Summary Remarks

i. Representing Trading Platforms, Brokers and Arrangers, rather than principal traders, our comments focus on the impact both on platform rules and disclosures and also on market liquidity and orderly trading. We therefore restrict our responses to those issues concerning market structure rather than to dealer risk and conduct.
ii. In this regard we remain concerned that IOSCO may confer a policing and prescriptive role to trading platforms who do not have full sight, let alone any controls over any transaction chain. Operators of trading platforms should not be required to provide the means of a disclosure vehicle. This includes whether a client may be acting in a principle versus an agency capacity.
iii. We note the existence of certain guidelines and standards which are referenced by IOSCO which are all helpful; together with the intention here to create a high-level framework across the wider scope of financial instruments and products. In this regard, we remain concerned that any prescriptive recommendations would be unsuitable across many applications and therefore urge that the approach remains a principle-based one.
iv. Concerning competitive RFQs, we would like to see the ISOCO approach delineate two-way quotes ("RFQ") from single-sided bids and offers. We note the very great difference between OTC bilateral negotiations and those carried out over multilateral systems with third-party rulebooks.

Definition

1. *Do you agree that this is the correct definition of pre-hedging? If not, how would you define pre-hedging? Does the definition of pre-hedging clearly differentiate it from inventory management and hedging?*

Yes, we substantially agree, although the wording in the GFXC appears simpler and more elegant.

The addition of the wording around the compliance of the activity with laws, regulations and rules appears to be superfluous as it fails the "counterfactual test". This is evidenced by the flow diagram.

Genuine Risk Management Purpose

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?*

No, we disagree with this language because it is too subjective and woolly. They fail the principles of good regulation.

Any standards that lead into a dissection of adequately held "genuine beliefs" after the fact appear to us to be of none or little value. This language fails the "counterfactual test" by

supposing that that professional dealers would also normally carry-on "disingenuous risk management," which leads directly to the problematic "who polices" question.

There should only be reference to "risk management," with no case-by-case subjective qualifications such as the meaning of "legitimacy" or the degree of "proportionality".

Available Liquidity

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.*

Yes, we agree.

'The concepts in the discussion concerning the capability to 'trade out' of or hedge exposures will always be different on a case-by-case basis and therefore inappropriate to apply any high-level prescriptive rule or judgement which may differ according to risk-factor hedging undertaken or the context of competition in the quoting event and the liquidity pertaining across the day in question.

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

Yes, we agree that there can be, for all sorts of reasons, both macro and micro.

It is not for high-level standards to pre-judge any case-by-case '*genuine need*'. It is however important that dealers are able to participate in, and help to further orderly markets.

Proportionality of Pre-hedging

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?*

Yes, the dealer should consider all the relevant risk factors. However there should not be any presumptive expectations other than to act in the best interests of the client.

The inventory held by a dealer would normally be used to facilitate market-making where possible, but given that the dealer may hold the wrong-way risk or decide to use alternative risk-factor hedges, it would be wrong to set out any principles or expectations in this regard, solely because IOSCO has pre-supposed clients buying individual instruments for cash rather than undertaking more complex activities.

For instance, should a dealer have the opposite inventory position, than would these principles suppose this position gets covered before any of the client hedging is commenced?

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*

The dealer should consider all the relevant risk factors, including those related to market liquidity, timing issues and client relationship, behavioural and risk tolerance matters.

Concerning competitive RFQ systems over electronic trading platforms, we underscore that those platforms themselves should not be relied upon, neither by the dealer nor the competent authority to police the proportionality not the suitability of pre-hedging. Rather the platform operators will have either rulebooks, or terms-of-business tailored to the instrument and will also hold the obligations to monitor and to report STORs and SARs.

Clearly, both the absence of pre-hedging, or the issuance of multiple competitive RFQs (or competitive single-sided requests) by end users to dealers' risks creating disorderly markets which in turn create challenges for trading platform operators. These could be exacerbated where market timing is not optimal, pressure is abnormally placed upon fixings/closing auctions; or where certain derivatives are deployed such as barrier options.

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

Yes, this is already well established. They cover the broad range of execution parameters beyond solely price.

We note that in Europe and the UK, trading venues and brokers will have execution policies, and that in practice these will differ across both instrument type and trading methodology; but that the prior and inappropriate MiFID2 treatment for "best execution" under RTS 27 and RTS 28 have been removed.

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.*

This would and should be a bilateral matter.

We caution any inclusion into IOSCO principles. Following on from question 7, we do not consider any formal expectations on profit (or loss) sharing to be appropriate as this would immediately create a burdensome obligation on the trading platforms, and may even ask them to suppose counterfactuals and estimate mid-market prices where none occurred.

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?*

This would and should be a bilateral matter. All that is important is that overall, any dealer acts in the best interests of the client and maintains effective communications.

Clearly the same outcomes apply to operators of trading platforms.

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?*

We do not believe that this adds anything.

We refer to previous comments that the notion of "*genuine risk management purposes,"* is itself a false construction, together with the existing conduct rules for all firms to act honestly, with integrity and in the best interests of the client.

We also refer to previous concerns that for operators of trading platforms, market integrity and orderliness remain paramount concerns and the "gaming" or pre-hedging, or the competition of RFQs, or the existence of outsized exit-risk triggers or barriers could pose potential threats in this regard.

Policies and procedures

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

Yes, we agree. In turn these will help the orderly arrangement of liquidity on trading venues, whether via the direct use of RFQ or the secondary risk lay-off from bilateral transactions.

Disclosure

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

We concur that disclosure and consent are the absolute paramount requirements for any pre-hedging frameworks, but perhaps draws out the treatment of wholesale clients from retail ones.

We would focus on wholesale clients and consider that the Global FX Committee's Principle 11 (pre-hedging), together with four factors the FMSB considers relevant for transactions characterised as Large Trades, provide a suitable and an adequate framework.

Beyond these any further prescription for the type of disclosure would be unnecessary.

Upfront disclosure

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?*

We believe that some degree of upfront disclosure should always be applicable, but this should not be set out prescriptively, and would likely be some combination between terms of business and a case-by-case appropriate application

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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.*

Considering competitive RFQs and pre-hedging in the context of electronic transactions it is imperative that any de minimus upfront disclosures are neither made by the platform operator on behalf of the dealer, nor made by the dealer to the platform operator. This would require a building of trading systems and likely disrupt and fragment the normal operation of multilateral liquidity.

Rather *any de minimus upfront disclosure* should be posted directly between the principals to the trade. This therefore likely constricts the approach to "disclosed" RFQs (or requests for a single side).

Trade-by-trade disclosure

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-by-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.*

As alluded to in the report, we do not believe that trade-by-trade disclosure is practical for competitive RFQs sent on electronic trading platforms, as these are largely executed by automated trading algorithms, and dealers may not have a direct relationship with clients. We therefore underscore the point set out that trade-by-trade disclosure would place an unacceptable administrative burden on platform providers who are in the business of aggregating multilateral liquidity and therefore reliant on rulebooks and overall terms of business.

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? If yes, please elaborate.*

As alluded to in the report, we do not believe that trade-by-trade disclosure is practical for competitive RFQs sent on electronic trading platforms, as these are largely executed by automated trading algorithms, and dealers may not have a direct relationship with clients. We therefore underscore the point set out that trade-by-trade disclosure would place an unacceptable administrative burden on platform providers who are in the business of aggregating multilateral liquidity and therefore reliant on rulebooks and overall terms of business.

Post-trade disclosure

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

No comment from a trading platform perspective.

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 from a trading platform perspective. This should likely vary according to the nature of the bilateral relationship which the report sets out where considering the provision to clients on request.

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 the context of transactions on trading platforms, whether electronic or hybrid, it follows from our comments in respect of pre-trade disclosure that it would be highly inappropriate.

We presume IOSCO is only considering the trading platforms context where the underlying client trade is presented as an RFQ or a single-sided auction as opposed to any secondary hedging activity by the dealer subsequent to an OTC bilateral trade execution, but this would anyway benefit from clarification.

Where the client may use an RFQ or a single-sided auction for the initial trade with a dealer, we remain unclear quite how or what IOSCO may consider that it might be able to disclose in terms of any dealer pre-hedging because any such trades could occur on other platforms, or could be unrelated to the client trade itself.

In either case, operators of trading platforms do not have the systems to segregate the trades related to a client RFQ and related hedging trades (whether pre-trade or post-trade) since these would appear to invoke the creation of a "side-pocket" or a "primary market" trade set away from the normal secondary market operations. In any such case the outcomes would require building into the rulebook rather than as a trade-by-trade approach and therefore likely be costly and would fragment the liquidity pool.

To set up principles for multilateral systems to provide post-trade disclosures would therefore be inappropriate.

Consent

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.*

No we disagree in the case of trading platforms.

As set out by IOSCO in the consultation, for trading platforms or trading venues arranging multilateral liquidity (whether by RFQ or any other trading method), such client consent for each transaction is not feasible under a trade-by-trade basis, although it could be added as a user preference setting or during onboarding.

However it is difficult to understand quite how any preference against pre-hedging as expressed via trading platform flagging settings, could be policed and by whom unless the entire transaction set is confined to a single trading venue and perhaps also to its post-trading confirmations, settlements and clearing. All of which would be complex, burdensome and incomplete.

even such an account setting could only ever be approached via the overarching terms of business or the rulebook and this rather undermines the trading platform use case for standardising and aggregating both liquidity and trading interests. Should a client not wish for front running then it should better opt for a two-way non-disclosed RFQ, or utilise the plethora of algorithmic tools now widely available on most trading platforms.

Moreover, the idea of being able to alter pre-hedging preferences as a user setting may also pre-suppose that the client would also flag whether the trading interest is "full amount" or only one tranche of a larger or a related series of trade shapes. At this point, it may be more appropriate for the client to approach a bilateral relationship with one or more dealers than to use a multilateral system. Clearly related issues such as credit, margin, allocations and offsetting trade-legs would all become relevant to the outcome of any overall transaction and unsuited to IOSCO guidance.

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.*

No we disagree in the case of competitive RFQ systems and trading platforms.

Please see our comments in answer to Question 20 concerning the case as to why establishing pre-configured settings for consent to pre-hedge would not be meaningful.

Post-trade reviews

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?*

No comment from a trading platform perspective.

Controls

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?*

No comment from a trading platform perspective.

Record-keeping

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

It follows from our comments above that we do not consider competitive RFQ systems and trading platforms should form a component part of the pre-hedging activity such as to require supervisory records.

Clearly should the rulebook expressly cater for this then those rules would come under direct supervisory control.

Industry codes

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

Yes, we do agree that both the industry codes detailed in the consultation, those of GFXC, ESMA and FMSB, meet most of the recommendations. We would therefore urge IOSCO to expressly consider the approach and advocacy from its United States members under the new administration before progressing any standards that may likely only duplicate the existing guidance applicable elsewhere.

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