



Prime Minister

①

Agree that BNA be exempted?

MCS 1/12

Treasury Chambers, Parliament Street, SW1P 3AG

Why does the Gov. feel that the Argentine would be in a position to honor the guarantee?

30 November 1982

M C Scholar Esq  
10 Downing Street  
LONDON  
SW1

Dear Michael,

BANKING ACT 1979: EXEMPTION FROM DEPOSIT PROTECTION FUND:  
APPLICATION FROM THE BANCO DE LA NACION ARGENTINA

You will recall that the Deposit Protection Fund was set up earlier this year under the provisions of the Banking Act 1979 in order to afford some protection to depositors. All non-exempt banks are required to contribute to the Fund. In most cases the contribution, which is based on sterling deposits, is pretty small.

The Banco de la Nacion Argentina, which is a state-owned bank, is one of 30 or so foreign banks in London whose applications for exemption from the obligation to contribute to the Fund have been recommended to the Treasury by the Deposit Protection Board. The Banking Act makes it clear that it is the Treasury's duty to decide which applications should be accepted. The exemptions are then put into effect by a statutory instrument subject to the negative resolution procedure. It is hoped that the first such Order will be made shortly.

Sterling deposits with the BNA in the UK are guaranteed by the Argentine Government. Such a guarantee is normally sufficient to secure exemption from the obligation to contribute. The problem with the BNA, however, is whether the Argentine Government's guarantee is acceptable. Following consultations at official level with the FCO and the Bank of England, the Economic Secretary has concluded that, now that financial relations with Argentina are in the process of normalisation, there are no grounds on which he could reasonably refuse to accept the Argentine guarantee. He has therefore decided to include the BNA in the list of foreign banks to be exempted.



It is likely that this decision will receive some publicity, at least in the financial press, and it is possible that there may be some criticism in the press and Parliament generally. Treasury Ministers would respond to any criticism by pointing out that there are no grounds for refusing the BNA's application under the Banking Act 1979 in the present state of financial relations with Argentina. The effect of exemption is only to save the BNA from paying a token (probably £2,000) initial contribution to the Fund, and future small payments if the Fund requires further support.

I should be most grateful if you could let me know by the end of this week if you see any objection to the Economic Secretary's proposals.

I am sending copies of this letter to Brian Fall in the FCO, and Tim Allen in the Governor's Office at the Bank of England.

*yours sincerely,*

*Chris Harrison*

C D HARRISON