

**OPERATING ARRANGEMENTS BETWEEN
THE FINANCIAL SERVICES AUTHORITY
AND
THE RECOGNISED INVESTMENT EXCHANGES
ON MARKET MISCONDUCT**

1. The FSA has agreed operating arrangements with the London Stock Exchange, Virt-X, Jiway, Coredeal, LIFFE, the International Petroleum Exchange, the London Metal Exchange and OM London Exchange ("the Exchanges") to deal with cases of suspected market misconduct. It has always been the objective of the FSA and the Exchanges to protect the integrity of the markets of the Exchanges and to prevent market misconduct. The new market abuse regime reinforces the need for the FSA and the Exchanges to ensure that they have in place effective arrangements for co-ordinating enforcement action in tackling possible or apparent market misconduct. Hence, the FSA and the Exchanges have agreed these operating arrangements.
2. FSA will be responsible for the application of the new market abuse regime introduced under the Financial Services and Markets Act 2000 and the investigation and prosecution of the criminal offences of market manipulation and insider dealing. The Exchanges wish to maintain fair and transparent markets that are attractive to market participants.
3. The FSA and the Exchanges recognise the desirability of avoiding undue duplication of investigation and enforcement work and a multiplicity of enforcement actions arising out of the same matter.
4. The FSA and the Exchanges will therefore maintain a close working relationship to deal with relevant enforcement issues arising in respect of possible or apparent market misconduct on the Exchanges' markets. The FSA and the Exchanges will discuss matters as and when they arise and will hold regular meetings to liaise on issues of mutual interest to both parties.
5. The FSA and the Exchanges will have regard to the principle that persons should not be subject to more than one investigation or set of enforcement proceedings for the same misconduct. It may, however, be appropriate for the FSA and the Exchanges to exercise different powers in relation to that person or the two sets of investigations or proceedings relate to different aspects of the suspected misconduct. In cases of joint interest either the FSA or the relevant Exchange will have lead responsibility, keeping the other informed.
6. The FSA and the Exchanges recognise that there are areas in which they have an overlapping remit in terms of their functions and powers in relation to market misconduct. The FSA and the Exchanges will therefore endeavour to ensure that only the party or parties with the most appropriate functions and powers will commence investigations and take enforcement action.
7. The FSA and the Exchanges will consider cases of suspected market misconduct on a case-by-case basis as they arise. Where the suspected misconduct appears to amount to a breach of provisions that both the FSA and the relevant Exchange have powers to enforce the FSA and the relevant Exchange will determine which of them should take action. Relevant considerations in this context include the seriousness of the suspected misconduct, the jurisdiction of the FSA and the Exchanges and the range of powers available to the FSA and the Exchange. The FSA's expectation is that in

circumstances where the market misconduct is limited to the Exchange, the perpetrators are all members of the Exchange and the enforcement powers of the Exchange are sufficient to deal with the misconduct, the FSA would expect the Exchange to investigate and to take enforcement action rather than the FSA. The FSA and the relevant Exchange will continue to liaise as appropriate during the course of an investigation and any subsequent enforcement action.

8. The Exchanges will continue to give guidance on their rules and the FSA will give guidance on the Code of Market Conduct. Such guidance and the extent to which it has been complied with will be relevant in assessing whether market misconduct has occurred. The Exchanges and the FSA will communicate closely on such issues.