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| Response Form to the Call for evidence on pre-hedging |
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**Responding to this paper**

ESMA invites comments on all matters in this consultation paper and in particular on the specific questions. Comments are most helpful if they:

* respond to the question stated;
* indicate the specific question to which the comment relates;
* contain a clear rationale; and
* describe any alternatives ESMA should consider.

ESMA will consider all comments received by **30 September 2022.**

**Instructions**

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

1. Insert your responses to the questions in the Consultation Paper in the present response form.
2. Use this form and send your responses in Word format (**pdf documents will not be considered except for annexes**);
3. Please do not remove tags of the type <ESMA\_QUESTION \_PHDG\_1>. Your response to each question has to be framed by the two tags corresponding to the question.
4. If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.
5. When you have drafted your response, name your response form according to the following convention: ESMA\_PHDG\_nameofrespondent\_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA\_PHDG\_ABCD\_RESPONSEFORM.
6. Upload the form containing your responses, **in Word format**, to ESMA’s website (www.esma.europa.eu under the heading “Your input – Open Consultations” -> Consultation Paper on the clearing and derivative trading obligations in view of the benchmark transition”).

**Publication of responses**

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publically disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

**Data protection**

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading [Legal Notice](http://www.esma.europa.eu/legal-notice).

**Who should read this paper**

All interested stakeholders are invited to respond to this call for evidence. This call for evidence is primarily of interest to investment firms, credit institutions, proprietary traders, market makers, asset management companies and in general persons operating on an ongoing basis in financial markets, but responses are also sought from any other market participants including trade associations and industry bodies, institutional and retail investors, consultants and academics.

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**General information about respondent**

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| --- | --- |
| Name of the company / organisation | Jane Street |
| Activity | Other Financial service providers |
| Are you representing an association? |  |
| Country/Region | Europe |

**Questions**

1. Do you agree with the proposed definition of pre-hedging with respect to case (i) and (ii)? Please explain elaborating if both case (i) and case (ii) in your view can qualify as pre-hedging and providing specific examples on both instances.

<ESMA\_QUESTION\_PHDG\_1>

Introductory Comments:

Jane Street welcomes ESMA’s focus on pre-hedging. Jane Street is a global market maker providing liquidity in a range of assets including equities, bonds, options, ETFs and commodities.

Pre-hedging can be a legitimate risk mitigation tool for market makers, liquidity providers and brokers to use when dealing on a bilateral basis with a client or counterparty (collectively a “**client**”). Jane Street strongly believes that in such a bilateral arrangement it is critical that the client is aware and has consented to the dealer pre-hedging and is aware of any consequences that may follow. But we would contrast this kind of bilateral arrangement with circumstances where the client is sending a request for quote (RFQ) to multiple dealers and one of those dealers decides to pre-hedge in anticipation of winning the trade. We believe this cannot be considered to be legitimate pre-hedging; there is no guarantee that the pre-hedging dealer will win the trade. To call this practice “pre-hedging” is a misnomer - by definition the pre-hedging dealer has not taken on any risk at the point it decides to pre-hedge. In the absence of any risk management rationale for the pre-hedging, the behaviour can be considered to be a form of market abuse (i.e. frontrunning).

Put simply, we believe pre-hedging in the competitive RFQ context should not be permitted as it raises a number of market integrity issues including:

* Adverse results to end clients - through outsized market impact if multiple potential counterparts pre-hedge;
* Negatively impacting competition and creating an unlevel playing field - as liquidity providers who pre-hedge will impact the market and hence the prices others who do not can offer, putting them at an unfair advantage;
* Inappropriate use of information on orders that can be specific, material and price sensitive.

Question 1:

Jane Street believes the distinction ESMA draws between the two categories is helpful, i.e. between (i) pre-hedging in relation to an RFQ and (ii) liquidity providers trading ahead of a pending order (i.e. where a trade proposal has been submitted by the counterparty to the liquidity provider but the trade will be agreed and executed at a later stage).

The two scenarios are different in relation to:

* The levels of competition for the order;
* Transparency to the underlying client; and
* Likelihood of the liquidity provider actually assuming the risk.

For an RFQ on an electronic platform (an example of category (i)), the liquidity provider is likely in competition and so is not able to assume they will win the trade - in addition within this mechanism effective transparency and disclosure to clients on pre-hedging on a trade by trade basis is likely not possible. There are additional serious concerns about the impact of pre-hedging should all liquidity providers behave similarly. Where an investor asks for a price via an RFQ from a number of market makers 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 will likely 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.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 create an un-level playing field and distort competition among market makers. As there is competition between market makers, no liquidity provider can be certain of winning the trade, meaning that the pre-hedging cannot be said to be in furtherance of legitimate risk management. Due to the automated nature of the RFQ trading protocol there is likely less opportunity for the approach of liquidity providers to be transparent to counterparties on a trade by trade basis.

By contrast, and considering ESMA’s scenario (ii), Jane Street considers that the term pre-hedging can properly refer to situations where a trade has been awarded to a firm trading as principal (market maker) and that firm has assumed risk as a result. In this situation, the “pre” part refers to the fact that the firm will be carrying out hedging activity *after* the trade has been awarded but *before* the time that the strike price is being calculated.

Take the  example of where a counterparty wishes to purchase a large amount of shares at the closing price on a particular day and wants a market maker to guarantee that they will sell to them that quantity of shares at that closing price. The counterparty contacts a number of market makers and then awards the trade to the market maker of its choice (usually the one offering the best price). This market maker has taken on risk as they are obliged to sell the agreed quantity of shares at the closing price. If they cannot obtain either the requisite quantity of shares or match the closing price, they may trade at a loss. The market maker mitigates this risk by, in this case, buying the shares or a related hedge ahead of the closing price. The key point here is that the market maker is pre-hedging a risk it has already taken on. The protocols with respect to this activity are reasonably well established in the marketplace; the pre-hedging activity must be disclosed to the counterparty and the market maker when executing the hedge must not act to the detriment of the counterparty. Given this, we agree that ESMA does not need to focus on this practice (i.e. scenario ii) in this call for evidence.

<ESMA\_QUESTION\_PHDG\_1>

1. Do you believe the definition should encompass other market practices? Please explain.

<ESMA\_QUESTION\_PHDG\_2>

There are no market practices we would propose adding to the definition. <ESMA\_QUESTION\_PHDG\_2>

1. Do you agree with the proposed distinction between pre-hedging and hedging?

<ESMA\_QUESTION\_PHDG\_3>

We would agree with the distinction ESMA draws including that pre-hedging is in anticipation of a specific transaction while hedging is the ex-post management of risk once assumed.

We would also agree that ESMA should focus on the examples in the first three columns of the table in paragraph 16, related to pre-hedging in RFQs. We would consider each of the behaviours described in the first three columns as potentially examples of abusive behaviour.  However, the activity described in column four, i.e. “Trading activity after the agreement but before setting the conditions (e.g. price) and carrying out execution, that takes place at a later stage” we would consider to be an entirely appropriate form of hedging a risk that has been taken on by the dealer.

<ESMA\_QUESTION\_PHDG\_3>

1. Do you have any specific concerns with respect to the practice of pre hedging being undertaken by liquidity providers when the trading protocol allows for a ‘last look’?

<ESMA\_QUESTION\_PHDG\_4>

We view pre-hedging in protocols offering “last look” as raising similar issues as pre-hedging more broadly. However, in the interests of concentrating on pre-hedging RFQs, we suspect these last-look issues should be dealt with separately.

<ESMA\_QUESTION\_PHDG\_4>

1. What is your view on the arguments presented in favour and against pre-hedging?

<ESMA\_QUESTION\_PHDG\_5>

Jane Street believes that pre-hedging can be a legitimate activity in certain circumstances but we focus in our response on the practice in the context of RFQs, as per ESMA’s focus in this call for evidence.

Overall, Jane Street believes pre-hedging should not be permitted in the competitive RFQ context. The arguments against pre-hedging set out by ESMA largely outline the principles behind this position, namely:

* RFQs may amount to inside information under MAR;
* Clients can receive worse outcomes due to pre-hedging in competitive RFQs;
* Pre-hedging can adversely impact the competitive landscape.

ESMA highlights that in a competitive RFQ, pre-hedging by a liquidity provider may impact the price the counterparty ultimately receives. We would agree with this and also look to stress the “outsized’ market impact counterparties may face if multiple liquidity providers pre-hedge.

Let us assume that a counterparty wants to buy 100 shares. If all liquidity providers receiving the RFQ were to assume they were likely to win the trade and pre-hedge, the price offered to the client would likely be significantly impacted, over and above any impact the counterparty’s particular transaction would have on the market price. As an example, the price impact of 6 liquidity providers, each pre-hedging and buying 100 shares, 600 in total, would clearly be greater than the 100 shares the client wishes to buy. The client ultimately would pay the increased price due to this impact.

ESMA also highlights that pre-hedging may create an unlevel playing field where the pre-hedging liquidity provider is more likely to win the trade due to their actions. Similarly, we agree with this and believe that where one market maker were to pre-hedge 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.

In addition, in a competitive RFQ environment we see no justification for a market maker to assume they will win the trade ahead of it being awarded and therefore no justification that the market maker needs to pre-hedge.

Lastly - in the arguments presented against, ESMA does not consider the level of transparency to counterparties. The large transaction volumes and high levels of automation of electronic RFQ protocols likely mean it is not possible for liquidity providers to ensure any pre-hedging is conducted with full counterparty transparency and understanding.

Turning to the arguments presented by ESMA in support of pre-hedging, we do not believe they are based on first principles and any benefits to clients. In addition many of the global rules highlighted do not permit pre-hedging.

**FINRA Rule 5270**

We do not consider that FINRA Rule 5270 would permit pre-hedging of the specific type referred to in paragraph 8 in ESMA’s CFE **.** The rule states**:**

**“**No member or person associated with a member shall cause to be executed an order to buy or sell a security or a related financial instrument when such member or person associated with a member causing such order to be executed has material, non-public market information concerning an imminent block transaction in that security, a related financial instrument or a security underlying the related financial instrument prior to the time information concerning the block transaction has been made publicly available or has otherwise become stale or obsolete.”

The exception to the above rule relates to situations described in paragraph 9 of the CFE i.e. circumstances where the dealer has been awarded a trade and is hedging ahead of the time that the price of the block trade is struck or for a situation where the dealer has consummated the trade but before the trade has been printed on the tape. It does not provide for an exception for the activity referred to in paragraph 8 of the CFE.

**Canadian Universal Market Integrity Rules IIROC Rule 4.1**

We are unclear as to why ESMA is citing this rule as an example of allowing pre-hedging. It states:

“A Participant with knowledge of a client order that on entry could reasonably be expected to affect the market price of a security, shall not, prior to the entry of such client order:

* enter a principal order or a non-client order on a marketplace, foreign organized regulated market or other market, including any over-the-counter market, for the purchase or sale of the security or any related security;
* solicit an order from any other person for the purchase or sale of the security or any related security; or
* inform any other person, other than in the necessary course of business, of the client order”

There is an exception to this rule that would appear to permit someone who had a position prior to receiving order information to hedge that pre-existing position in the normal course of business after receiving the order information. This, however, is not pre-hedging as contemplated in paragraph 8 of the CFE. The exception states that a person does not violate the rule where:

“a principal order is entered to hedge a position that the Participant had assumed or agreed to assume before having actual knowledge of the client order provided the hedge is:

1. commensurate with the risk assumed by the Participant, and
2. entered into in accordance with the ordinary practice of the Participant when assuming or agreeing to assume a position in the security”.

<ESMA\_QUESTION\_PHDG\_5>

1. In which cases could a foreseeable transaction enable a conclusion to be drawn on its effect on the prices?

<ESMA\_QUESTION\_PHDG\_6>

While it is not possible to draw a distinct line, factors that would impact the ability for a conclusion to be drawn include: the size of the transaction, information on the direction of the RFQ, the liquidity of the instrument, and the public transparency regime in place for the instrument.

While this point is clearly important to determine whether RFQs constitute inside information, we do not believe ESMA should look to draw a distinction on this basis to determine whether pre-hedging is appropriate or not. It should be made clear that pre-hedging is not permitted in a competitive RFQ context in all cases. This would protect the trades where price action may be significant and cause no harm for transactions where price action would not be significant. In addition, the rule would be simple and understandable meaning approaches by liquidity providers would be more consistent versus a complex rule.

In addition, it is possible that certain pre-hedging activity on a particular set of facts does not meet the current threshold for market abuse but still negatively impacts the price the client receives. We would be concerned with any rule or guidance which is geared solely off the market abuse regime where often subtle, nuanced and subjective judgments are applied. One person’s market abuse may be another person’s legitimate behaviour. This is essentially the situation that exists today. As a result, we believe the better regulatory outcome is to ban liquidity providers pre-hedging competitive RFQs.

<ESMA\_QUESTION\_PHDG\_6>

1. Do you agree that an RFM when the liquidity provider could discover the trading intentions of the sender on the basis of their past commercial relationship, the market conditions or the news flow should be considered as precise information?

<ESMA\_QUESTION\_PHDG\_7>

We agree that while an RFM may help mitigate the risk of pre-hedging other factors including historical behaviour may provide additional information on likely trading direction.

But as per our previous responses, while it is important under MAR to consider how precise information is as to whether pre-hedging is permissible, we believe ESMA should look to implement a simple, understandable approach by clarifying that pre-hedging in the competitive RFQ context is not permitted. Tying such a rule to the preciseness of the information would likely lead to inconsistent understanding and approaches in the market and not deal with the real problem of clients receiving worse prices as a result.

<ESMA\_QUESTION\_PHDG\_7>

1. Please provide your views regarding the criteria for the identification of RFQs that could potentially have a significant impact on the price of the relevant financial instrument. Is there any other criterion that ESMA should take into account?

<ESMA\_QUESTION\_PHDG\_8>

As ESMA suggests, there are many factors that may have an impact, including transaction size, liquidity of the instrument and market conditions. Within these factors, materiality may differ markedly between instruments, e.g. transaction sizes between liquid and illiquid instruments. Market participants are always obliged to consider whether information they receive could be price sensitive. RFQs are no different in that regard. We believe that banning pre-hedging RFQs in a competitive scenario would be a more appropriate regulatory tool than providing guidance in relation to the definition of price-sensitive information.

A blanket ban on pre-hedging captures the benefit for transactions which may have potentially significant impact and by definition causes no harm for smaller transactions where impact would be less.

<ESMA\_QUESTION\_PHDG\_8>

1. Does the GFXC Guidance describe all the possible cases of risk management rationale that could justify legitimate pre-hedging? If not, please elaborate

<ESMA\_QUESTION\_PHDG\_9>

The GFXC criteria sets out why a liquidity provider may wish to pre-hedge but it does not consider what benefit there may be to client outcomes or the overall market from them doing so.

Jane Street believes that allowing pre-hedging in the competitive RFQ context leads to worse outcomes for clients and competition issues between liquidity providers. While liquidity providers may be able to individually propose justifications for their actions on a risk management basis, regulators should look to ban the practice for the benefit of the wider market.

<ESMA\_QUESTION\_PHDG\_9>

1. Can you identify practical examples of pre-hedging practices with/without a risk management rationale?

<ESMA\_QUESTION\_PHDG\_10>

Pre-hedging by definition should include a risk management rationale. We believe pre-hedging without a risk management rationale could be a form of market abuse (i.e. frontrunning).

<ESMA\_QUESTION\_PHDG\_10>

1. Can pre-hedging be considered legitimate when the market participant is aware, on the basis of objective circumstances, that it will not be awarded the transaction?

<ESMA\_QUESTION\_PHDG\_11>

No. Specifically, in the context of RFQs in competition, Jane Street sees no justification for a market maker to assume they will win the trade and therefore that pre-hedging would be legitimate on that basis.

<ESMA\_QUESTION\_PHDG\_11>

1. Can you identify financial instruments that should/should not be used for pre-hedging purposes? Please elaborate

<ESMA\_QUESTION\_PHDG\_12>

While reiterating our position that pre-hedging should not be permitted in the RFQ context, the restriction on pre-hedging should be considered to be a prohibition on trading in the financial instrument to which the order relates and any correlated financial instrument(s). For example, a recipient of a price request in an ETF based on the DAX index should be precluded from trading in the ETF itself, the underlying German equities or related derivatives products on the indices.

<ESMA\_QUESTION\_PHDG\_12>

1. Please provide your views on the proposed indicators of legitimate and illegitimate pre-hedging. Would you suggest any other?

<ESMA\_QUESTION\_PHDG\_13>

In terms of pre-hedging generally, rather than specific to RFQ mechanisms, we believe the indicators proposed by ESMA are sensible. These are understood to be:

* Firms acting as principal rather than agent;
* Conducted for risk management purposes;
* And in the interest of the client.

We would add to this the “likelihood” of winning a transaction, i.e. pre-hedging may be legitimate where a liquidity provider is certain they will ultimately be taking on risk from a client.

We would also more strongly highlight “transparency to clients” and “consent” by them as important factors. This is related to, but independent of the point on the activity being conducted in the interest of the client.

For trades under ESMA’s first category, i.e. “(i) a liquidity provider trading, in the context of an RFQ, ahead of the acceptance of a quote from the client”, in the competitive environment, many of these factors are unlikely to be met, for example:

* As they are in competition the liquidity provider can not be certain they will win the transaction;
* The pre-hedging by one liquidity provider in competition has an adverse impact on the behaviour of other liquidity providers and the competitive landscape;
* Clients may receive a worse outcome from pre-hedging especially when multiple liquidity providers pre-hedge.

Transparency to clients and their consent to pre-hedging transactions likely can not be provided effectively in automated, electronic RFQ protocols.

<ESMA\_QUESTION\_PHDG\_13>

1. According to your experience, can express consent to pre-hedging be provided on a case-by-case basis in the context of electronic and competitive RFQs? If yes, how? Do you think the client’s consent to pre-hedging should ground a presumption of legitimacy of the liquidity provider’s behaviour?

<ESMA\_QUESTION\_PHDG\_14>

In the context of competitive electronic RFQs, it is not possible for clients to provide express consent on a case by case basis. One further aspect of this would be ensuring a level playing field of information where express consent provided to one liquidity provider is not transparent to other liquidity providers, which could harm client outcomes and have competition concerns. Those wider considerations would suggest consent provided to one party to pre-hedge should not ground a presumption of legitimacy of the liquidity provider’s behaviour when considered alongside the wider impacts to the client but also competitive impact on the liquidity providers who have not been given, or been made aware of, the consent provided.

Outside of electronic competitive RFQs, we would support the principle of pre-hedging being conducted with the express consent and understanding of clients on a trade by trade basis.

<ESMA\_QUESTION\_PHDG\_14>

1. Could you please indicate which are in your view the pre-hedging practices that appear to be conducted mostly in the interest of the liquidity provider and which may risk to not bring any benefit to the client?

<ESMA\_QUESTION\_PHDG\_15>

We would consider pre-hedging in competitive RFQs as ultimately not benefitting clients and conducted by liquidity providers to improve their competitive position and PnL.

<ESMA\_QUESTION\_PHDG\_15>

1. Do you think it would be feasible for liquidity providers to provide evidence of (i) their reasonable expectation to conclude the transaction; (i) the risk management needs behind the transactions; (iii) the benefit for the client pursued through the transaction and (iv) the client’s consent? If no, please indicate potential obstacles to the provision of such evidence.

<ESMA\_QUESTION\_PHDG\_16>

It would not be feasible for liquidity providers to provide this evidence on a transaction by transaction basis in a competitive RFQ context. This is due to the scale of transactions and the automated nature of the protocol. Information provided would be at risk of being generic information on risk management approaches rather than specific to the transaction and there would be a significant cost and burden to produce it.

It should also be noted that even if each liquidity provider provided this information and believed from their individual point of view that the client would be benefitting, clients may still receive a worse outcome overall. This is because the affirmation from each liquidity provider would be in relation to themselves only, while the impact to the client is the sum of these parts. As an example, each liquidity provider may affirm they are “likely” to win the transaction and they need to pre-hedge to manage their risk and provide a tighter price - but ultimately only one will actually win the transaction and the prices the client receives will reflect the impact of all the liquidity providers pre-hedging which will be worse than if none did. Some market participants advocate that pre-hedging leads to narrower spreads for the client. But this will manifestly not be the case when the entire market has moved against them as a result of multiple liquidity providers pre-hedging.

<ESMA\_QUESTION\_PHDG\_16>

1. Do you believe that the liquidity of a financial instrument should be considered as an indicator in determining whether pre-hedging may be illegitimate behaviour? Please elaborate.

<ESMA\_QUESTION\_PHDG\_17>

For the reasons previous indicated, we would support a policy where pre-hedging is not permitted in the competitive RFQ context. This is regardless of the liquidity of the financial instrument involved.

Outside of the competitive RFQ context, where pre-hedging may be legitimately conducted with the consent of the client on a bilateral negotiated basis, it is likely less necessary for liquid instruments where liquidity can be sourced easily, versus illiquid instruments where liquidity providers may need to manage their exposure over a longer time period for example.

<ESMA\_QUESTION\_PHDG\_17>

1. According to your experience does the practice of pre-hedging primarily take place in what is described as the ‘wholesale markets’ space or does this practice take place also with respect to order / RFQs submitted by retail or professional clients?

<ESMA\_QUESTION\_PHDG\_18>

Jane Street only deals with professional clients / eligible counterparties and does not deal with retail clients. We are aware that pre-hedging does take place with respect to orders/RFQs submitted by professional clients. As we have indicated elsewhere in our response, we do not believe that pre-hedging in a competitive RFQ environment can ever be justified regardless of the type of client or counterparty.

<ESMA\_QUESTION\_PHDG\_18>

1. As an investment firm conducting pre-hedging, do you have any internal procedure addressing the COI which might arise specifically from such practice? If yes, please briefly explain the content of such procedure.

<ESMA\_QUESTION\_PHDG\_19>

Yes, Jane Street has various policies and procedures to ensure any pre-hedging is conducted in an appropriate manner and clients are treated fairly. We do not think it is in the interests of the client for us to pre-hedge in a competitive RFQ scenario. <ESMA\_QUESTION\_PHDG\_19>

1. According to current market practice, do investment firms disclose to clients that their RFQs might be pre-hedged? If so, does this happen on a case-by-case basis (i.e. a client is informed that a specific order might be pre-hedged) or is this rather a general disclosure? Please elaborate, distinguishing between various trading models, e.g. voice trading vs electronic trades and please specify if there are instances in which RFQ systems allow to specify is pre-hedging is conducted?

<ESMA\_QUESTION\_PHDG\_20>

Jane Street does not pre-hedge in the competitive RFQ environment and so we do not have a requirement to disclose for that use case. However, we are not aware of any automated functionality in RFQ systems to flag pre-hedging at present.

For any bilateral trading, Jane Street informs clients of its approach in standard disclosures but will also discuss approaches with clients for particular transactions where pre-hedging may be required; for example, in bespoke transactions negotiated / conducted away from electronic venues on a “voice” basis or via email / chat.

<ESMA\_QUESTION\_PHDG\_20>

1. According to current market practice, are clients offered quotes with and without pre-hedging, leaving to the client a choice depending on his execution preferences? Is so in which instances?

<ESMA\_QUESTION\_PHDG\_21>

While it is possible clients may be offered or request quotes with and without pre-hedging, this is not common market practice.

<ESMA\_QUESTION\_PHDG\_21>

1. Do you currently keep record of pre-hedging trades and related trading activity? Do you believe record keeping in this instance would be easy to implement?

<ESMA\_QUESTION\_PHDG\_22>

We do not currently systematically record information related to pre-hedging for purposes specific to that topic. Ease of implementation would depend on a variety of factors including the information sought and the ultimate purpose of the data.

To reiterate, we think a simpler solution is to ban the practice of pre-hedging RFQs when market makers are in competition with each other. This would negate any need to record pre-hedging trades.

<ESMA\_QUESTION\_PHDG\_22>

1. Would you like to highlight any specific issue related to the obligation to provide clear and not misleading information?

<ESMA\_QUESTION\_PHDG\_23>

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<ESMA\_QUESTION\_PHDG\_23>

1. Should ESMA consider any other element with respect to pre-hedging and systematic internalisers and OTFs? Please elaborate

<ESMA\_QUESTION\_PHDG\_24>

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<ESMA\_QUESTION\_PHDG\_24>