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Dear Sirs,

**HM TREASURY CONSULTATION PAPER ON THE FINANCIAL SYSTEM AND MAJOR OPERATIONAL DISRUPTION**

As a leading global financial services firm, JPMorgan Chase has a keen interest in the issues raised in HM Treasury's consultation paper on major operational disruption to the UK financial system. We operate in fifty countries with our largest presence outside the US being in the UK and across a range of businesses including investment banking, investment management, private banking and treasury and securities services. As such, we play a major role in the financial infrastructure of the world's leading financial centres. We have shared our experiences of the September 11<sup>th</sup> attacks in the US with the Bank of England and we participate in many industry bodies which are also responding to the consultation paper. We welcome the Treasury's attention to this important issue at this time.

You have asked how the Treasury, the Bank of England and the Financial Services Authority could help strengthen private sector approaches to dealing with major operational disruptions. We believe that, in such a complex international financial services centre as London, it is vital that there be effective communication and co-ordination among the various participants in the UK financial services sector. It is not apparent that the means for such co-ordination exists at present. For example, we have participated in many different trade associations simply to consider responses to the consultation paper. It would be very helpful if the financial authorities could establish one overall forum in which the various trade associations and market participants, including the exchanges and settlement systems, could be brought together with the financial authorities to discuss these issues in a co-ordinated way.

We think that one of the main objectives of such a forum should be to put into place an effective communications protocol to enable participants to obtain and share reliable information in a timely manner during an operational crisis. From our experiences of such crises, the ability to share such information quickly and easily is a vital tool.

We think that more time is needed to consider your question as to whether it would be helpful for the Government to seek legislative powers to supplement private sector action and, if so, what powers. The London markets operate in a complex, multi-currency and international environment that is closely linked to markets outside the UK (the Continuous Linked Settlement system being just one example). In many ways this makes it more difficult than might be the case for other financial centres to devise legislative solutions that would not have the unwelcome effect of creating more uncertainty or producing unintended consequences for market participants.

For example, on the proposal to create a power to suspend financial obligations, it is inevitable that some obligations within the scope of the suspension power will be linked to obligations falling outside the scope of the power which market participants would then be unable to perform as a result of the suspension (for example, financial transactions arising outside the UK or falling outside the definition of wholesale market obligations).

On the exercise of the direction of infrastructure power, we think, on the basis of our experiences, that in practice the objective should be to attempt to keep markets open rather than to close them and that, if particular markets have to be closed, payments and settlement systems should be kept open where possible to maintain public confidence and to prevent an operational disruption from turning into a credit crisis.

We do not wish to suggest that there is no need for any further legislative powers but we are concerned that it has not been possible within the timeframe for the consultation, nor would be possible within the legislative timetable for the Civil Contingencies Bill, to carry out the detailed analysis that would be required.

We would very much welcome the opportunity to discuss our views with you and to participate in any industry forums or working parties that are formed to consider these matters further.

Yours faithfully,

Mark Garvin  
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