Pre-Hedging Final Report

February 2026

Pre-hedging is a market practice used by dealers to manage the risk of anticipated primary principal market offerings and secondary market transactions predominantly in wholesale markets[1]. Although the use of pre-hedging can benefit both clients and dealers in certain transactions, there are also some concerns about potential issues from a market integrity and client protection perspective.

On 3 November 2025, the International Organization of Securities Commissions (IOSCO) published its Pre-Hedging Final Report ("Final Report"), with the aim of facilitating greater consistency and clarity around the practice and promoting a level playing field across jurisdictions, asset classes and execution types. The report provides a proposed definition of pre-hedging and sets out non-binding recommendations as guidance for IOSCO members.

This final report was preceded by a consultation report that sought stakeholder views on pre-hedging. Responses to the consultation report showed a commonality of understanding of pre-hedging issues, but also demonstrated divergent opinions across different market segments and market participants on certain key issues, including the circumstances in which pre-hedging may be appropriate, client disclosures, the obtaining and withdrawal of informed client consent, record-keeping requirements, and the treatment of pre-hedging in competitive requests for quotes (RFQs).

[1] For a definition of "wholesale markets" for the purposes of this final report, see the IOSCO Task Force Report on Wholesale Market Conduct, June 2017, page 4, "While there is no widely accepted definition, wholesale markets may be understood to be those markets that predominantly consist of professional counterparties where both counterparties are persons or firms that are considered more sophisticated than typical retail customers or participants".

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What is pre-hedging and why does it matter?

Respuesta

The practice of pre-hedging involves clients seeking prices from dealers for a range of financial instruments and asset classes (e.g., equities, fixed income, currencies and commodities) before entering into an irrevocable agreement on a primary or secondary market transaction or accepting an executable quote. In doing so, the client provides the dealer with information about their trading interest, including the instruments involved, size, direction, price parameters and execution timing.

Some dealers use this information about the anticipated transaction to manage the risk of assuming the position by trading in the same or related instruments. This practice is typically referred by the industry as "pre-hedging" (or sometimes "pre-positioning" or "anticipatory trading") and is used by dealers to manage their risk.

IOSCO defines pre hedging as trading undertaken by a dealer where:

- the dealer is dealing on its own account in a principal capacity (not as an agent); and
- the trades are executed in the same or related instruments after the receipt of information about one or more anticipated client transactions and before the client has agreed on the terms of the transaction(s) and/or irrevocably accepted the executable quote(s); and
- the trades are executed to manage the risk related to the anticipated client transaction(s); and
- the trades are executed with the intention of benefiting the client[2].

Benefits

Pre-hedging can offer several benefits to both clients and dealers. It may support **price discovery** by allowing dealers to assess market levels and liquidity conditions before quoting a price. It can help **reduce market risk** by enabling dealers to offset part of the anticipated exposure in advance, and it can **reduce market impact** by spreading execution over a longer time window. Pre-hedging may also assist **market liquidity and promote competition**, as it enables smaller dealers to compete more effectively with larger firms.

Risks

Despite these potential advantages, pre-hedging also carries risks arising from the use of client information. These risks include the **misuse of information for the dealer's own benefit**, a **lack of transparency** that may prevent clients from understanding the costs, benefits or risks of pre-hedging, and the possibility of **unintended impacts on price and liquidity**, particularly when clients are unaware that pre-hedging is taking place or how it may influence market conditions.

[2] "Client" in this context includes counterparty and does not give rise to any agency relationship or fiduciary duty.

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What does IOSCO recommend for dealers and clients?

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The IOSCO final report sets out two categories of recommendations: (A) recommendations relating to the use of pre-hedging, and (B) recommendations relating to the management of conduct risk arising from pre-hedging.

The IOSCO recommendations from A1 to A4 set out the core principles for dealers when conducting pre-hedging. They emphasise that this activity should be undertaken exclusively for a legitimate risk-management purpose linked to anticipated client transactions and with the intention of benefiting the client. It is also required that it be carried out fairly and honestly, while seeking to minimise market impact and preserve overall market integrity.

Recommendations from B1 to B6 relate to the governance, transparency, and control mechanisms that should underpin dealers' operations. They emphasise the need for dealers to document and implement appropriate policies, procedures and internal controls, designed to help prevent and detect misconduct and to ensure consistency with the firm's existing market abuse frameworks. The arrangements should be supported by monitoring, surveillance, escalation mechanisms and supervisory oversight, and may include requirements for dealers to document how potential conduct risks are identified and assessed prior to engaging in any pre hedging activity.

The recommendations also highlight the importance of having appropriate compliance and supervisory arrangements that explicitly address pre-hedging, including supervisory systems and reviews, as well as trade and communications monitoring and surveillance. These arrangements should support the detection of whether pre-hedging practices are undertaken for risk-management purposes, are intended to benefit the client, and aim to minimise market impact. In addition, intermediaries are expected to properly manage access to clients' personal information and prevent its misuse, while providing clients with clear information about how pre-hedging may be applied in their transactions and, where feasible, obtaining their prior agreement to its use. Likewise, conflicts of interest related to pre-hedging must be addressed through effective processes and through physical and electronic information controls, which should be reviewed periodically. Finally, intermediaries are required to have appropriate record-keeping mechanisms in place, including those covering pre-hedging activities, to support supervisory oversight, monitoring, and surveillance.

Regarding the IOSCO suggestions for clients, these outline considerations to help manage potential risks associated with pre-hedging. They encourage clients to consider ways to minimise the risk of price slippage, for example through non-directional approaches such as two-way requests for quote (buy and sell), and to implement internal controls to monitor market pricing, execution outcomes and market activity where pre-hedging has been used. The suggestions also note that clients may educate themselves about pre-hedging practices and their potential impact, inform the dealer if they do not wish pre-hedging to be used, and request information on how pre-hedging was undertaken in relation to their transactions.

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What is IOSCO's approach and which standards exist?

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The survey revealed that **only a small number of IOSCO members have regulations or guidance that specifically address pre-hedging**. In most jurisdictions, pre-hedging is instead covered indirectly through broader regulatory frameworks that set out general conduct expectations. To maintain market integrity, most surveyed IOSCO members rely on existing market abuse rules that focus on insider dealing, including front running, as well as market manipulation.

IOSCO notes that it has not assessed when pre hedging may constitute market abuse in different jurisdictions and emphasises that the recommendations are intended to be read as ancillary and complementary to national regulatory frameworks, including market abuse rules. These recommendations do not constitute a safe harbour from market abuse requirements and are intended to support IOSCO members, particularly where they are considering modifications to existing frameworks, recognising that many jurisdictions already have rules in place that achieve similar outcomes.

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What are the key stakeholder views?

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Engagement with industry stakeholders demonstrated that the pre-hedging landscape is complex and subject to varying interpretations and divergent opinions. The key themes discussed include:

A. Pre-hedging in the context of principal vs agency. There is strong that pre-hedging should only take place when the dealer acts as principal (i.e., not when acting as agent).

B. Factors considered for pre-hedging. Industry stakeholders noted that there are various factors that dealers must take into account, and no clear transaction or quote size rules that govern the practice. Considerations include market factors, such as the notional size of the individual transaction, market liquidity, the time of the day and market conditions. Among some industry stakeholders, there was a view that pre-hedging is most likely to realize benefits for clients and dealers in situations where trades are large relative to the liquidity of the market for a financial instrument or in times of greater volatility.

C. Asset classes. Pre-hedging is generally considered not to depend on the type of asset and is used in markets where requests for quotes are common.

D. Areas where stakeholders expressed divergent views. Discrepancies were identified regarding the most appropriate circumstances for conducting pre-hedging activities, the information that should be provided to clients, how and when informed client consent should be obtained and how it can be withdrawn, the recordkeeping requirements necessary to support effective supervision, and the use of pre-hedging in competitive requests for quotes.

Links of interest:

FR/14/2025 Pre-Hedging

The European Securities and Markets Authority (ESMA) “Call for Evidence on pre-hedging”

The European Securities and Markets Authority (ESMA) “Report on the Call for Evidence on pre-hedging”

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