



# Canadian Foreign Exchange Committee

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**Toronto**

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# GFXD – The Voice of the Global FX Industry

- Formed in June 2010
- Recognition that there was no coordinated trade body representing the FX dealer industry globally
- The GFXD now has 25 members, representing the largest global FX dealers and accounting majority of dealer market share (Euromoney survey)
- The Division is global, and represents the FX interests of the three Global Financial Markets Association (GFMA) bodies:
  - AFME – Association for Financial Markets In Europe
  - ASIFMA – Asia Securities Industry and Financial Markets Association
  - SIFMA – Securities Industry and Financial Markets Association
- Led out of London by MD with staff in London, New York, Singapore
- Desire to represent a truly global association representing the industry in multiple locations
  - Frequent interaction with dealers outside the GFXD membership
  - Industry outreach to end users – corporates and real money as well as other investors
  - Outreach sessions with infrastructure providers, exchanges, CCP, technology providers
- 4 key global groups: Board; Steering Committee; Operations Committee; AsiaPac Committee
  - Working groups established for key issues and projects
  - Market Architecture Group has become increasingly important



# GFXD Membership

- Membership currently 25 banks representing the majority of the global FX dealer market
  - Board Members are from the following banks and are Global Heads of Foreign Exchange



J.P.Morgan



Morgan Stanley



NOMURA



Deutsche Bank



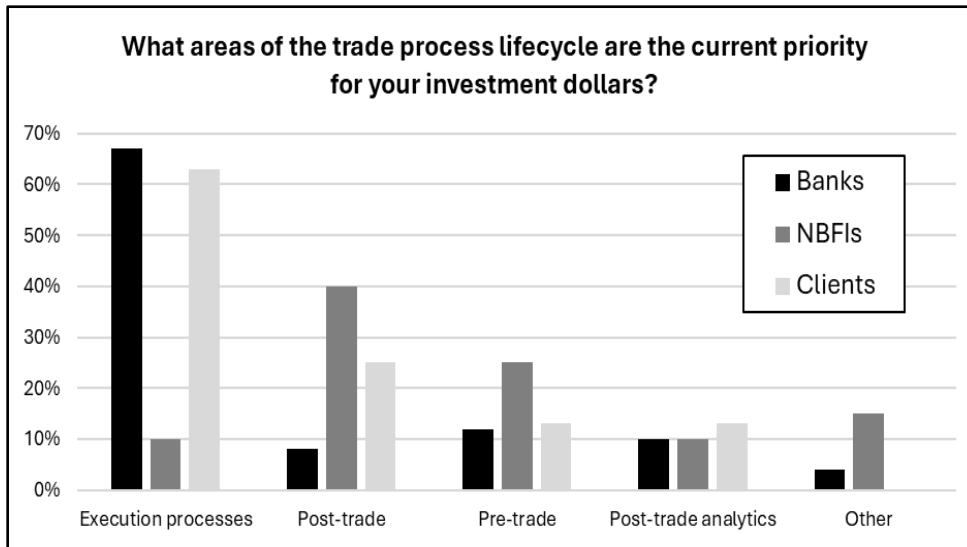
Goldman Sachs



# Future of FX (FoFX) Report 2025

- Consensus that tech is the main driver of change - but clients, geopolitics and reg also matter

## What is the most important factor driving change in the FX market structure over the next 3-5 yrs?



Responses as of May 2025

**Bank: 55% of bank respondents** ranked new technology, such as blockchain, tokenization, and generative AI, as the most influential factor. These technologies will enhance trading efficiency, reduce costs, and introduce new market participants

**Similarly, 43% of Non-bank respondents** believe that technology is the leading influence on the FX market structure, yet 19% believe that new/changing regulations will impact trading practices, compliance requirements, and overall market operations, necessitating adjustments in trading strategies and risk management

**Clients: 23% of client respondents** ranked client expectations as the most important factor. Demands for better execution processes, lower latency, and improved throughput are driving innovations and adaptations in the market

# Future of FX (FoFX) Report 2025

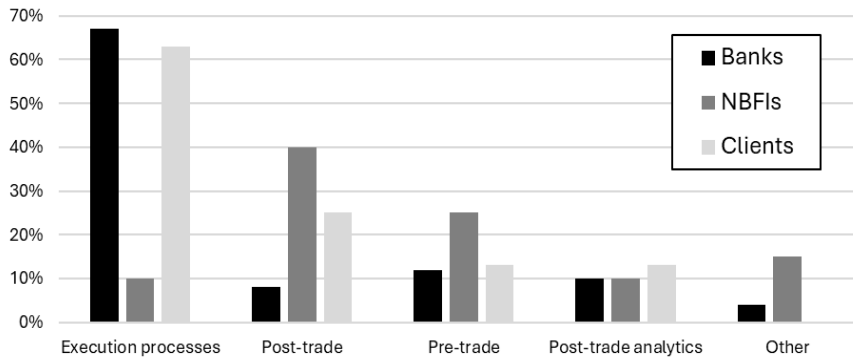
- Strong tech investment in the FO, less in the BO; in GenAI and DLT

*“FX front office operate like Formula One teams, while their back-offices were left riding rusty old bicycles to try to keep up”*

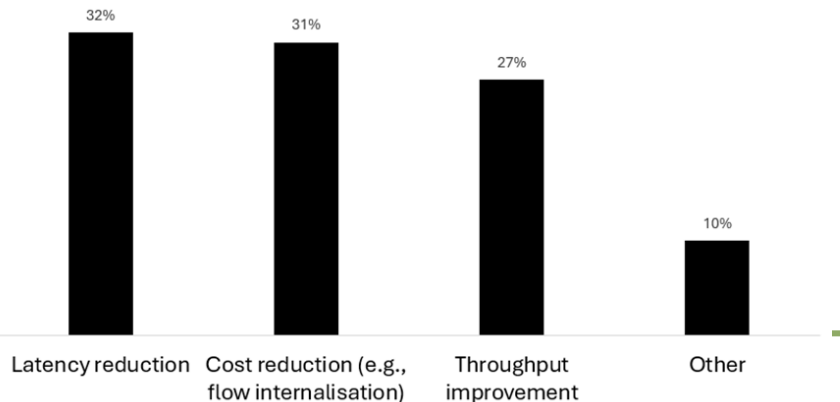
*Phillippe Lintern, Head of Bank of England FX division, Dec 2024*

## Where to invest?

What areas of the trade process lifecycle are the current priority for your investment dollars?

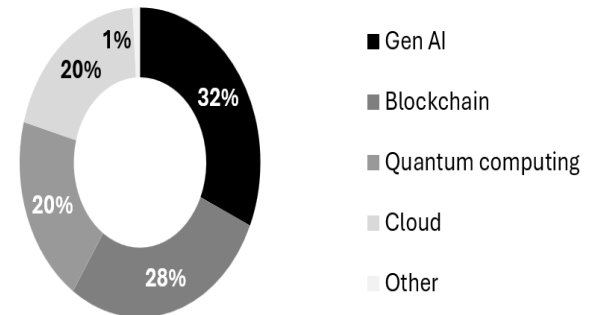


Top area of focus for investment in algorithmic trading

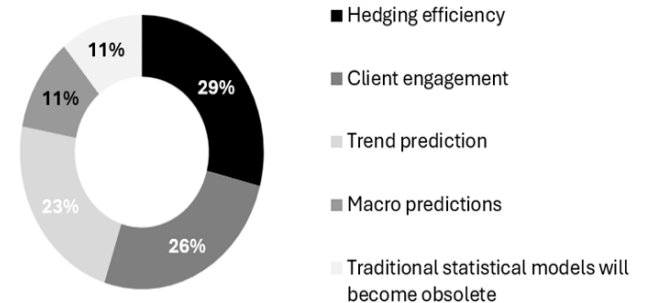


## Which technology matters most?

Top technologies that will influence FX in the next 3-5 years

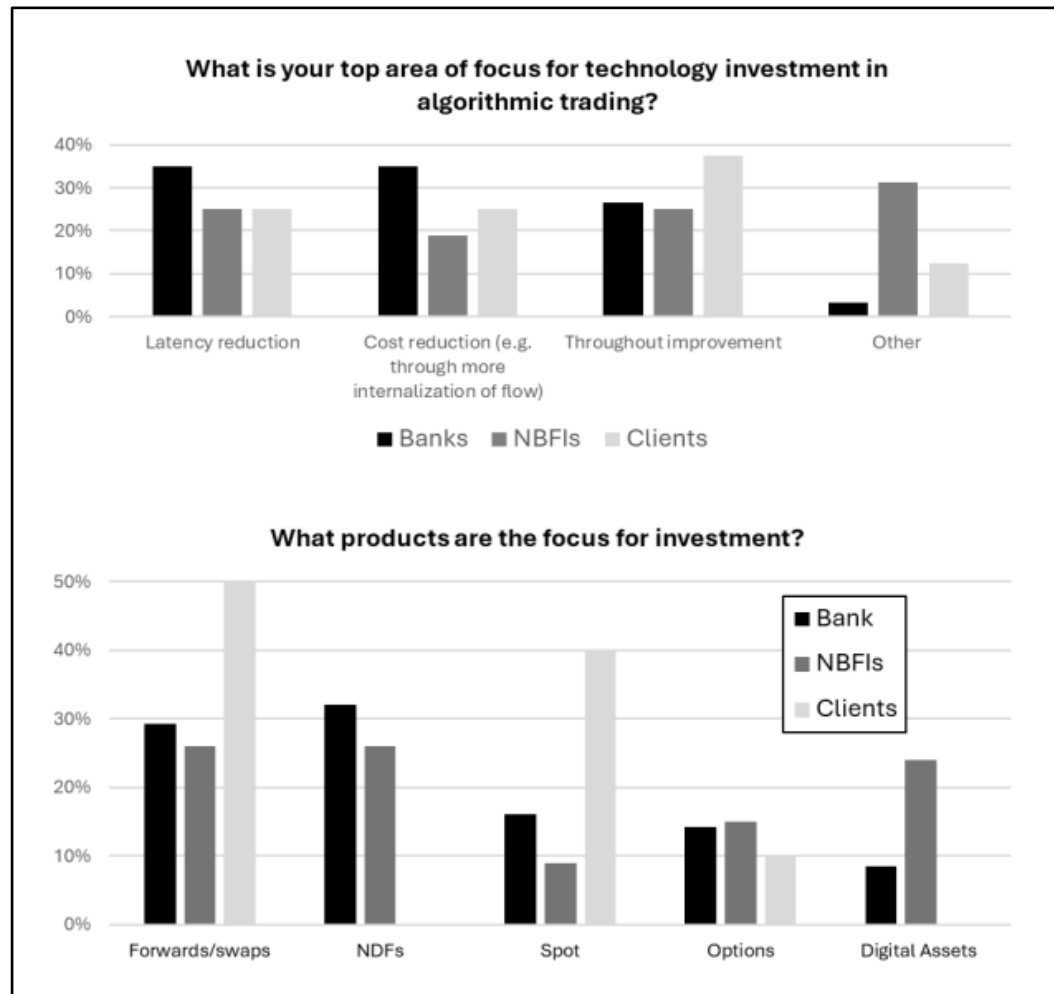


Area that will experience the most growth in AI applications on algorithmic trading



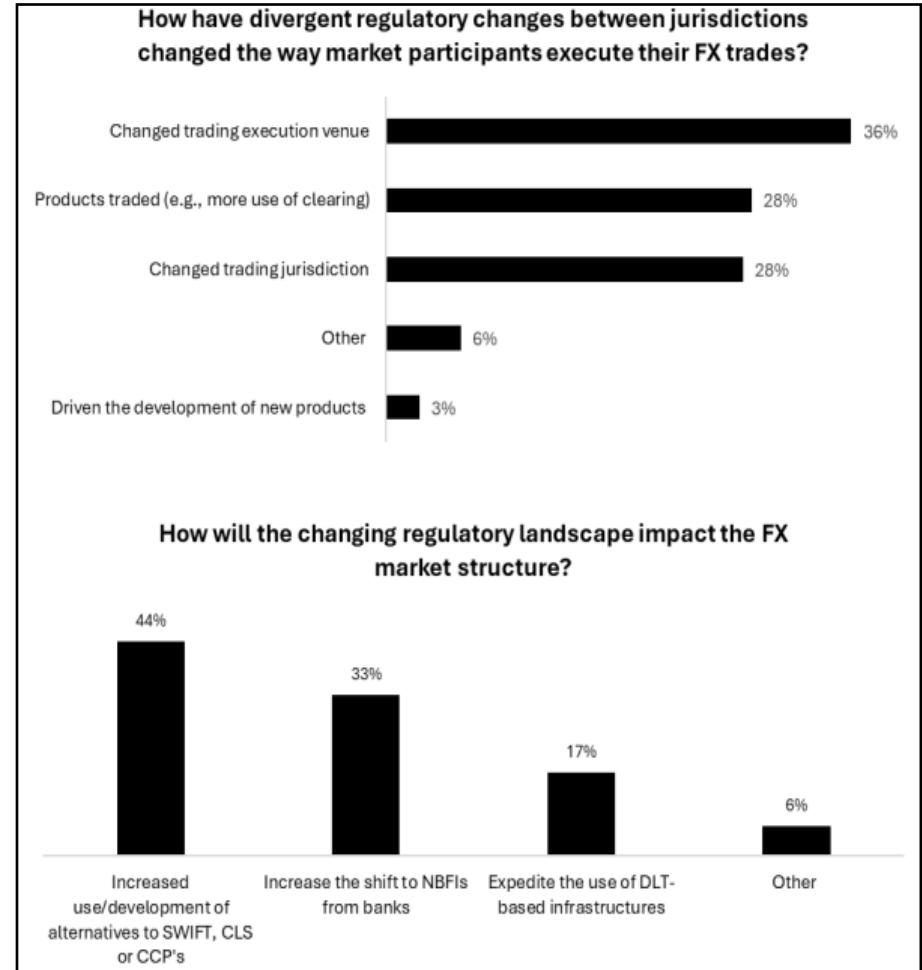
# Future of FX (FoFX) Report 2025

- Banks are planning to invest in AI across the entire FX value chain, while NBLPs plan to focus more on post-trade
- Bank's algo tech investment focused on latency and cost reduction
  - Flow internalization
  - Products: NDFs, forwards and swap products key for banks
- AI investment targeted towards hedging efficiency & client engagement
  - Operations most impacted by GenAI investment over the next 3-5yrs (43%)



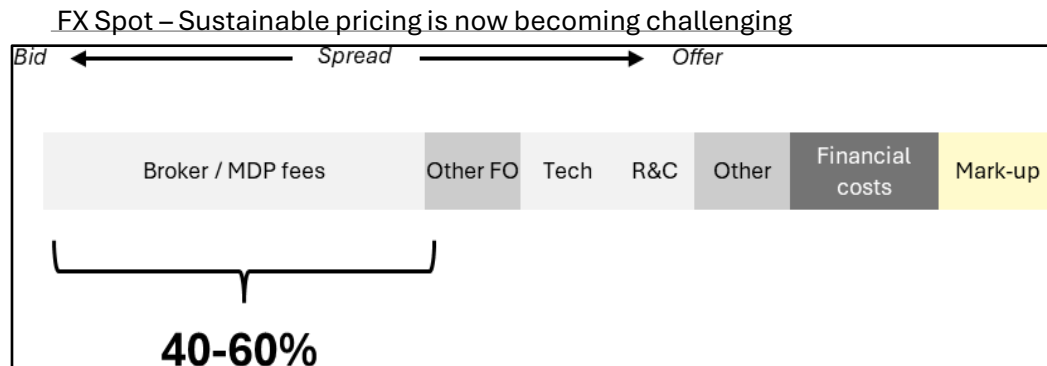
# Future of FX (FoFX) Report 2025

- Reg divergence leading to changes in trading execution venues, followed by types of products
- Global AI the most dominant regulatory theme
  - Across asset classes
  - Followed by cryptocurrency developments
- 35% NBLPs see credit risk regulation as the most significant regulatory considerations
  - Banks see market risk as key driver of change



# Future of FX (FoFX) Report 2025

- Costs have increased by 17% since 2020
  - FO direct costs driven by headcount and cost of brokerage/MDP
  - Tech and Ops costs mainly driven by legacy systems and expensive new tech (data, computing power)
  - Risk and compliance costs continue to grow due to the high level of regulatory scrutiny, costly risk and compliance tech and data, regulatory fragmentation and increasing R&C headcount



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

# Optimizing the FX Trade Allocation Process

- Following FoFX analysis, GFXD scoped out parts of the FX trade lifecycle where industry workflow inefficiencies are adding to the following service costs
  - Compliance, Regulation & Capital costs
  - Transaction costs
  - Technology & Operations
  - Risk Management (incl. credit, compliance and market risks)
- Initial area of focus area is the Trade Allocation Process (TAP), where a predominance of these service costs and risks are experienced at scale
- GFXD has published the whitepaper on “Optimising the Trade Allocation Process”
  - [GFXD - Optimising the FX Trade Allocation Process \(Jan26\)](#)
    - The whitepaper examines the FX trade allocation process, noting the current process suffers from a number of inefficiencies, creating market fragility and increasing a series of risks, including
      - 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*
- The whitepaper highlights 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

# Optimizing the FX Trade Allocation Process

- The GFXD whitepaper outlines a series of 5 recommendations to lower the risk considerations that can result from post trade notification of allocations

## Trade Example:

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

Post-Trade Allocation Process - Risks and Challenges		
Risk Considerations	Key Challenges	High/Med/Low
<b>1. Market</b>	Competitively priced at mid-market/inside mid-market (at execution)	Medium
<b>2. Credit</b>	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
<b>3. Capital</b>	Opaque view of capital cost and exposure to underlying accounts	High
<b>4. Settlement</b>	Unknown trade volumes booked inside/outside CLS increases Settlement Risk	High
<b>5. Operational</b>	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
<b>6. Compliance</b>	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

# Optimizing the FX Trade Allocation Process

- 5 key recommendations are made to assist in reducing risk and improving operational efficiency
- 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

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