5. Operational	New account set-up is req'd to occur within accelerated settlement cycles, risks missing CLS cutoff times, requires an additional 4-step manual confirmation/settlement process - Opaque view of actual number of transactions	**High**
6. Compliance	Trading on new accounts prior to set-up, creates an opaque understanding of underlying counterparty, adding transaction monitoring and market risks. Unapproved c'partys require trade cancellation/novation	**High**

The importance of having full pre-trade transparency is covered under Principle 10 of the FX Global Code[4] noting "market participants should be aware that different order types may have specific considerations" and "should understand the associated risks and be aware of the appropriate procedures." Principle 47 directly addresses the TAP, stating "Market Participants should review, affirm, and allocate block transactions as soon as practicable."[5]

The Financial Stability Board (FSB) FX Benchmark Report Recommendations also state "market participants should behave consistently to ensure pricing transactions in a manner that is transparent and is consistent with the risk borne in accepting such transactions."[6] Notification of the trade dynamics (incl. trade details, number/nature of allocations) prior to execution therefore aligns with Principles 10, 47 and FSB Benchmark trading recommendations.

The heightened number and nature of the risks incurred from post-trade allocations escalates the need for raising awareness and recommending best practices to modify behaviours to align with the Principles outlined in FX Global Code.

Recommendation 1: **Market participants to provide full details of trade allocations pre-trade and *prior to execution*, to allow for executing bank to accurately price for related costs and risks of the trade**

Recommendation 2: **Align with FX Global Code – Work with market participants and supervisors to highlight TAP inefficiencies, challenges, and risks, raising awareness of process deficiencies to market participants and establishing a list of best practices that align with the Principles of FX Global Code**

[4] FX Global Code: Principle 10
[5] FX Global Code Principle 47
[6] FSB "FX Benchmarks - Final Report" (30Sep2014)

b. Transaction Costs

Despite the fact that recent (2025) market conditions and other volatility events such as COVID and the Russian invasion of Ukraine potentially obscure the persistent trend of increasing costs, long-term revenue opportunities remain under structural downward pressure. Maintaining a full FX service offering becomes increasingly challenging with banks needing to review the long-term viability of some products and services where the "cost-to-serve" has increased dramatically alongside of bid/ask spread compression.

Banks are not alone; buy-side fund managers are simultaneously experiencing their own significant change and cost pressures. Although assets under management (AUM) are growing, they are managed at tighter margins/fee structures as a result of the shift of AUM dedicated to low-cost ETF products. FX order flow is increasing, in an environment where costs are also increasing because of sector competition and the increasing cross-asset regulatory burdens – forcing an added focus on achieving greater efficiencies through increased process automation and best (low-cost) execution.

In addition, the vendor platforms are also operating in an environment where increased regulatory burdens are adding to the cost and are forcing increases in brokerage, messaging, and transaction fees – predominantly variable costs paid for by the pricing provider. In FX, these brokerage fees are often calculated as variable costs, for example, dollars per million of notional and by trade tenor. This approach differs from other asset classes and can lead to a more opaque and variable fee structure.

This is further complicated by the inter-connectivity between execution venues and allocation venues, where multiple transaction fees can be incurred across the same trade. Other asset classes have different fee structures, such as equities, where there is a flat "cents per share" or basis points model offering more cost transparency.

This cost vs margin asymmetry outlined in Figure 3 sheds some light on the challenges faced by banks in requiring greater efficiencies in the TAP, where platform fees can account for between 40-60% of the bid offer spread. Industry participants could therefore consider re-evaluating the merits of the current process of using transactional-based fees for trading and investigate alternative pricing models. This would require a change in behaviours from market participants, underpinning the difficulties in making this shift but emphasizing the nature of the shared challenge – requiring accountability for developing a more resilient solution to be owned by all market participants.

Figure 3: FX Spot – Sustainable pricing is now becoming challenging

Source: GFXD Analysis, (R&C = Regulatory & Capital)

Recommendation 3: **Transaction Cost Evolution – With evolving industry structure and dynamics, ensure industry participants are increasingly aware of the transaction costs and impact of inefficiencies across the trade life cycle**

c. Onboarding

The onboarding process is a comprehensive and critical process that requires dedicated teams from both sell-side and buy-side. These teams are established to prioritise new account onboarding - a key process that should occur prior to trading and encompass the following steps:

- New account opening documents – e.g., fund financials, marketing documents
- KYC/AML & GLEIF[7] authentication
- Credit limits & added to legal documents (ISDA's)
- Operations - adding SSIs, CLS[8] or PvP instructions (if applicable)
- Loaded into dealing systems (order management & execution management systems)

This process is outlined in more detail in the GFXD 2018 paper "Standardised Practices for Client Onboarding."[9] *Failure to enact this process pre-trade causes trade breaks and introduces operational risk*, including Settlement Risk, and creates the need for manual intervention, often within accelerated settlement timelines.

The pace and complexity of the onboarding process is a challenge for both buy and sell-side participants. A few vendors do offer automated onboarding solutions, but the degree of automation and type of vendor solution can vary greatly between buy-side and sell-side participants.

Increased automation of these functions has helped to noticeably improve the efficiency of the onboarding process, and adoption has been increasingly fueled by the accelerating securities settlement cycles (US 2024, UK/EU 2027) and the need to expedite operational processes and to meet tighter settlement timelines. The importance of pre-trade onboarding as a tool used to reduce operational risks is also cited by the UK T+1 FX working group.[10]

Parts of the onboarding process (e.g., KYC/AML, fund marketing/financial documents) could benefit from some form of industry standardization[11] by having a centralized market solution "repository" or industry utility, where documents could be submitted once via a "single passport"[12] and accessed by all. The FX industry has typically favoured the adoption of bespoke solutions versus moving towards using industry utilities, due to challenges in identifying a solution provider, differing home country/host country regulatory requirements, agreeing commercial terms and how such a solution would be administered, remain some of the key hurdles.

---

[7] Home – GLEIF
[8] Continuous Linked Settlement (CLS) Payment vs Payment (PvP) Settlement Risk mitigation service for CLS members for 18 currencies Settlement | FX Settlement Infrastructure | CLS | CLS Group
[9] GFXD Onboarding Paper (Aug 2018)
[10] UK T+1 FX Summary July 2025.pdf
[11] Standard for Client Onboarding - Documentation and Processes (FMSB Dec24)
[12] Charting the Future of Post-Trade - Report of Task Force - April 2022

Recommendation 4: **Prioritization of new account opening/onboarding prior to trading, to assist in mitigating the incidence of trade breaks. Post-trade account set-up challenges are heightened by accelerating settlement cycles and can result in payment and settlement delays.**

d. Operations/Middle Office

Pre-and post-trade allocations can also be the source of several operational and credit risk challenges, including settlement, credit and compliance risks and collectively increase the service costs of delivering the TAP to clients. Trade allocations that are advised post-trade, are often submitted to middle office trade processing areas after the block trade is executed. This can be hours after the trade and they are often submitted via email/spreadsheet, requiring additional layer of manual or semi-manual operational uploading to allocate trades.

The TAP ideally requires a high degree of "no-touch" end-to-end trade automation to maximize efficiency to process the high volume of trades in a timely manner. These post-trade processes will often require manual intervention for 'trade breaks' – where the part of trade is allocated to an underlying account that may require opening (new funds) or amendment (changes to static data e.g., standard settlement instructions (SSI's) confirmation preferences, PvP Y/N changes due to timing of the trades.)

The timing of any post-trade allocation process can create issues with trades being captured into PvP solutions, where trade processing occurs after certain cut-off times, and within accelerated settlement timelines such as T+1 securities-related trades. This can potentially increase settlement, operational and credit risk if the account allocation requires settlement on a gross basis;[13] it also contravenes Principles 35 and 50 of the FX Global Code.[14]

The demands of multiple trade allocations across hundreds of accounts and currency pairs add a level of complexity for the netting process, especially those currencies outside of PvP. This can add another layer of Settlement Risk into the process and underscores the benefits of STP for the bulk of these trades.

The sheer number of trades implies a higher risk of potential payment issues related to changes in static data, which adds to the number of interest rate claims from late-payments, payment errors – all processes that are intensely manual by nature.

Recommendation 5: **Reduce Settlement, credit, operational and compliance risk by providing pre-trade allocations. Automated pre-trade allocations processed via straight-through processing help to mitigate these risks and align with Principles 35 and 50 in the FX Global Code for reducing Settlement Risk.**

[13] GFXD - Reducing Settlement Risk May 2022
[14] FX Global Code Principle 35 Settlement Risk, Principle 50 Netting & Settlement Processes

e. Compliance

The monitoring and surveillance of client trading activities including those that are executed and allocated via the TAP is another process that requires added vigilance given the recent regulatory enforcement focus from supervisors and regulators.[15] Compliance (incl. KYCAML) and risk management operations from banks and buy-side firms have been expanded to ensure compliance with the regulatory requirements for monitoring and reporting trades to multi-jurisdictional regulators, adding another layer of fixed cost into the FX trade lifecycle.

Trading on accounts that have not been set up prior to trading adds to compliance and credit risks e.g., if the underlying counterparty is not approved for trading, the trade needs to be novated or cancelled, also potentially creating market risk.

f. Credit

Banks play a key role in providing liquidity, credit, risk absorption, and execution services to all FX market participants. They enable FX trades that fund and hedge portfolios – used to support cross-border investments, playing a critical role in the investment cycle that has direct implications for the real economy.

FX trades for fund managers are used for term portfolio hedging, with most FX forward/swap trades having a 1–3-month maturity. The short term nature, size and scale of these trades increase the risk of maturity mismatches and also attract liquidity/rollover risk[16] - all credit risks that are obscured by post-allocation notifications, such as the example used in Figure 2.

Post-trade allocations create an opaqueness across available credit risk limits and applicable capital costs and can strain risk management processes that are established to prevent credit and settlement risk excesses from occurring *prior* to trading in the front office. Therefore, post-trade allocations have the potential to create a point of market fragility due to size and nature of these flows.

The size and scale of these FX trades require substantial credit limits and risk management policies across multiple banks to facilitate the fund manager portfolio hedging to remain within dedicated credit lines.[17] These FX forwards/swaps will also incur capital charges as banks incur balance sheet costs/obligations and regulatory capital requirements for longer dated FX trades.

Looking to the future

Changes in market structure, such as accelerating settlement cycles across securities markets and the development of new products and digital innovations including CBDCs, stablecoins and tokenized

[15] JPMorgan fined nearly $350 million for inadequate trade reporting | Reuters
[16] Dollar debt in FX swaps and forwards: huge, missing and growing (BIS Dec 2022)
[17] Super system faces $1.35trn foreign exchange stress test

deposits are propelling the need for faster, more automated solutions to meet the 'need for speed' for payments and settlements.

Accelerating settlement cycles in securities, for example, continue to highlight the inefficiencies in the post-trade allocation process, where decreasing windows of time for trade remediation and manual interventions can lead to increased operational, compliance and settlement risks. The need for pre-trade notification of allocations is further reinforced by the fact that a large percentage of the overall number of block trade allocations are executed to support equity transactions.

The evolution of the global equity market structure continues at pace (e.g., US T1, EU/UK T+1, proposals for U.S. 24/7 exchange trading), underpinning the urgency to optimise the trade allocation process through the use of pre-trade notifications.

Some of these new technologies may be adopted to address the processing cost challenges and inefficiencies, and to meet the demands of clients. In addition, the market is yet to fully understand the implications of stablecoins, tokenized deposits and new digital technologies - arguably the new rails for full 'no-touch' trade allocation efficiency.

Summary

The trade allocation process is a critical activity that plays a vital role in the international trade and investment process and therefore has direct implications for the real economy.

The whitepaper outlines a series of recommendations to assist market participants in addressing FX trade allocation process inefficiencies. Adoption of these recommendations will require a collective change of behaviours from multiple stakeholders, which, until now, have often lacked incentives to change from the current status quo. The process inefficiencies outlined in this whitepaper make it clear that these are shared challenges across the banks, sell-side and vendors and require engagement and ownership by all three FX market participants to remediate the trade allocation process.

These challenges persist through all market conditions, and do not abate when pockets of volatility provide windows of increased volumes at better returns. Trading patterns are quickly reverting to the low volatility, tight range-traded markets – a phenomenon which may be explained by the following: "advancements in electronic trading may be crushing volatility in the currency market, making prolonged wild swings a thing of the past."[18]

The increased pace of adoption of innovative technologies may be one response to the process inefficiencies outlined in the whitepaper – expediting the delivery on their long-held promise of cost savings, accelerated settlement capabilities, and post-trade efficiencies. Importantly, however, the whitepaper provides a series of recommendations which can help streamline the TAP now, and in the process, help to shift existing business processes towards a more symmetrical and efficient FX marketplace for all participants.

[18] Currency Volatility Is Getting Crushed in Era of 'Insane' Tech Advancements - Bloomberg

Contacts

For queries about this whitepaper, please contact:

- Janet Dawson / jdawson@us.gfma.org / +1 212 313-1176
- James Kemp / jkemp@eu.gfma.org / +44 203 828 2705

Background to the Global Foreign Exchange Division

The Global Financial Markets Associations (GFMAs) Global Foreign Exchange Division (GFXD) was formed in co-operation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial Markets Association (ASIFMA). Its members comprise 25 global foreign exchange (FX) market participants[19], collectively representing the majority of the FX inter-dealer market[20]. Both the GFXD and its members are committed to ensuring a robust, open, and fair marketplace and welcome the opportunity for continued dialogue with global regulators.

Disclaimer

This document is intended for general information only and is not intended to be and should not be relied upon as being legal, financial, investment tax, regulatory, business, or other professional advice. While the information contained in this document is taken from sources believed to be reliable, GFXD does not represent or warrant that it is accurate, suitable, or complete and none of GFXD or their respective employees or consultants shall have any liability arising from, or relating to, the use of this document or its contents.

Please Note: This document does not constitute legal, accounting, regulatory, financial or any other professional advice. This document is not binding in any way. As with all market information and guidance that GFXD disseminates, parties are free to choose alternative means of addressing the event. Parties are responsible for considering their own documentation and the specific terms of any transactions and should satisfy themselves that the guidance is appropriate and is properly applied in the context of those transactions to reflect the commercial intention of the parties. This document is not intended to impact parties' contractual rights or amend the terms of any existing contract.

[19] Bank of America, Bank of New York, Barclays, BBVA, BNP Paribas, Citi, Credit Agricole, Deutsche Bank, Goldman Sachs, HSBC, ING, JP Morgan, Lloyds, Mizuho, Morgan Stanley, MUFG Bank, NatWest Markets, Nomura, Northern Trust, RBC, Standard Chartered Bank, State Street, UBS, US Bank and Wells Fargo

[20] According to Euromoney league tables