INNOVATIONS IN FX

Why technology is driving a revolution in currency management

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Preface

Institutional investors are seeking new opportunities to drive growth while increasing operational efficiency. Over the past year, we have seen continued expansion into emerging and private markets, innovation in ETF strategies and an emphasis on cross-border fund distribution.

Foreign exchange (FX) now plays a critical role in supporting these trends. As a result, currency risk management has evolved from a secondary task to a strategic priority. In FX, workflows that rely on manual processes are no longer fit for purpose. Competitive advantage increasingly lies in leveraging technology to turn FX into a scalable engine for growth.

Some institutional investors are more equipped to take advantage of these trends than others. For some, global ambitions can become constrained by legacy operating models and resources. This is especially evident in currency management. The pivot toward global growth markets has fundamentally increased the variety of risks that investors must navigate.

As global currency management becomes more complex, the stakes for getting it right are also rising. In an environment of heightened volatility and shortened settlement cycles, relying on spreadsheets, manual checks, and siloed systems is not just inefficient, it is a significant operational risk.

At State Street, we believe that institutional investors must move away from rigid or manual FX risk management strategies and adopt technology-led models that deliver scale, flexibility, and resilience.

Steve Fenty
Global Head of Currency Management and Agency Derivatives, State Street

Stress test your FX strategy

When volumes are low, volatility is muted, and flows are predictable, FX management can sometimes be viewed as a simple operation.

However, designing a strategy for calm markets or for today's investments alone is a common mistake. We focus on defining resilient operations that can stand up during times of market stress while also enabling future growth.

A case in point: When the US administration imposed new tariffs in April 2025, funds that normally experience a handful of trades each month to maintain hedge accuracy suddenly experienced multiple transactions.

In periods of extreme market stress, manual processes can break down, overloading teams and increasing the risk of errors. A new fund subscription might be missed, leaving a large position unhedged for hours during a major market shift. In a volatile market where rates move quickly, a simple oversight can translate into uncompensated losses in seconds.

This is where modern technology can change the game. Automated, rules-based platforms provide operational resilience at scale. They can handle 400 trades with the same precision as four. Firms with robust, automated systems can focus on capturing opportunities during market shifts, while those reliant on manual processes are forced to retrench.

From rigid rules to dynamic flexibility

In the past, many firms adopted hard-coded rules for currency hedging. For example, a benchmark or user-defined strategy may dictate that a hedge is rolled and rebalanced on a monthly schedule, regardless of whether the underlying currency exposure has drifted far enough to require action. While simpler to manage, uniform hedging rules can often lead to inefficiencies when cascaded across fund ranges or asset classes.

Today's technology allows for a sophisticated alternative that facilitates mass customization or what we call flexibility at scale. Modern platforms allow managers to set parameters across thousands of individual accounts simultaneously. These toggles and switches enable a firm to tailor its hedging strategy to the specific needs of each fund without adding overhead or operational risk.

At State Street, our large clients come with more than 400 accounts. That kind of institutional investor is very unlikely to be running a single strategy. For example, Fund A might be a low-volatility bond fund that needs a tight hedge tolerance to minimize tracking error. While Fund B might be a high-growth equity fund that operates with a wider tolerance to reduce trading costs and avoid over-trading. This type of complexity simply can't be managed offline. In contrast, a fit-for-purpose platform allows investors to manage parameters (like the hedge tolerance) across hundreds of funds, without sacrificing control.

This gets to the heart of the optimal approach: delivering the kind of bespoke, high-touch sophistication that was once reserved for a few flagship funds, and applying it consistently across an entire portfolio or product suite. A technology-led approach enables asset managers to offer more tailored products to their end investors, confident that their currency management platform can support diverse pooled-fund strategies and separately managed mandates efficiently. It allows asset owners the ability to conduct an effective plan-level hedging program, achieving key netting benefits, or manage individual sub-mandates with a tailored strategy.

Unlocking new markets

When it comes to currency management, advanced technology and comprehensive operational capabilities can act as a gateway to growth. Today, growth, portfolio diversification, and fund distribution opportunities increasingly lie in emerging markets, driving currency trading requirements in China (CNY), South Korea (KRW), and India (INR), among others.

Trading in these jurisdictions is not as simple as clicking a button. It often involves complex documentation, strict regulatory reporting requirements, time zone-specific trading, and in certain cases, the use of non-deliverable forwards (NDFs). Without robust technology and local-market expertise, these hurdles can be significant barriers to entry.

By partnering with a specialist like State Street, institutional investors can extend their product suites and portfolios into emerging markets with confidence. Our global platform and experienced teams help customers navigate market complexity, ensuring precise execution, allowing the customer to focus on growth and asset allocation.

Similarly, in the rapidly expanding private markets space, technology is helping solve complex liquidity challenges. Private assets are illiquid, but currency hedging results in periodic liquidity requirements. This can result in a dangerous mismatch. If a hedge moves against the fund, the manager needs instant cash to cover the shortfall. However, with illiquid private assets, a quick sale to release the necessary cash may not always be feasible.

Private market funds don't have the luxury of T+1 liquidity to fund a hedge settlement. However, at State Street, we've implemented scalable strategies to help address this challenge. For example, our platform allows for "staggered forwards," spreading the cash flow impacts over time so hedges can protect the asset without straining the fund's liquidity.

This innovation transforms currency management from a liquidity risk into a manageable, scalable process, enabling more firms to expand private markets investments with confidence.

Future-proofing the FX desk

Artificial intelligence (AI) is widely regarded as the next frontier in many aspects of investment management and asset servicing trades. Currency management is no different. While many AI speculators focus on how AI might generate trading signals or predict future rates, State Street's Currency Management team is prioritizing the deployment of AI as the ultimate guardian of operational data.

Data quality is everything. A single incorrect data point, such as an inaccurate net asset value (NAV), can cascade through the system rapidly. To manage this risk at scale, State Street is developing AI tools that analyze data holistically and build upon existing data-quality logic. If a trade size appears inconsistent with historical patterns, or if a NAV input deviates significantly from the trend, AI can help flag anomalies that might otherwise go unnoticed. This is a clear example of how AI can strengthen data integrity and supercharge operational resilience.

Agility is the new alpha

Ultimately, the shift toward automated, technology-led currency management serves a higher purpose. It is the logical progression of State Street's Partnered Trading model, a strategic solution that allows institutional investors to delegate their trading function across multiple asset classes to a specialist with global scale and operational efficiency. Currency management is a prime example of how the partnered approach delivers value, allowing firms to access world-class FX management and trading capabilities without the fixed cost of a 24-hour specialist desk.

The complexity of the global market isn't going away. As investors continue to seek diversification and yield in new corners of the globe, the operational burden of managing currency risk will only grow. Firms that cling to outdated systems or manual processes will find their growth constrained. Those that embrace technology will gain the agility to enter into new markets and launch innovative products, transforming their currency operations from a risk into a scalable, strategic asset.

Learn more about our Currency Management solutions

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