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Dan Lambeth
Financial System and Major Operational Disruption
FSM Team
Room 4/16
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

The London Clearing House Ltd
Aldgate House
33 Aldgate High Street
London EC3N 1EA

Tel: +44 (0)20 7426 7055
Fax: +44 (0)20 7667 7351
E-mail: andrew.lamb@lch.com
<http://www.lch.com>

Dear Dan,

HM Treasury Consultative Paper (Cm 5751)

Andrew Wren, who has I believe now moved on, rang just ahead of the publication of the paper in February, to give a summary of its contents and to invite LCH to offer its views at a meeting.

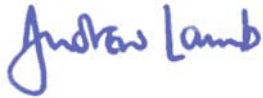
Having considered the paper, and seen some of the formal responses (e.g. ISDA's) and discussed others (e.g. IPE's and LIFFE's), we feel that a meeting offers the best means of providing specific input. What we would particularly like to explore in a meeting are the specific questions raised in chapter 7 about the "possible power to direct financial infrastructure" in the midst of major operational disruption.

In general terms, although we very much welcome the Treasury's initiative, we take the view that market solutions are preferable and would tend to emphasise the potential disadvantages of new legislation or powers that are listed at various levels of particularity and generality in the paper – with the exception of the moral hazard point that 'private sector institutions' might be complacent if legislation were enacted and the public sector therefore presumed to be in the lead. Alongside that emphasis, we would point to the extreme difficulty of deciding what action might appropriately be taken on the basis of any new legislation (and the perhaps seductive attractions of taking action because the powers are there). We also very much share the view that London's role as an international financial centre makes action or actions, albeit in the UK (we answer 'yes' to Question 5d), more problematic.

In relation to what can be done in terms of extra efforts by the markets ('market-based approaches' – question 3a), our feeling is that additional co-ordination needs, pragmatically, to begin with inter-dependent pieces of 'infrastructure' and to work outwards from there. We support and reinforce ISDA's comment to the effect that cleared interest-rate swaps are part of a broader market-place (and the same is of course true of all interest-rate derivatives, whether traded bilaterally or on-exchange, cleared or not-cleared, and so on with other contracts and instruments). But realistically it is not possible for co-ordination to involve all

potentially interested parties. Even our view that additional co-ordination should work outwards from contractually inter-connected parties begins to illustrate the international dimension. Crest is part of the UK infrastructure and is therefore inter-connected in terms of other recognised bodies with LSE, LIFFE and LCH (and prospectively virt-x). But LCH's inter-connection with Crest's parent, Euroclear, is more significant than that with Crest in terms of value and scope.

Yours sincerely



A M Lamb
Managing Director, Risk
& Deputy Chief Executive