

> **P&L Talk Series: John Turney**



Profit & Loss talks to John Turney, head of outsourced foreign exchange solutions at Northern Trust, about why his firm has launched its first stand-alone FX product and the operational challenges facing investment managers trading FX.

P&L Talk Series With John Turney

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Profit & Loss: You just launched your first stand-alone FX product for investment managers. What are the main concerns that this segment of the market has when it comes to trading FX?

John Turney: Regulatory issues are an ongoing point of concern and consideration for our clients and the credit quality of counterparties is also something that we hear consistently spoken about. However, and it may be because I'm coming from an outsourcing perspective on this, operational efficiency is also a major focus and that's something that hasn't changed.

P&L: So why did you decide to launch this CompleteFX product?

JT: There's a two-pronged approach behind this launch. On the product side this is a capability that we've had for some time at Northern Trust within our investment operations outsourcing (IOO) business.

But it was contained within that product offering and we didn't offer it on an à la carte basis. In speaking with clients over the past several years we've found that there's clearly interest in using the transaction processing element of the IOO piece specifically to address FX transaction processing and execution.

As a result we conducted development to carve that out and offer it as a stand-alone product. So far the feedback from clients has been positive as it provides them with operational leverage for their business models, allowing them to move some of their processing risk onto us and our teams where we're able to use our expertise and strong controls to manage that risk.

So the clients are able to take advantage of the execution options that we're offering such as tailoring the timing of their FX execution to drive their goals around netting or around minimising their latency relative to their underlying security trade.

P&L: So the focus is very much on the operational side?

JT: There are two key elements to this service. The first element is related to operations/processing. Then of course there's the execution piece, since we are talking about FX transactions. I think a vital element as far as a value proposition to fund managers is the workflow and controls and the global operating model that we're able to offer them.

P&L: When announcing this product you talked about how investment managers face "unique operational and market complexities" when managing FX risk. What specifically were the chal-

lenges that you were referring to there?

JT: A key one that we work on with clients, and certainly a point of focus with respect to risk, is the timing of the underlying security trade and then trying to minimise any exposure between that confirmed security transaction and the execution of the FX.

One of the ways that we deliver the service that can be quite helpful to clients can be where we incorporate the broker matching facility that we offer through outsourcing. So we're able to have that broker matching element drive the timing of the FX transaction and link those together and that's something that clients have been pleased with.

Other operational points of focus with clients are things like cancellation and exception management processes. The service approach that we take with the products is that we leverage our operational professionals from our IOO group, which is within our global funds service team, to help work through exceptions management processes. So when we get cancellation notifications on underlying securities transactions it can bring a lot of comfort to clients to have this operational FX service to help them with cancelled instructions.

P&L: Does best execution come into this equation at all?

JT: We really leave the best execution question to the fund manager. Our goal is to provide them with options around execution so that they can meet their requirements and their definitions of best execution.

Clients say that price is important and so we're trying to provide tools and approaches that support measurability with transaction reporting. Beyond that I think the focus is, since we're talking about an outsourced solution, straight through processing and exceptions management and making sure that the overall operating model is in line with their goals around execution.

P&L: Do you see a growing trend towards investment managers outsourcing more functions that are considered "non-core" to their business?

JT: I think clients approach this on a case-by-case situation. It's a question of where individual clients think they have efficiencies and where they think they have the model that an outsourcer is able to improve their efficiency.

P&L: And how does Northern Trust differentiate itself from other third-party vendors offering outsourced solutions?

JT: The value proposition from Northern trust is that we're delivering an end-to-end solution and so we're able to provide the operational infrastructure, the underwriting services and the credit capacity and then we're able to link that in with our existing FX business. So we see that as a key element of the overall value of the service, we're rolling up all of that functionality within the product.