MEMORANDUM OF UNDERSTANDING

In view of the fact that a number of securities and futures firms and banks incorporated in the United States or the United Kingdom conduct operations in each of the respective jurisdictions, the **UNITED STATES SECURITIES AND EXCHANGE COMMISSION** (the "SEC") and the **UNITED STATES COMMODITY FUTURES TRADING COMMISSION** (the "CFTC"), on the one hand, and the **BANK OF ENGLAND** (the "Bank"), on the other hand, have reached the following understanding on the sharing of supervisory information to facilitate the performance of their respective duties:

DEFINITIONS

1 For purposes of this Memorandum of Understanding:

(a) "Authorities" means the SEC, the CFTC and the Bank. "US Authorities" means the SEC and the CFTC.

(b) "Relevant Firm" means a broker-dealer, a futures commission merchant or a bank, if that entity, its parent or holding company is incorporated or headquartered in the United States or the United Kingdom, and any holding companies, subsidiaries and affiliates of such entity, if that entity, alone or together with one or more of its related entities, conducts securities, futures, and/or banking transactions (including derivatives transactions) in both the United States and the United Kingdom. "Designated Relevant Firms" means those Relevant Firms designated by the SEC, CFTC, and the Bank.

(c) "Emergency Situation" means (i) the occurrence of an event that indicates to the SEC, CFTC, or Bank that a Relevant Firm may be experiencing or may be about to experience significant financial or operational difficulties; or (ii) a request of the SEC, CFTC, or Bank based upon reasonable grounds for concern that the financial or operational condition of a Relevant Firm may be materially affected by a related entity; or (iii) the occurrence of a market disturbance or other event that may materially affect the financial or operational condition of a Relevant Firm.

GENERAL PRINCIPLES

2 This Memorandum is a statement of the intent of the Authorities and does not create any binding legal obligations.

3 The purpose of this Memorandum is to formalise mechanisms between the US Authorities and the Bank for co-operation and sharing information to strengthen regulatory oversight of Relevant Firms. The growth of cross-border financial activity, including the globalisation of securities and futures firms

and banks, has made the sharing of supervisory and financial information critical to the ability of the Authorities to carry out their respective oversight responsibilities.

4 In light of its objective, this Memorandum is intended to apply to co-operation and the sharing of information between either of the US Authorities and the Bank. It is not intended to cover co-operation between the US Authorities.

MANAGEMENT CONTROLS

5 In view of the expanded global activities of Relevant Firms, the Authorities believe that, to enhance the effectiveness of their oversight, it is important that they work together to identify and monitor the use of management controls by Relevant Firms. In this regard, the Authorities believe that management controls that Relevant Firms must have for the global risk management of their activities include controls relating to: (i) market risk management; (ii) credit risk management; (iii) balance sheet and liquidity management; (iv) operations and systems; (v) counterparty/legal risk controls; and (vi) compliance and audit. To promote supervisory co-operation, the US Authorities and the Bank intend to consult regarding issues identified in connection with the use of management controls by Relevant Firms.

6 The Authorities aim to have each Designated Relevant Firm maintain an appropriate, current, written description of the manner in which it is implementing the management controls identified above.

7 The US Authorities and the Bank intend to inform each other promptly of any significant concerns that they may have in respect of the operation of management controls at Designated Relevant Firms, to the extent that these concerns could have implications for the activities of such Firms in the other jurisdiction. Where remedial action is called for to address any such significant concern, the US Authorities and the Bank intend to notify each other promptly once such remedial action has been taken. Where practicable and appropriate, the US Authorities and the Bank intend to consult prior to taking action.

ASSISTANCE IN OBTAINING INFORMATION

8 The Bank may request the SEC or the CFTC, to the extent that the SEC or CFTC can do so, to obtain and provide it with information in the possession of a Relevant Firm located in the United States.

The SEC and the CFTC may request the Bank, to the extent that the Bank can do so, to obtain and provide it with information in the possession of a Relevant Firm located in the United Kingdom. The relevant Authorities will consult regarding the basis and terms upon which any such information will be provided.

9 Upon written request to the SEC or CFTC signed by an authorised official of the Bank setting forth a reasonable explanation of the relevance of the information requested to the Bank's supervisory concerns, the SEC or CFTC, as appropriate, may provide to the Bank information regarding a US securities or futures subsidiary within a UK Relevant Firm. Such information normally would not include customer account information unless this is of particular relevance to the supervisory concern prompting the request.

10 Upon written request to the Bank signed by an authorised official of the SEC or CFTC setting forth a reasonable explanation of the relevance of the information requested to the SEC's or CFTC's supervisory concerns, the Bank may provide to the SEC or CFTC, as appropriate, information regarding a UK banking subsidiary within a US Relevant Firm. Such information normally would not include customer account information unless this is of particular relevance to the supervisory concern prompting the request.

11 The US Authorities and the Bank also intend to provide to the other information: (a) reasonably required by the other to facilitate a determination whether a proposed subsidiary meets the requirements for authorisation in the host country or continues to meet the requirements for authorisation; (b) regarding the extent and nature of its supervision of Relevant Firms with operations in the other country; and (c) concerning material changes or developments with respect to its supervisory regime. Such information may be supplied either upon request, to the extent that the information is readily available to the supplying Authority, or in other circumstances where either of the US Authorities and the Bank determine that it is in their mutual interest to exchange such information.

12 The Authorities believe that early detection of serious financial or operational difficulties at a Relevant Firm is critical to the effective resolution of such difficulties. Therefore, in the case of a US or UK Relevant Firm facing serious financial difficulties in the US or UK that could have a material adverse effect on the operations of such Firm in the other country, the Authorities recognise that close liaison would be mutually advantageous. Each Authority will endeavour to communicate such

information relating to a US or UK Relevant Firm as appropriate in the particular circumstances, taking into account all relevant factors, including the status of efforts to address the difficulties.

CO-OPERATION IN EMERGENCY OVERSIGHT

13 The Authorities' aim is to promote mutual consultation and the prompt and productive exchange of information in Emergency Situations. In Emergency Situations, the US Authorities and the Bank will endeavour to notify the other of the Emergency Situation and communicate such information to the other as would be appropriate in the particular circumstances, taking into account all relevant factors including the status of efforts to address the Relevant Firm's difficulties.

14 During an Emergency Situation, requests for information may be made in any form, including orally. Requests should be narrowly framed to secure information that may be useful in connection with responding to the particular Emergency Situation. In responding to requests, information about the Relevant Firm(s) should be made available on an expedited basis.

15 During an Emergency Situation, the US Authorities and the Bank will endeavour to take practical steps to assist the other in monitoring the situation on a timely basis. These will include designating a point person (and a back-up point person) who will be available and competent to discuss the Emergency Situation with the requesting Authority and endeavouring to provide the requesting Authority with relevant and timely information. The Authorities may also jointly decide that it would be appropriate for a representative of the requesting Authority to be physically present at the premises of the relevant Authority to obtain briefings and other information on a regular basis. The type of information which might be exchanged could include: current financial position (balance sheet and off-balance sheet) and income statement; portfolio and credit information, including details of major long and short positions; and counterparty exposures.

16 Throughout an Emergency Situation, the US Authorities and the Bank will endeavour to: (i) continue to make information available on a timely basis; (ii) advise each other of the actions they intend to take to address the Emergency Situation; and (iii) consult regarding the Emergency Situation for as long as the Authorities consider appropriate.

PERIODIC CONSULTATIONS

17 The Authorities intend to consult regarding the scope and operation of this Memorandum, and general supervisory developments, including any significant changes in the laws and regulatory requirements relevant to co-operation pursuant to this Memorandum. The US Authorities and the Bank will also, as appropriate, update each other on issues concerning Relevant Firms, and review whether they have disclosed to each other all relevant information. In addition, every effort will be made to encourage informal contacts between staff of the Authorities, including holding meetings where useful.

USE AND CONFIDENTIALITY OF INFORMATION

18 The Authorities recognise that effective oversight involves co-operation and the sharing of sensitive non-public information. Accordingly, information provided pursuant to this Memorandum is to be used solely for lawful supervisory purposes.

19 Each Authority intends to hold confidential all information received pursuant to this Memorandum to the fullest extent permitted by law, and not to otherwise disclose such information other than as necessary for lawful supervisory purposes.

20 All documents provided pursuant to this Memorandum shall remain the property of the Authority providing such information. Subject to the provisions of paragraphs 18 and 19 above, upon receiving a legally enforceable demand from a third party for non-public supervisory information provided pursuant to this Memorandum, the SEC, CFTC or Bank intend to notify the other relevant Authority as soon as feasible and co-operate with the other in seeking to preserve the confidentiality of such information. Upon receiving any other request from a third-party for non-public supervisory information provided pursuant to this Memorandum, the SEC, CFTC or Bank shall notify the other relevant Authority as soon as possible of the request, and shall not disclose such information without the prior consent of the providing Authority.

21 The sharing of non-public supervisory information pursuant to this Memorandum is done in reliance on the foregoing assurances and is not intended to waive any legally cognizable privilege as to any person other than the parties to this Memorandum.

22 Non-public materials provided by the SEC, CFTC and the Bank, pursuant to this Memorandum, should be marked on each page of the material provided with a legend reading as follows: "NON-PUBLIC-PROVIDED PURSUANT TO SEC/CFTC/BOE MEMORANDUM OF UNDERSTANDING".

MISCELLANEOUS PROVISIONS

23 In addition to the other terms set forth herein, the provision of, or a request for, information under this Memorandum may be denied (a) where compliance would require any of the Authorities to act in a manner that would violate applicable law; or (b) on grounds of public interest or national security.

24 By executing this Memorandum, none of the Authorities waives any immunity from suit to which it may be entitled nor submits to the jurisdiction of any court that would not have been a court of competent jurisdiction if this Memorandum had not been executed. Nothing in this Memorandum limits, expands or affects the respective jurisdiction of the SEC, CFTC or Bank.

25 No provision of this Memorandum is intended to give rise to the right on the part of any person, entity or governmental authority other than the SEC, CFTC or the Bank, directly or indirectly, to request any information or to challenge the provision of information under this Memorandum.

26 The Authorities recognise that the Bank's responsibilities for banking supervision, and in relation to money market institutions listed under section 43 of the Financial Services Act, will be transferred in 1998 to the Financial Services Authority (the new name for the enhanced Securities and Investments Board), which will become the single statutory financial regulator in the UK in the course of 1998-99. Co-operation under this Memorandum will continue after this transfer and its provisions will, from the time of transfer of these responsibilities, cease as between the Bank and the US Authorities and continue in effect between the Financial Services Authority and the US Authorities, as if all references to the Bank in the Memorandum were references to the Financial Services Authority in its capacity as supervisor of banks under the Banking Act 1987 as amended (and as the party responsible for maintaining the list provided for in Section 43 of the Financial Services Act). This Memorandum has accordingly been signed on behalf of the Financial Services Authority to evidence this understanding.

27 Co-operation under this Memorandum is to continue until the expiration of 30 days after any of the Authorities gives written notice to the others of its intention to terminate its co-operation hereunder. If

either of the US Authorities gives such notice, co-operation under this Memorandum will continue with respect to the other two Authorities. Notwithstanding the foregoing, the provisions set forth under the headings "Use and Confidentiality of Information" and "Miscellaneous Provisions" are to continue with respect to any information provided or actions taken under this Memorandum prior to the termination of co-operation hereunder.

DATED this _____ day of _____ 1997

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

By _____
Arthur Levitt
Chairman

UNITED STATES COMMODITY FUTURES TRADING COMMISSION

By _____
Barbara Holum
Commissioner

BANK OF ENGLAND

By _____
Eddie George
Governor

SECURITIES AND INVESTMENTS BOARD [which proposes to change its name by 28 October 1997 to Financial Services Authority]

By _____
Howard Davies
Chairman
[to confirm the understanding set forth in paragraph 26]