FXPA Guidance: The Role and Interpretation of FX Spread Grids

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Executive Summary

Spread grids have long been used within the foreign exchange market as a reference tool for understanding expected execution costs across different currency pairs, tenors, notional sizes and market environments. However, differing interpretations of their purpose and application can sometimes create misaligned expectations between liquidity providers and market participants.

This guidance paper seeks to clarify the intended role of FX spread grids and promote a common understanding of how they should be interpreted within modern execution workflows.

Spread grids are designed to provide indicative, contextual information regarding expected trading costs under representative market conditions. They are not firm quotes, contractual commitments, service-level agreements, or substitutes for executable price discovery. Actual execution outcomes will always depend on prevailing market conditions, liquidity availability, volatility, timing, trade characteristics and counterparty-specific factors.

The paper outlines the appropriate use of spread grids from both liquidity-provider and buy-side perspectives, highlights common misconceptions regarding their application, and emphasizes the importance of interpreting spread grids alongside observed execution data and transaction-cost analysis.

As FX markets continue to evolve and data-driven execution assessment becomes increasingly sophisticated, this guidance encourages market participants to view spread grids as one component of a broader execution-quality framework. A shared understanding of their intended purpose can help improve communication, reduce friction in pricing discussions, and support more effective evaluation of trading outcomes across the industry.

What is a Spread Grid?

A spread grid is a two-sided risk-pricing indication provided by a liquidity provider that reflects expected execution spreads under typical liquidity conditions. (**See illustrative example, Appendix 1**).

Spread grids incorporate multiple variables, including:

- Tenor
- Counterparty credit considerations
- Currency pair
- Notional size
- Liquidity conditions
- Market volatility
- Market data environment
- Economic announcement risk
- Time of day/Time zone

Importantly, spread grids represent **indicative pricing conditions at a point in time**, not firm commitments.

What Is the Intended Purpose of a Spread Grid?

Spread grids are designed to provide a **reference framework for the expected cost of trading risk** under broadly representative market conditions.

They help market participants:

- understand approximate liquidity costs
- contextualize execution expectations
- support trading-cost modelling
- inform execution-strategy decisions
- benchmark pricing behavior over time

Spread grids are therefore best understood as **contextual reference tools**, not contractual pricing commitments.

Product Scope

Spread grids are typically relevant across FX instruments such as:

- Spot
- Forwards

- Swaps
- NDFs
- NDSs

They are not intended to be generalized across other asset classes.

Appropriate Use of Spread Grids – Liquidity Provider Perspective

From a liquidity-provider perspective, spread grids:

- provide a reference for pricing under average liquidity conditions
- support risk management and inventory control
- help maintain sustainable pricing frameworks over time
- enable informed client discussions about expected execution conditions

Spread grids are not intended to:

- serve as fixed pricing commitments
- anchor relationship-driven pricing expectations
- justify cross-product relationship subsidies
- constrain pricing during changing liquidity conditions

Appropriate Use of Spread Grids – Buy-Side Perspective

From a buy-side perspective, spread grids can support:

Execution cost awareness

Helping estimate expected trading costs under typical market conditions.

Model calibration

Supporting:

- discretionary execution frameworks
- quantitative trading models
- transaction-cost assumptions

RFQ / RFS evaluation

Providing context for interpreting:

- best-bid / best-offer behavior

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- axes visibility
- liquidity-provider positioning

Relationship reviews

Complementing historical execution-data analysis across counterparties.

Importantly, spread grids should be used **alongside execution data**, not instead of it.

What Spread Grids Are Not Intended For

Spread grids are not designed to:

- impose fixed spread commitments on liquidity providers
- enforce relative pricing alignment between banks
- define mark-ups independently of market conditions
- substitute for RFQ-based price discovery
- replace historical execution-quality analysis

Spread grids describe expected pricing conditions, not guaranteed outcomes.

Execution decisions always involve a trade-off between:

- price certainty
- market timing risk
- liquidity availability

The Importance of Market Context

FX spreads are inherently dynamic and influenced by:

- volatility regimes
- liquidity conditions
- event risk
- execution timing
- market positioning
- notional size

As a result, spread grids should be interpreted as: **indicative snapshots of expected liquidity conditions at a given time.**

They are not static benchmarks.

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A Data-Driven Alternative: Execution-Based Benchmarking

Modern execution environments provide access to large datasets through:

- RFQ histories
- streaming price observations
- transaction-cost analysis (TCA)
- counterparty performance tracking

These datasets allow firms to evaluate liquidity-provider performance using observed execution behavior over time, which may provide a more accurate basis for comparison than static spread-grid references alone.

Opportunity for Industry Clarification

There may be value in developing a shared understanding across market participants regarding:

- the intended role of spread grids
- their limitations
- appropriate interpretation within execution workflows

This could support:

- improved buy-side / sell-side alignment
- more consistent expectations
- reduced friction in pricing discussions
- stronger execution-quality evaluation frameworks

Conclusion

Spread grids remain a useful and widely understood mechanism for providing transparency into expected trading costs and liquidity conditions across FX markets. Their value lies in offering contextual guidance and helping market participants establish informed expectations regarding execution under normal market circumstances.

At the same time, spread grids should be interpreted within the broader context of dynamic market conditions and evolving execution practices. They are not designed to serve as fixed pricing commitments, performance guarantees, or standalone benchmarks for evaluating liquidity providers. Modern execution analysis increasingly relies on observed transaction data, transaction-cost analysis, and historical performance metrics to assess execution quality and counterparty performance.

By recognizing both the benefits and limitations of spread grids, market participants can use them more effectively as part of a comprehensive execution framework. Greater alignment on their intended purpose can contribute to more constructive dialogue between buy-side firms and liquidity providers, more consistent expectations across the market, and stronger overall execution governance.

The FXPA believes that continued industry discussion and education on this topic will help foster a more transparent, informed and efficient marketplace for all participants.

Appendix 1 – FXPA Guidance on Spread Grids

FX Spread Grid – Illustrative Example

Illustrative Example – Not Real Pricing

This table is provided solely for educational purposes to illustrate the concept of an FX spread grid as described in the FXPA Buy Side Working Group discussion note (May 2026).

The spreads, currency pairs, tenors, and notional bands shown here are hypothetical and do not represent indicative or firm pricing from any liquidity provider. Actual spreads are dynamic and will differ – often materially – from any static reference. This example should not be used for execution decisions, transaction-cost modelling, or counterparty benchmarking.

All figures are in pips unless otherwise stated. 1 pip = 0.0001 for most major pairs; 0.01 for JPY pairs.

What This Example Shows

A spread grid is a two-sided, indicative pricing schedule provided by a liquidity provider. It conveys the expected bid/offer spread a counterparty might observe under typical market conditions – expressed here in pips – across a range of currency pairs, tenors, and notional sizes.

The table below is structured as a real-world grid might appear, with spreads varying across all three dimensions. Reading across the rows illustrates how a single currency pair's spreads scale with size and tenor; reading down the table shows how different pairs compare.

Illustrative Spread Grid

All spreads are expressed in pips. Conditions noted reflect the market environment assumed for the grid.

Currency Pair	Tenor	Notional Band	Indicative Spread (pips)	Conditions / Notes
EUR/USD	Spot	< USD 10m	**0.4 – 0.6**	Typical liquid-session conditions
EUR/USD	Spot	USD 10–50m	**0.6 – 1.0**	Spreads widen with size
EUR/USD	Spot	> USD 50m	**1.0 – 2.0+**	Subject to liquidity & market impact
EUR/USD	1M Fwd	< USD 10m	**0.8 – 1.2**	Forward point uncertainty included
EUR/USD	1M Fwd	> USD 10m	**1.2 – 2.5**	Liquidity thinner than spot
GBP/USD	Spot	< USD 10m	**0.6 – 0.9**	Wider than EUR/USD; vol-sensitive
GBP/USD	Spot	USD 10–50m	**0.9 – 1.8**	Can widen significantly on events
USD/JPY	Spot	< USD 10m	**0.3 – 0.5**	Highly liquid in Tokyo/NY hours
USD/JPY	Spot	> USD 50m	**1.0 – 3.0+**	Intervention risk priced in at size
USD/BRL	NDF 1M	< USD 5m	**15 – 25**	EM; fixings & custody costs reflected
USD/BRL	NDF 1M	> USD 5m	**25 – 50+**	Liquidity limited; LP positioning key

† Pips: 1 pip = 0.0001 for most G10 pairs; 0.01 for USD/JPY. NDF spreads are quoted in pips on the NDF rate.

Key Variables That Drive Spread Grid Levels

The spreads in any grid are shaped by the interplay of several factors. Understanding these helps buy-side practitioners interpret grids as contextual reference points rather than fixed benchmarks.

Variable	Explanation
Currency Pair	Different pairs have structurally different liquidity profiles. Major pairs (EUR/USD, USD/JPY) generally trade at tighter spreads than EM pairs (USD/BRL, USD/ZAR).

Variable	Explanation
Tenor	Spot spreads are typically tightest. Forwards, swaps and NDFs carry additional uncertainty from forward-point pricing, fixing risk, and liquidity depth.
Notional Size	Spreads widen non-linearly as notional increases. Small clips may execute near or within the indicated range; large orders may see meaningful deterioration.
Liquidity Conditions	Spreads represent typical active-session conditions. Spreads during off-peak hours, month-end, or low-liquidity windows will likely be materially wider.
Market Volatility	Elevated volatility (e.g. post-data release, geopolitical events) is not captured in indicative grids. Realised spreads can be multiples of the grid in such environments.
Credit & Counterparty	Grids may be adjusted to reflect counterparty credit quality, documentation status, or relationship-specific factors not visible in this illustration.

How to Read This Grid in Practice

Suppose a buy-side analyst is preparing a transaction-cost assumption for a EUR/USD forward trade of USD 15 million with a 1-month settlement. Looking at the grid:

Step 1	Locate the relevant row: EUR/USD | 1M Forward | USD 10–50m → indicative spread of 1.2 – 2.5 pips.
Step 2	Contextualise the conditions: Is today's session liquid? Are there upcoming ECB announcements or data releases that might widen spreads?
Step 3	Apply the range: Use the tighter end (1.2 pips) for a base-case TCA model; use the wider end (2.5 pips) for stress-testing execution cost.
Step 4	Cross-reference with execution data: Compare the grid-implied cost to realised spread data from recent comparable trades across your LP panel.
Step 5	Do not anchor: If the LP quotes wider than 2.5 pips on the day, do not use the grid to challenge the quote without understanding the prevailing market context.

What This Grid Is Not

This illustrative grid is intentionally simple. A real spread grid is not:

- A firm commitment – liquidity providers are not bound to quote within the grid range on any individual trade.
- A contractual benchmark – grids cannot be used to dispute a fill or claim a pricing breach.
- A substitute for price discovery – RFQ and RFS processes remain the primary mechanism for obtaining executable prices.
- A cross-LP comparator – grids reflect each LP's own risk appetite, infrastructure, and market positioning.
- A static document – a grid issued this quarter may not reflect current liquidity conditions even a few weeks later.
