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Dear

Re: Draft Market Abuse Directive - Proposed Amendment 3 to the definition of "inside information" (new Article 1, par.1, subpar. 2a) - Vote in Plenary on Thursday 24 October

The European Parliament will vote on its second opinion on the draft Market Abuse directive this Thursday 24 October. We would like to ask you **to vote against amendment 3 of the EMAC recommendation.**

Amendment 3 addresses the following question: how to deal with the issue of "front running" of customer orders. This amendment is not the best way of tackling front-running and should not form part of the finalised Directive.

The proposed Market Abuse Directive already addresses "front running" in recital 19, which states that Member States should tackle this practice where it constitutes market abuse. In fact, many Member States already have rules which prohibit this practice.

Also, the issue is now being addressed at the European level. The Committee of European Securities Regulators has proposed European standards for conduct of business rules. These include a rule which requires an investment firm to refrain from executing orders for its own account (or the account of directors, partners, employees and tied agents) before those of customers in identical or better conditions than the latter ("front running"). The proposed Investment Services Directive should provide a framework to enshrine these as European standards which all Member States must enforce.

Conduct of business rules are the best way of protecting client's interests. Regulators can tailor conduct of business rules to take account of a range of different factual scenarios. In particular, they can allow trading when it does not conflict with the client's interests. Insider dealing rules are not so flexible.

The proposed amendments to the definition of inside information will have an unintended effect and will create problems for standard behaviour that is commercially necessary. The following is an example: An insurance company wishes to invest in an over-the-counter equity derivative transaction with an investment firm. The investment firm will need to buy shares in the market to hedge its exposure under the derivative transaction. The insurance company and the firm agree that the price of the derivative transaction will be set by looking at the price at which the firm can buy those shares in the market. These amendments suggest that it is insider dealing for the firm to buy those shares because it knows about the insurance company's pending order, at least if the order is of a

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size to make the information "price sensitive." But, if that were the case, then the parties would not be able to determine the proper price for their own transaction. This would deny the insurance company the opportunity to trade on terms it has agreed to and finds attractive.

It is in no-one's interest to encourage the abuse of information about pending client orders. Equally, it is in no-one's interest to prevent firms from trading merely because they hold that information. Conduct of business rules provide the best means of reconciling the competing interests. The Market Abuse Directive does not.

Your sincerely,

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