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FSM Team
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HM Treasury
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24th April 2003

Dear Sirs,

Financial System and Major Operational Disruption

Please find herewith our response for consultation on the above. ABN AMRO BANK N.V. is a large organisation with many different departments. In the time since I received this request it has not been possible for me to seek the views of other departments, so this response only reflects the views of Funding & Liquidity Management, and should not be considered as representative all of ABN AMRO BANK N.V.

I have responded to individual questions and commented on the text where appropriate.

3c Yes. (If not already planned) a formal procedure should exist to require representatives (Chairs ?) of each market group e.g. MERLIN, MMLG, LMG etc to meet (or communicate) probably under the direction of the Joint Standing Committee, to ensure that their individual recommendations or instructions to their members do not conflict with others.

3.18 It's not clear whether some of these powers currently exist. i.e. The heading states 'existing' yet the first sentence says 'would include' instead of 'does include'. 3.18 Final bullet - Does this Act give the BOE power to suspend settlement and/or call a public holiday at short notice ? (Box 3.4 states BOE 'suggested' and that 'no formal order was made'. So I assume they could have 'directed' a non-settlement day by formal order if necessary.

3.20 Legislation should be strengthened to ensure that powers exist to act in circumstances other than failure of a Recommended Body to meet Recommended Requirements. Ref 4.6.

3.22 Seems to have potential to cause confusion (and litigation) if some institutions choose to perform and other choose not to due to MOD.

4a Yes

4b No, the consultation document adequately covers this.

4c Yes

5a The power (para 5.7) should be with a) the Treasury Minister; b) the BOE (for settlement systems) or c) Non Treasury Government Ministers acting on advice of officers. Power should not be delegated to Treasury Officers themselves. Checks & balances.

5b I personally do not think the legislation should limit itself from being used in a 'purely financial crisis'. For example, had the LTCM crisis been more widespread - say to a major US moneycentre bank, that could have had a knock-on effect to e.g. CLS payments (if they had existed at the time). UK legislation should not be restricted from protecting or supporting UK settlement system integrity in such circumstances. Never say never!

5c No

5d Yes

5e Yes. Legislation should be equal to whatever powers can be exercised by other central banks or authorities. For example, if the BOJ, due to MOD, restricts JPY payments in CLS, the UK authorities must be able to act quickly protect the UK settlement system and it's users.

Box 6.1 With regard to settlement systems, if banks are able to act bilaterally, it would make liquidity management very difficult as Liquidity Managers would not know who was able to perform and who was not. There should be no point when payment obligations may or may not be suspended. It should be all or nothing. (Unless the BOE guarantees to provide whatever Liquidity is required).

6a (Ref 6.8) Legislation should not prescribe the maximum scope of obligations. Box 6.2 - list should not be regarded as exhaustive.

6f Yes. Very, given the international nature and links of markets and settlement systems.

6h No. Because of the example given at the foot of page 35

6i None that come to mind.

6k As soon as practically possible.

6l Yes (allowing for my comments in 5b above).

7a Yes

7b Yes, all

7c Yes

7d (With regard to settlement systems) Any that are deemed necessary to protect and ensure the integrity of the UK payment system and it's members.

7e Protection from litigation must be assured for those being directed to act.

7f Yes (allowing for my comments in 5b above).

In summary, mainly because of the linked and global nature of markets, I think the consultation could have focused more on the international implications of disruption anywhere in the world (e.g. with regard to the Joint Standing Committee, there is no mention of procedures for coordinating on an international basis). I would summarise my whole view as being - **the UK authorities must, through legislation if necessary, have whatever power is required to protect and assure the UK's financial infrastructure and should not limit itself to only local or non financial crisis.**

Please feel free to contact me to discuss any of the above.

Yours Sincerely,

Cliff Broadhurst
Head of Funding & Liquidity Management London

