



Prime Minister

Do you now agree that  
the BNA should

Treasury Chambers, Parliament Street, SW1P 3AG

be exempted

M C Scholar Esq  
10 Downing Street  
LONDON  
SW1

from the obligation to  
contribute to the  
Deposit Protection Fund?

10 December 1982

MUS 10/12

*How far could  
it be used as a  
precedent for  
other subsidiaries  
in London who  
international  
debt problems  
are coming  
concern?*

Dear Michael,

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

Thank you for your letter of 3 December about the BNA's  
application for exemption from the Deposit Protection Fund.

As its name suggests, the Banco de la Nacion Argentina (BNA),  
is a state-owned organisation which is charged inter alia with  
holding the foreign currency funds of national organisations,  
public authorities, and nationalised industries in Argentina,  
and carrying out banking operations abroad for them. The  
London branch deals with the financing of foreign trade,  
mainly for Argentine state-owned organisations, but also  
some private sector bodies and bodies from other Latin American  
states; it holds the personal accounts of Argentine diplomats  
in this country and Europe and of some Argentine nationals;  
and it undertakes a modest amount of business in the market,  
for example on syndicated loans.

As a branch (not a subsidiary) the BNA in London is an integral  
part of its parent in Argentina. If the BNA in London could  
not meet its obligations, and the Head Office was unable or  
unwilling to support the London branch, the state guarantee  
would be called. If this guarantee was not met, the operations  
of the BNA world-wide would be put into question. The failure  
of the BNA could provoke a general default by Argentina. The  
Treasury believes that Argentina is likely to go to considerable  
lengths to avoid the very serious consequences of a default,  
and so would back the BNA's obligations. If Argentina became  
temporarily unable to meet her own obligations, an agreement with  
creditors could of course mean that depositors in the BNA had  
to wait for their money, but as these depositors are very largely  
Argentine enterprises and Argentine citizens, the impact would  
fall for the most part on Argentina. In this context it is



*nothing?*

Perhaps worth noting that if we do not exempt the BNA the Deposit Protection Fund would be responsible for making good the losses of depositors in the London branch of the BNA, should the Argentine Government fail to meet the guarantee. This would mean that the British clearing banks would pay the lion's share of the compensation payments, which are limited by statute to 75% of the first £10,000 lost by each depositor.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office) and Tim Allen (Bank of England).

*yours sincerely,*

*Chris*

C D HARRISON  
Private Secretary



Econ 101 : Indelbednes Pt 2

10 DEC 1982

121234  
101  
07654



CONFIDENTIAL



10 DOWNING STREET

①

Prime Minister

We were discussing this.

If we do exempt this Bank we may be criticised for recognizing its head office (or the Argentine state) as a suitable guarantor. To that we would have to reply that, as financial relations with Argentina normalise, yes we do think them suitable.

If we do not exempt them, the Fund would have to pay up on a default.

Agree to exemption - I kind if

PTO



hard to see on what grounds we  
could refuse the application for  
exemption.

MCS 13/12

Answer to exemption

mt



10 DOWNING STREET

*From the Private Secretary*

14 December 1982

*Dear Chris,*

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

---

Thank you for your further letter, dated 10 December, about the application from the Banco de la Nacion Argentina for their exemption from contributing to the Deposit Protection Fund.

I have shown this to the Prime Minister, who agrees that the Treasury may accept this application, and grant the exemption sought.

I am sending copies of this letter to Brian Fall (FCO) and Tim Allen (Bank of England)

*Yours sincerely,*

*Michael Scholar*

C.D. Harrison, Esq.,  
HM Treasury.

*822*



File 16  
Ccon PA

10 DOWNING STREET

*From the Private Secretary*

3 December 1982

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

---

Thank you for your letter of 30 November in which you sought agreement to the inclusion of the Banco de la Nacion Argentina in the list of foreign banks to be exempted from the obligation to contribute to the Deposit Protection Fund.

I showed your letter to the Prime Minister. She has asked on what grounds it is thought the Argentine Government would be in a position to honour their guarantee to sterling deposits with the Banco de la Nacion Argentina.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office) and Tim Allen (Bank of England).

M. C. SCHOLAR

C. D. Harrison, Esq.,  
Office of the Economic Secretary,  
H. M. Treasury.

285