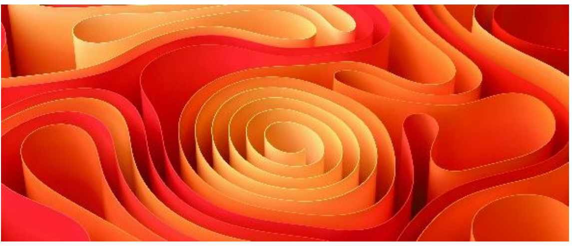
Pills

Regulatory/Supervisory Pills | N.182 December 2025



TOPICS:

Market risk

SOURCE:

International Organization of Securities Commissions

IOSCO: Final Report on Pre-hedging

- IOSCO has released its **final report on pre-hedging**, offering non-binding guidance for regulators and wholesale market participants. Pre-hedging is defined as principal trading by dealers based on information about anticipated client transactions, undertaken to manage risk **before the client agrees to the trade**, with the **intention of benefiting the client**.
- The report highlights both the benefits and risks of pre-hedging. **Benefits** include price discovery, reduced market impact, improved liquidity, and enabling execution in less liquid markets. However, **risks** include potential misuse of client information, lack of transparency, market impact, and client disadvantage - particularly in competitive request-for-quote (RFQ) environments.
- To address these issues, IOSCO has proposed **a consistent definition** and a set of **11 recommendations** (grouped under A and B) to guide jurisdictions considering new or amended rules. Key **"A" recommendations** include that pre-hedging should be conducted solely for risk management, intended to benefit the client, executed fairly, and designed to minimize market impact. **"B" recommendations** focus on operational controls: policy documentation, disclosure to clients, obtaining and managing client consent, supervision, information controls, and recordkeeping.
- IOSCO emphasizes that these recommendations **do not override existing national laws**, including market abuse frameworks, and are intended to be **complementary**. They align with and build upon existing industry codes such as the FX Global Code, the Global Precious Metals Code, and the FMSB's Standard on Large Trades.