FIA EPTA
EUROPEAN PRINCIPAL TRADERS ASSOCIATION

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FIA EPTA response to the IOSCO Consultation Report on Pre-hedging

The European Principal Traders Association (FIA EPTA) represents Europe's leading Principal Trading Firms. Our members are independent market makers and providers of liquidity and risk-transfer for markets and end-investors across Europe. FIA EPTA works constructively with policy-makers, regulators and other market stakeholders to ensure efficient, resilient and trusted financial markets in Europe.

FIA EPTA welcomes the opportunity to respond to IOSCO's Consultation Report on Pre-hedging. Please note that this submission represents the views of FIA EPTA members and does not necessarily represent the views of FIA as a whole.

Genuine Risk Management Rationale

FIA EPTA are broadly supportive of the recommendations made by IOSCO in the Consultation Report. In particular, our members agree with IOSCO that the presence of a genuine risk management rationale is a key factor to consider in determining whether pre-hedging is acceptable. We also agree with the factors for dealers to consider in determining whether there is a genuine risk management purpose. In particular, we believe that the question of whether a dealer has a legitimate expectation of a client transaction is fundamental to determining whether there is a genuine risk management purpose. In a competitive RFQ market, we believe it is either impossible or highly unlikely for a dealer to be sufficiently certain that they will win the trade. The presumption in such competitive RFQ markets should be, therefore, that such a genuine risk management rationale is not present. This is because when a number of dealers are in competition with each other, the actions of the other dealers are unknown. There is no certainty as to the pricing offered by competitors and therefore no information on which to base a realistic assumption or expectation that a given dealer's quote will result in a transaction with the counterparty. If there is no legitimate expectation of a transaction, there is no anticipated risk and therefore no justification for pre-hedging.

Accordingly, we recommend that IOSCO should make clear in its guidance that pre-hedging is not acceptable where a dealer does not have a genuine risk management rationale, regardless of whether the other factors are satisfied. One means of clarifying this could be by revising **Figure 1,** set out on page 24 of the Consultation Report, to make clear that the presence of a genuine risk management rationale is a necessary pre-condition to consideration of the other factors. We would also welcome a clear statement from IOSCO to this effect in the final principles.

This principle is technology and asset class/financial instrument agnostic. In our view, the determinative factor is the market structure in which the activity takes place. Where dealers are openly in competition with each other, pre-hedging is clearly unnecessary as there is no foreseeable genuine risk management rationale.

Disclosure and consent

FIA EPTA members believe that trade-by-trade disclosure and consent from the counterparty are fundamental to whether pre-hedging is considered acceptable.

In the event that a dealer has a legitimate risk management rationale for undertaking pre-hedging in a competitive RFQ scenario, it is of fundamental importance that a dealer provide disclosure on a trade-by-trade basis to the counterparty, who must consent that pre-hedging is acceptable. The following considerations are critical in this regard:

- The counterparty should be explicitly informed for each individual RFQ that the liquidity provider may pre-hedge and why;
- The counterparty should be able to materially assess the implications and provide consent for each individual RFQ whether or not they are willing to allow the liquidity provider to pre-hedge. In this regard, disclosure to the legal/compliance department is not appropriate, with disclosure to e.g. the relevant trader being preferable;
- In no circumstances for an individual RFQ should the counterparty not be aware that pre-hedging might take place; and
- Generic disclosures or general terms of business are not fit for purpose if a dealer wants to pre-hedge during the RFQ window and should never be considered sufficient.

Whilst FIA EPTA members believe that any guidance on pre-hedging should be technology agnostic, we acknowledge it may be impracticable to provide trade-by-trade disclosures where automated protocols are used. This is a secondary reason (in addition to the absence of a clear risk management rationale, which is the fundamental consideration) why FIA EPTA is of the view that pre-hedging within such competitive, automated, electronic RFQ models is inappropriate.

Should you wish to discuss our submission or if we can be of further assistance, please don't hesitate to contact us.

1. Do you agree that this is the correct definition of pre-hedging? If not, how would you define pre-hedging?

FIA EPTA members agree with the three elements of the proposed definition put forward by IOSCO. In particular, that pre-hedging should only be considered to occur prior to the irrevocable acceptance of a quote. To undertake risk management after agreeing the fundamental terms of the transaction or irrevocable acceptance of a quote should be considered hedging, not pre-hedging.

However, we recommend adjusting the opening phrase of the definition for clarity. It is our understanding that IOSCO intends for the definition of pre-hedging to operate alongside and consistently with the market abuse and market integrity regulations already in place in member states.

Accordingly, we suggest the following would be clearer (wording in italics added):

> "trading undertaken by a dealer~~, in compliance with applicable laws and rules, including those governing frontrunning, trading on material non-public information/insider dealing, and/or manipulative trading:~~ where: (i) the dealer is dealing on its own account in a principal capacity; (ii) the trades are executed after the receipt of information about an anticipated client transaction and before the client (or an intermediary on the client's behalf) has agreed on the terms of the transaction and/or irrevocably accepted an executable quote; and (iii) the trades are executed to manage the risk related to the anticipated client transaction. *Notwithstanding the foregoing, nothing in this definition shall prejudice applicable laws and rules, including those governing frontrunning, trading on material non-public information/insider dealing, and/or manipulative trading*."

We note IOSCO's comment in footnote 7 that the client of a dealer is considered a counterparty in certain jurisdictions. We agree that it is important not to distinguish between "client" and "counterparty" for the purpose of this consultation, as well as for the final IOSCO principles that will come out of it. This comprehensive approach will be beneficial both from a market integrity and a level playing field perspective, through the inclusion of all possible trade scenarios where a firm dealing on own account interacts with third party trading interests through the reception of an RFQ, irrespective of whether the parties initiating the RFQ are being categorised as "clients" or "counterparties". We also note that IOSCO refers to "dealer" throughout the Consultation Report. We have also adopted this language but with the intention that it be read synonymously with "liquidity provider" and not given any specific technical meaning as it does under some regulation.

2. **Do you agree with the proposed types of genuine risk management? Are there other factors not mentioned in this report that should be considered for determining genuine risk management?**

FIA EPTA members agree with three types of genuine risk management proposed by IOSCO. We also agree with the factors for dealers to consider in determining whether there is a genuine risk management purpose. In particular, we believe consideration of whether a dealer has a legitimate expectation of a client transaction is fundamental to determining whether there is a genuine risk management purpose. In a competitive RFQ market, we believe it highly unlikely that such a legitimate expectation exists.

This is because when a number of dealers are in competition with each other, the actions of the other dealers are unknown. There is very little certainty as to the pricing offered by competitors and therefore very limited information on which to base a realistic assumption or expectation that a given dealer's quote will result in a transaction with the counterparty. If there is no legitimate expectation of a transaction, there is no anticipated risk and therefore no justification for pre-hedging.

We would, therefore, recommend revising **Figure 1,** set out on page 24 of the Consultation Report, by adding a decision point prior to "consider if pre-hedging is acceptable" querying if there is a "genuine risk management rationale to pre-hedge". If the response is "no", the outcome should be "Stop".

Regarding the assessment by the dealer about the legitimate expectation, we agree with IOSCO that this should be undertaken on a trade-by-trade basis. We also agree with IOSCO that the range of factors taken into account for the assessment should include, but not be limited to, whether dealers know if they are competing with other dealers, the relationship with the counterparty, the past dealing history of the client, and the expected competitiveness of the executable quote offered. However, it is our opinion that 'whether dealers know if they are competing with other dealers' is the priority factor and should be assessed first as it is fundamental to the question of whether there is a legitimate expectation.

However, we note that in a competitive RFQ scenario (which could be initiated via electronic RFQ systems or, for instance, via the call-around market so are initiative method agnostic) a dealer's relationship with the counterparty is not going to be determinative of whether a quote results in a transaction with the counterparty. Nor should it be if the market is functioning efficiently. Where there is a level playing field and all dealers are quoting at their own best all-in price, the counterparty logically should transact with the dealer offering the best price overall.

Furthermore, there is little to no visibility of what other dealers are quoting and so no ability to assess competitiveness of a quote. There is also no means of a dealer assessing whether pre-hedging is in the interests of the counterparty in this situation as the dealer is unaware of the quoting levels of the other dealers that the RFQ has been opened to. There is no information to enable the pre-hedging dealer to assess whether the "better" price they are able to offer when pre-hedging (compared to when they do not pre-hedge) is the best price any dealer in a competitive scenario could offer. Instead, the pre-hedging activity is more likely to move the market against all dealers and ultimately against the counterparty, to no net benefit.

In the case of bilateral OTC transactions, where the dealer is not in competition with others, the dealer should continue the assessment looking at the other factors.

3. **Do you agree that pre-hedging of wholesale transactions should be acceptable where there is sufficient liquidity in the underlying instrument/s to hedge after the trade is agreed to? Please elaborate.**

FIA EPTA members consider that liquidity of the financial instrument should not be the main consideration but rather the material market structure context in which the pre-hedging would occur.

In any event, it is difficult to see a rationale for pre-hedging in these circumstances in the context of the three types of genuine risk management IOSCO identifies in the Consultation Report.

4. **Can there be a genuine need to pre-hedge small trade sizes in liquid markets for risk management purposes?**

It is difficult to see how this is justified and in particular how this may be necessary including in the context of the three types of risk management mentioned in the Consultation Report.

5. Where a dealer holds inventory should they first consider using such inventory to offset any risk connected with an anticipated client transaction or should they be allowed to pre-hedge?

If a dealer has a genuine risk management rationale for pre-hedging, then regulation should not prescribe how the dealer should go about managing that risk.

6. What factors should dealers consider in determining the size of pre-hedging an anticipated client transaction (e.g., size, instrument type, quotation environment)? Should there be an upper limit for the pre-hedging amount? If so, what type of limits (e.g., percentage based, Greek based) are appropriate for consideration? Please elaborate your response in relation to bilateral OTC transactions and for competitive RFQ systems including those in electronic platforms.

Whilst we generally believe that dealers should have regard to minimising market impact when engaging in pre-hedging to ensure that market integrity standards are observed and the pre-hedging activity is not to the detriment of the counterparty, we do not consider it appropriate or necessary to identify particular limits.

However, in competitive RFQ markets we do not consider any pre-hedging activity to be appropriate as there is no foreseeable legitimate risk management rationale due to the low likelihood of a given dealer being awarded the transaction.

Furthermore, in competitive RFQ markets there is a greater risk that pre-hedging will disadvantage counterparties than in bilateral OTC transactions. For example:

- Pre-hedging undertaken by one dealer in a competitive RFQ market can move the market against the others meaning the dealer offering the lowest all-in trading cost may not win the trade;
- Where multiple dealers pre-hedge, the cumulative market impact faced by the counterparty may be outsized versus their demand for liquidity, deterring the counterparty from trading and undermining confidence in the market;
- When multiple dealers are pre-hedging in competition with each other, no single dealer may be able to ascertain whether pre-hedging benefits the client or is done in a way that minimises market impact (as recommended by IOSCO) as this could also depend on the actions of other dealers, which are likely unknown. This vitiates the value of disclosure and consent from the counterparty as they are not able to ascertain what they are consenting to or the overall consequences of pre-hedging.

In contrast, in a bilateral OTC market a dealer is more likely to be able to assess the impact of their pre-hedging activity in isolation and manage it accordingly.

7. Do you agree with the concept of client benefit described above?

We believe the focus should be on requiring dealers to ensure pre-hedging activity does not act to the client's detriment, for example by resulting in price slippage due to multiple dealers engaging in pre-hedging prior to firm acceptance of a quote. As a necessary precursor to engaging in

pre-hedging, the dealer should have a genuine risk management rationale based on a legitimate expectation that they will enter into a transaction with the counterparty.

8. Do you believe that financial benefits derived from pre-hedging by the dealer should be shared with the client? What proportion of the benefit to be shared with the client would be fair? Please elaborate.

As per our response to question 7 above, FIA EPTA members believe the focus should be on ensuring a dealer is only undertaking pre-hedging where necessary for its own risk management (i.e. they have a genuine risk management rationale) and that it does not detrimentally affect the client. We believe this approach is consistent with achieving the market integrity and conflicts of interest management objectives of effective guidance on pre-hedging.

9. Should pre-hedging always be intended to achieve a positive benefit for the client or is it enough that a dealer pre-hedges for its own risk management and does not detrimentally affect the client?

As per our response to question 7, FIA EPTA members believe the focus should be on ensuring a dealer is only undertaking pre-hedging where necessary for its own risk management (i.e. they have a genuine risk management rationale) and that it does not detrimentally affect the client. We believe this approach is consistent with achieving the market integrity and conflicts of interest management objectives of effective guidance on pre-hedging.

FIA EPTA members note that a concern for investors is that there may be information leakage during the RFQ process, i.e., the concern that market participants may take advantage of the investor's price requests in order to make trading profits and, in the process, move prices against the investor. For example, were an investor to ask for a price from a number of market makers (either directly or indirectly through an agency or inter dealer broker) and each market maker concluded on receipt of the price request that it was likely that they were going to win the trade and therefore pre-hedged, this could increase price slippage costs for investors and consequently undermine confidence in the market.

Where only one market maker were to do this and others not, it would become a self-fulfilling prophecy i.e., the market maker who had pre-hedged would be moving the price of the hedge against the other market makers, meaning that they would be forced to quote a worse price to the investor thereby ensuring that the party who pre-hedged would win the trade. Such practices may create an un-level playing field and distort competition among market makers whilst undermining confidence in the market to reflect the most fair and accurate pricing.

In contrast, where a dealer has a bilateral conversation with a client in relation to an OTC transaction, typically it is implicit in that process that pre-hedging is being undertaken for the counterparty's benefit. For example, because pre-hedging may enable the dealer to offer a lower price or manage market impact resulting in a lower all-in cost for the counterparty. However, as outlined above, in a competitive RFQ scenario, pre-hedging is more likely to result in price slippage increasing the all-in cost for investors. Accordingly, client benefit in a competitive RFQ market is best served by ensuring there is a level playing field between dealers whereby none are engaging in pre-hedging. The lowest all-in cost (price plus market impact) is more likely to be achieved through the competitive bidding process undertaken in the absence of pre-hedging.

In relation to the client considerations suggested by IOSCO at p42 of the Consultation Report, FIA EPTA members believe that the onus to ensure pre-hedging is carried out in a manner that does not result in market distortion, counterparty detriment or pose a conflict of interest should rest with the dealer and not with the counterparty seeking liquidity.

Liquidity seeking counterparties should be able to operate in the market with the expectation that it is a level playing field supporting efficient outcomes and that their expectations of how a given market structure will operate are not subject to distorting behaviours. In a competitive market structure, a liquidity seeking counterparty should expect that the prices on offer accurately reflect the full cost of risk taken on by a dealer, enabling the counterparty to select the best price available to them on this basis. Placing an onus on counterparties to adjust their behaviour to account for the impact of potential pre-hedging activity by dealers creates market distortions and undermines confidence in both market participants and the ability of the market to support efficient price formation. Furthermore, if there is an expectation on counterparties to police their own behaviour to limit dealers acting to their detriment, this may have anti-competitive consequences. If counterparties are selective in which dealers they go to with RFQs, this limits competition which likely also has a negative impact on price formation. In contrast, if counterparties are confident that a level playing field enables them to act freely and openly, this is more likely to support competition and participation in the competitive pricing process by a broader range of dealers.

Therefore, we do not consider it appropriate that counterparties are advised to, for example, limit the number of dealers to whom they send RFQs in order to limit information leakage. We are encouraged that IOSCO does not go so far as to suggest this, but we are aware that it is currently a common practice in European competitive RFQ markets.

We do however support the other recommendations made by IOSCO to enforce accountability and transparency on dealers pre-hedging practices, including implementing internal controls to monitor market pricing, execution outcome, market activity and assess the quality of execution where pre-hedging has been used by a dealer and informing the dealer where they do not want pre-hedging to be used.

10. **Should dealers be able to demonstrate the actions they took to minimise the market impact of their pre-hedging trading? In the event of not entering the anticipated client transaction, are there any considerations for the dealer to minimise market impact and maintain market integrity prior to unwinding any pre-hedging position?**

In a bilateral OTC market, we can see benefit in requiring that a dealer be able to demonstrate what action they took to minimise market impact of pre-hedging. However, in relation to competitive RFQ markets, there is no genuine risk management rationale to justify pre-hedging at all and so any degree of market impact results in unfair outcomes for counterparties.

Although a dealer may consider that counterparties are dealt with fairly and receive an appropriate price given their pre-hedging activity, if the dealer was in competition with others, the counterparty may not have received the best possible price. This is because the dealer (Dealer A) will be unaware of the price another dealer (Dealer B) could have quoted/was quoting prior to the pre-hedging activity. In the possible scenario where a dealer has pre-hedged and not won the

trade, this will have resulted in price impact for all parties involved for no benefit, particularly for the counterparty who ends up paying a higher price than if no pre-hedging activity had occurred.

In a competitive RFQ scenario, provided there is a level playing field, competition itself will result in the best pricing outcome for the counterparty. Pre-hedging in this scenario, even if carried on by only one dealer, has a distorting effect because overall pricing is reflecting something other than the true cost to the dealer of providing risk. In a competitive RFQ market, pre-hedging creates an unlevel playing field resulting in pricing distortion to the disadvantage of the counterparty.

Trade by trade disclosure is also central to fair treatment of counterparties. Sufficient information should be provided by the dealer to enable the counterparty to materially assess the implications of pre-hedging activity on a trade-by-trade basis in order to provide informed consent or object to the dealer pre-hedging.

11. Do you agree with this recommendation on appropriate policies and procedures for pre-hedging? If not, please elaborate.

IOSCO's recommendations appear reasonable in relation to pre-hedging in a bilateral OTC scenario.

12. What type of disclosure would be most effective for clients? Why?

In the event that a dealer has a legitimate risk management rationale for undertaking pre-hedging in a competitive RFQ scenario, FIA EPTA members consider it to be of fundamental importance that a dealer provide disclosure on a trade-by-trade basis to the counterparty, who must consent that pre-hedging is acceptable. The following considerations are critical in this regard:

- The trader acting for the counterparty should be explicitly informed for each individual RFQ that the liquidity provider may pre-hedge and why;
- The trader acting for the requestor should be enabled to materially assess the implications and provide consent for each individual RFQ whether or not they are willing to allow the liquidity provider to pre-hedge;
- In no circumstance for an individual RFQ can it be the case that the trader acting for the requesting counterparty is not aware that pre-hedging might take place;
- Generic disclosures or general terms of business are not fit for purpose if a dealer wants to pre-hedge during the RFQ window and should never be considered sufficient;
- By derogation from the above, where a counterparty/client foresees to be undertaking multiple linked RFQs on the same trading day, the disclosure and consent could need to be granted only once for that day only.

13. Should upfront disclosure be applicable irrespective of factors such as the size and complexity of the transaction and/or other factors such as level of client sophistication? Are there any key challenges for dealers to providing pre-trade upfront disclosures?

Yes. Pre-trade disclosure should be provided on a trade-by-trade basis to ensure counterparties are able to make an informed decision as to whether to consent to pre-hedging.

14. What should be the minimum content of any upfront disclosure? Please differentiate between bilateral OTC transactions, competitive RFQs and pre-hedging in the context of electronic transactions.

The trader acting for the counterparty should be explicitly informed for each individual RFQ that the liquidity provider may pre-hedge and why.

The dealer should provide sufficient information to enable the trader acting for the requestor/counterparty to materially assess the implications and to indicate for each individual RFQ whether or not they are willing to allow the liquidity provider to pre-hedge.

Generic disclosures or general terms of business are not fit for purpose if a dealer wants to pre-hedge during the RFQ window and should never be considered sufficient. They do not provide enough information to equip a trader to understand the impact of pre-hedging in a given scenario and therefore the trader is unable to provide informed consent.

FIA EPTA members believe regulatory guidance, including the principles developed by IOSCO, should be technology neutral. The key distinction regarding pre-hedging in our view comes down to the market structure involved. In particular, whether dealers are in competition or not and therefore whether there is a genuine risk management rationale for engaging in pre-hedging.

Given how competitive, automated RFQ market models in electronic trading venues operate, trade-by-trade disclosures cannot be provided in a practicable manner in such an environment. This is a secondary reason (in addition to the absence of a clear risk management rationale, which is the fundamental consideration) why FIA EPTA is of the view that pre-hedging within such competitive, automated, electronic RFQ models is inappropriate. The same considerations apply in respect of the options call-around market, but nevertheless this practical issue is superseded by the primary concern that dealers are unlikely to have a genuine risk management rationale for engaging in pre-hedging in this market structure as they are in competition with others and have very little legitimate expectation of being awarded the trade.

15. Should trade-by-trade disclosure be proportional to factors such as the size and complexity of the transaction and/or other factors such as level of client sophistication? What should be the minimum content of trade-bytrade disclosure? Please differentiate between bilateral OTC transactions, competitive RFQs and pre-hedging in the context of electronic transactions, in particular in electronic trading platforms.

Trade-by-trade disclosures should provide the counterparty with sufficient information to enable them to understand how the dealer with pre-hedge and how this activity will impact their trade. Logic suggests, the more complex the transaction and hedging strategy, the more detailed the disclosure may need to be.

FIA EPTA members believe there is unlikely to be a genuine risk management rationale for pre-hedging in competitive RFQ markets which therefore raises the question of whether it should be considered legitimate. The impracticality of providing trade-by-trade disclosure in these markets is a secondary consideration to whether pre-hedging is inappropriate in these circumstances.

16. Are there any challenges or barriers to trade-by-trade disclosure in the context of competitive RFQs and in the context of electronic trading? Please elaborate.

Given how competitive, automated RFQ market models in electronic trading venues operate, trade-by-trade disclosures cannot be provided in a practicable manner in such an environment. This is a secondary reason (in addition to the absence of a clear risk management rationale, which is the fundamental consideration) why FIA EPTA is of the view that pre-hedging within such competitive, automated, electronic RFQ models is inappropriate. In any event, we believe that any guidance issued by IOSCO should be technology agnostic.

17. Would clients benefit from post-trade disclosures about the dealer's pre-hedging practices in a transaction?

Yes, we see value in providing this disclosure for bilateral OTC transactions.

In relation to competitive RFQ markets we believe pre-hedging is unlikely to be legitimate as there is a very low likelihood of a genuine risk management rationale being present. This would make the question of post-trade disclosure moot.

18. Should the nature and form of post-trade disclosure be agreed between the client and dealer at the start of their engagement on an anticipated transaction and be proportional to factors such as the size and complexity of the transaction and/or other factors such as level of client sophistication?

No comment

19. Are there any barriers to post-trade disclosure? Please differentiate between bilateral OTC transactions, competitive RFQs and pre-hedging in the context of electronic transactions, in particular in electronic trading platforms.

In a competitive RFQ scenario it is very challenging for a dealer to isolate the impact of their pre-hedging activity on the outcome for the counterparty. In many cases it's likely pre-hedging will have moved the price away from the optimal counterparty outcome had no pre-hedging occurred. However, as the quoting behaviour of other dealers is not completely transparent and may itself have been influenced by the other dealer's pre-hedging activity, this further obfuscates the picture of how the market would have behaved in the absence of pre-hedging and therefore the ability to isolate the impact of pre-hedging in order to demonstrate benefit and/or impact.

20. Do you agree that clients should have the ability to explicitly inform the dealer that they do not want pre-hedging to take place in relation to a specific transaction (or revoke explicit or implicit consent to pre-hedging)? Are there any circumstances under which the dealer would not be obliged to follow the new client instructions? If not, what are the potential issues or risks to clients of this approach? Please elaborate your response to the question for bilateral OTC transactions, for competitive RFQ systems and for those in electronic trading platforms.

Yes. Dealers should provide trade-by-trade disclosure to enable the counterparty to understand the impact of pre-hedging on their transaction and give them the opportunity to object. It should

not be assumed that counterparties have given implicit consent to pre-hedging based on a generalized relationship level disclosure, such as one included in a Terms of Business or other contractual documentation governing the relationship between dealer and counterparty.

Given the impact of pre-hedging in competitive RFQ markets on fairness and market efficiency, counterparties should have the ability to inform a dealer that they do not consent to pre-hedging at a general level and in all cases this should be adhered to by the dealer without exception.

21. **Should dealers be required to obtain explicit prior consent to pre-hedge for certain types of transactions? Please elaborate your response to the question for bilateral OTC transactions, for competitive RFQ systems and for those in electronic trading platforms.**

Explicit prior consent should be provided in all cases.

22. **Should stand-alone post-trade reviews be conducted for pre-hedging? How would this improve supervision of pre-hedging activities? Could this review be also used to respond to client requests for post trade review of execution practices?**

Yes, we see value in conducting these reviews pre-hedging in relation to bilateral OTC transactions.

23. **Do you think it is reasonable (in terms of costs and benefits) to require dealers to have internal controls to ensure differentiation between pre-hedging and inventory management?**

We consider it necessary to have these controls in place to support the disclosure and post-trade review proposals put forward by IOSCO.

24. **What level of detail would be sufficient to have adequate records of pre-hedging activity to facilitate supervisory oversight, monitoring and surveillance?**

Current procedures adhered to by regulated European firms already generally meet reasonable standards to facilitate supervisory oversight, monitoring and surveillance.

25. **Do you believe that the industry codes already meet some or all the recommendations? If so, please explain in detail how.**

We do not believe any industry codes presently have sufficiently clear guidance on what should be considered as a genuine risk management rationale or how this concept should operate in the context of competitive RFQ scenarios. Therefore, to the extent that IOSCO members are minded to elaborate on these concepts, they should not consider themselves to be negating, contradicting or cutting across any existing industry standards that may otherwise offer constructive frameworks for approaching pre-hedging in a bilateral OTC context.