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IOSCO Publishes Consultation Report on Pre-Hedging

Report assesses potential conduct and market integrity issues associated with the practice of pre-hedging

IOSCO has today published a [Consultation Report](#) inviting feedback on its recommendations relating to pre-hedging practices.

Pre-hedging is used by dealers to manage risks associated with anticipated wholesale principal orders in relation to primary market offerings and secondary market transactions. This can occur across various markets, including securities and derivatives, on trading venues and over the counter (OTC) markets. It encompasses a range of asset classes such as equities, fixed income, currencies and commodities.

The Consultation Report offers a definition of pre-hedging and proposes a set of recommendations to guide regulators in determining acceptable pre-hedging practices and managing the associated conduct risks effectively.

There can be benefits from the use of pre-hedging for dealers and clients to price and execute certain transactions. However, various market participants, standard setters and national and supra-national authorities have raised potential concerns about pre-hedging practices.

Jean-Paul Servais, Chair of IOSCO and Chairman of the Belgium Financial Services & Markets Authority (FSMA) emphasized the importance of this initiative: *“Last year, IOSCO’s Board approved a mandate to assess vulnerabilities in pre-hedging practices. This Consultation Report reflects our commitment to understanding existing regulatory frameworks and identifying gaps in international standards.”*

Existing industry codes and standards relating to pre-hedging mostly target OTC markets and/or only specific asset classes, or do not cover the range of potential issues related to pre-hedging.

James Andronis, Chair of IOSCO’s Committee on Regulation of Market Intermediaries (C3) said: *“In preparing this Consultation Report, we have taken the time to carefully consider our members’ existing regulatory approaches and existing industry codes. We believe the proposed Recommendations will assist to promote greater consistency and good conduct in pre-hedging in the interest of market integrity and market participants.”*

IOSCO seeks feedback on its proposed definition and recommendations, which should be applicable in most circumstances, by **February 21, 2025**.

Additional feedback is sought on whether the proposed recommendations need to be adapted to specific circumstances, e.g. in relation to potential differences of pre-hedging practices and internal non-electronic transactions and in the context of electronic trading, including competitive requests for quotes (RFQs).

Notes to Editors

1. IOSCO is the leading international policy forum for securities regulators and the global standard setter for financial markets regulation. It develops, implements and promotes adherence to internationally recognized standards for financial markets regulation and works closely with other international organizations on the global regulatory reform agenda.
2. The organization's membership regulates more than 95% of the world's securities markets in some 130 jurisdictions. By providing high quality technical

assistance, education and training, IOSCO supports its members to come together to achieve the following three objectives.

- Enhance investor protection;
- Ensure markets are fair and efficient;
- Promote financial stability by reducing systemic risk.

3. The IOSCO Board is the governing and standard-setting body of IOSCO and is made up of 35 securities regulators. Mr. Jean-Paul Servais, the Chair of Belgium's Financial Services and Markets Authority (FSMA) is the Chair of the IOSCO Board. Shigeru Ariizumi, Vice Minister for International Affairs, Financial Services Agency, Japan, Dr Mohamed Farid Saleh, Executive Chairman of the Financial Regulatory Authority, Egypt, and Rostin Behnam, Chair of the U.S. Commodity Futures Trading Commission, are the Vice-Chairs of IOSCO Board. IOSCO is the leading international policy forum for securities regulators and the global standard setter for financial markets regulation. The organization's membership regulates more than 95% of the world's securities markets in some 130 jurisdictions, and it continues to expand.

4. The Growth and Emerging Markets (GEM) Committee is the largest Committee within IOSCO, representing more than 75% of the IOSCO membership, including ten of the G20 members. Dr Mohamed Farid Saleh, Executive Chairman of the Financial Regulatory Authority, Egypt, is Chair of the GEM Committee. The Committee unites members from 4 growth and emerging markets and communicates their views at other global regulatory discussions.

5. IOSCO counts four regional committees: (1) Africa / Middle-East (AMERC) chaired by Ms. Nezha Hayat Chairperson and CEO of the Moroccan Autorité Marocaine du Marché des Capitaux, (2) Asia & Pacific (APRC) chaired by Ms. Julia Leung Chief Executive Officer of the Hong-Kong Securities and Futures Commission, (3) European Regional Committee (ERC) chaired by Mr. Jean-Paul Servais Chairman of Belgium's Financial Services and Markets Authority, and (4) Inter-American Regional Committee (IARC) chaired by Ms. Lucia Buenrostro Vice President of Regulatory Policy at the Mexican Comisión Nacional Bancaria y de Valores.

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