

Confidential Filing

Correspondence from and meetings
with Sir. Walter Salomon, a
private banker

ECONOMIC POLICY

PART 1: May 1979

PART 2: February 1987

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4.3.87							
6.4.87							
9.4.87							
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DS
abg

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

9 April 1987

Dear Peter,

PRIME MINISTER'S MEETING WITH SIR WALTER SALOMON

Thank you for your letter of 7 April about the continuation of the meeting with Sir Walter Salomon after the Prime Minister had left. The Prime Minister was glad to see this.

Your letter gives an adequate flavour of the conversation before the Prime Minister had left and there is nothing I would wish to add to the record.

*Yours sincerely,
David Norgrove.*

D R NORRGROVE

P. D. P. Barnes, Esq.
Economic Secretary's Office
H. M. Treasury

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v6

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Prime Minister²
 For the final
 paragraph of this letter.

Treasury Chambers, Parliament Street, SW1P 3AG

DLW
 8/4.

David Norgrove Esq
 No. 10 Downing Street
 London
 SW1A 0AA

7 April 1987

Dear David,

PRIME MINISTER'S MEETING WITH SIR WALTER SALOMON

The Economic Secretary thought that the Prime Minister might like to know what happened after she left the meeting this morning with Sir Walter Salomon.

Sir Walter Salomon and the Economic Secretary continued the discussion about banking and banking supervision, concentrating mainly on the shortage of suitable names for positions of public responsibility.

Sir Walter confirmed his high regard for Sir Timothy Bevan and Sir David Scholey, and thought that Mr Win Bischoff of Schrodgers (who may be a foreign national) was very good. He also rated Mr John Redwood highly.

The continued conversation demonstrated that Sir Walter is better equipped to identify areas of difficulty than to resolve them. He promised to submit any other names which might on further reflection be suitable, but it is clear that his close knowledge of leading individuals in the City is now becoming rather out of date.

The Economic Secretary has commented that Sir Walter's conversation with the Prime Minister was very similar to one he had had himself, and he thinks that Sir Walter's views are very heavily coloured by his own experience of the episode he described. He is very reluctant to accept that the same problem of getting the right people applies whether the banking supervisory authority is within the Bank of England or independent of it.

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For the Prime Minister's information, the Board of Banking Supervision can only be established formally when the Banking Bill is enacted. In the meantime a Board has been operating informally. It includes the following names: Mr Andrew Caldecott, Chairman of the M & G Group; Sir Peter Graham, Chairman-designate of Standard Chartered Bank; Mr Alan Hardcastle, Senior partner in Peat, Marwick, Mitchell & Co; Mr Nigel Robson, Chairman of the Royal Trust Company of Canada; Mr Deryk Vander Weyer, former Group Deputy Chairman of Barclays Bank. Because of his appointment as Chairman of Standard Chartered Bank, Sir Peter Graham has left the informal board, but the other existing names are likely to be appointed. This leaves two vacancies, of which the Economic Secretary thinks at least one ought to be filled by a senior banker.

Yours sincerely,

Peter Barnes

P D P BARNES
Private Secretary

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CONDNER

PRIME MINISTER

MEETING WITH SIR WALTER SALOMON

You are meeting Sir Walter at his pressing request. The Economic Secretary will be present, unless you object.

This meeting can have no practical effect: the Banking Bill will have completed its report stage in the Lords today.

Sir Walter objects to what he sees as encroachments on the right of bankers to run their businesses as they see fit, and he believes that supervision should be carried out by an independent body and not by the Bank of England.

Clearly he will have to be made to understand that bankers need to be supervised and the events of the last 10-15 years, from the secondary banking crisis to JMB, show that some more formal system of supervision is needed, and this has been reinforced by the Big Bang.

In asking for an independent body, outside the Bank of England, he has a more respectable point. But the new Board of Banking Supervision will have an independent role, even though it will operate within the structure of the Bank of England. It will include senior people with outside expertise of banking and there are safeguards to ensure that this independent voice is heard, including the right of independent Board members to approach the Chancellor if their advice is rejected. Banking supervision outside the Bank of England would separate it from the broader expertise within the Bank, and the other functions carried out there.

Amanda Ross

PP DAVID NORGROVE

6 April 1987

VC4AND

Ce BA
Blup

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
No. 10 Downing Street
LONDON
SW1A 0AA

6 April 1987

Dear David

BANKING BILL : PRIME MINISTER'S MEETING WITH SIR WALTER SALOMON

As you know, the Prime Minister is meeting Sir Walter Salomon tomorrow morning at 10.30am. The Economic Secretary will be present at the meeting.

I attach, as requested, a short briefing note for the Prime Minister's use for the meeting.

Yours sincerely,

P D P BARNES
Private Secretary

BANKING BILLBRIEFING FOR PRIME MINISTER'S MEETING WITH SIR WALTER SALOMON

1. Sir Walter Salomon wrote to you on 19 February (Flag A) asking for the opportunity to discuss his points on the Banking Bill. You replied on 3 March (Flag B). The Economic Secretary has met Sir Walter more than once to discuss these points, and has also covered the issue in writing.

2. The Bill will have completed its Report Stage in the Lords on 6 April and is expected to be given Royal Assent in early May. The purpose of the Bill is to introduce an improved statutory framework for banking supervision, following the weaknesses exposed by the Johnson Matthey Bankers affair, and to keep pace with the changing nature of banking business.

3. Sir Walter has been an active commentator on banking supervision since the introduction of the existing legislation in the Banking Act 1979. His criticisms of the Bill fall under two general headings:

(a) encroachments on the right of bankers to run their businesses as they see fit, by giving the supervisors statutory powers of investigation and direction; and

(b) the belief that supervision should be carried out by an independent body and not by the Bank of England, to avoid conflicts of interest with the Bank's responsibilities as a Central Bank.

In both cases Sir Walter's case is influenced by what he considers to be a low level of competence on the part of - at least some - of the Bank's supervisory staff; and therefore of the need for experienced bankers to play a part in the supervisory process.

Line to take

4. It is accepted that there has to be a balance between the statutory powers available to supervisors to protect the public, and the rights and liberties of those subject to the powers. Believe balance is reflected in the Bill. Indeed, the procedures for appeal to an independent Tribunal against the supervisors' decisions have been strengthened in the Bill. - But equally clear, not least from recent events in the City, that the authorities must have fully adequate powers to supervise and control financial institutions.

5. [On the question of an independent supervisory body] the Government has given the possibility serious consideration but was not convinced that such a change was justified given the upheaval, and loss of continuity and useful 'cross fertilization' with other areas of Bank expertise that would result. Nor has the potential for conflicts proved to be a problem in practice over the many years for which the Bank has been responsible for supervision. Nevertheless, the Bill does establish a new Board of Banking Supervision with an independent role. It will have senior people with outside experience of banking and will give advice to the Bank at the most senior level. There are safeguards to ensure that this independent voice is heard, including the right of independent Board members to approach the Chancellor if their advice is rejected.

6. Role of the Board is also very much relevant to the legitimate concern that the supervisors should have relevant commercial expertise. Bank is also stepping-up its programme of secondments to this end. Would of course be of serious concern if the supervisors were not competent, but this is not the message one usually hears. Bank is considered a world leader among supervisory authorities: much respected overseas, and in the forefront in tackling complex problems of supervision in international markets. With the exception of occasional untypical problems, basic system of supervision has served the country well.

SIR WALTER SALOMON

NEPTUNE HOUSE
TRITON COURT
14 FINSBURY SQUARE
LONDON EC2A 1BR
TEL. 01-256 8873

19th February, 1987

Dear Prime Minister,

You have from time to time afforded me the privilege of bringing to your attention a number of matters in which I felt you would be interested. Although I know you are extremely busy at this time I would appreciate an interview in order to raise a number of most important points. I would also like to draw your attention to some other points which are connected and which have arisen in the past. In order that you should be briefed in the interview, I enclose a number of papers which refer to some of the more important aspects.

I should like to add that I have discussed the matter with Alan Walters and as well with John Redwood and they have authorised me to say that they share the views I expressed to Ian Stewart. I had hoped a meeting could be set up amongst us all but, unfortunately, although I invited him to come over Alan Walters could not fit it in, and the matter is now of specific urgency in view of the far advanced stage in Committee of the Banking Bill.

Unfortunately, the papers alone, in themselves, would not give you a clear view of what has happened and is happening now; there are matters which I could not put down in writing because they are of a rather confidential nature and I would prefer to inform you alone about them.

You will know from past experience that I do not lightly take up your time. May I be allowed, for record purposes, to recite one or two matters in which I was involved:

1. my evidence to the Radcliffe Committee on the Monetary and Credit System contained in the booklet I sent to you earlier this week.
2. the suspension of exchange control regulations which I advised would not and did not give rise to panic reactions. I felt at the time, and still feel that it was a grave mistake not to repeal the Exchange Control Act entirely (take it off the Statute Book) because the danger remains of the reintroduction of the regulations by decree if there is a change of political direction. The reason given by the government at the time for not removing it from the Statute Book was that under an international agreement we have the obligation to be able to control our capital movements. This could easily have been achieved by a short Act of Parliament.
3. my strong objection to the now existing Banking Act, which I expressed in an address given to the Institute of Bankers on 1st April, 1980, (copy enclosed) in which circumstances have proved me entirely right.

4. The decision in line with my advice not to join the EMS which I warned was a political rather than a purely monetary set-up and could be counter-productive as far as this country was concerned.

I take great exception to the continuance under the new Banking Bill of the wide and largely unfettered supervisory jurisdiction of the Bank of England. Its position remains ambiguous and gives rise to potential conflict in that it has responsibility on the one hand for prudential supervision of banks and on the other hand for the stability and efficient running of the monetary markets.

The sweeping powers to interfere with the rights of shareholders, which under recent proposed amendments can be operated retrospectively, are a frightful erosion of individual liberty giving rise to serious long-term consequences and make it all the more important that there be a division of those responsibilities.

The Board of Banking Supervision is no protection in that it remains an advisory body only, despite the recent proposal that the independent members should have the right to inform the Chancellor of the reasons for any advice they give which is not followed.

Apart from this, those within the supervisory division of the Bank of England (who to a large extent are not practical bankers) together with the Bank and others are to have a complete immunity against claims for damages in the absence of bad faith which it will be very difficult, if not impossible, for an aggrieved party to establish.

I am very concerned that on the introduction of the new Banking Bill we are not taking the opportunity to rectify the present most unsatisfactory supervision arrangements by introducing an entirely independent body for this purpose. Instead, we will continue to ignore the interests of shareholders of banks and in some respects place them under additional disadvantages.

I was interested to read an article by the Banking Correspondent of The Times Newspaper in its issue of 18th February, referring to an amendment proposed to the Banking Bill to empower the Treasury, in the absence of reciprocity, to block foreign holdings in British banks or the exercise of voting rights attached to such holdings. The article states that the proposed amendment follows a similar clause in the Financial Services Act because "in the case of banks, the removal of a licence - which could cause a run on deposits - was felt to be so drastic as to be unusable".

My views are expressed at greater length in the papers herewith
and I will supplement them at the meeting which I hope you will find
it possible to arrange in the near future.

Warmest regards
yours ever
Indira Gandhi

The Rt. Hon. Mrs. Margaret Thatcher, MP.,
10 Downing Street,
London, SW1



10 DOWNING STREET
LONDON SW1A 2AA

TSF
As agreed.
P 4/3

3 March 1987

THE PRIME MINISTER

Dear Sir Walter,

Thank you very much for your letter of 19 February. I am very sorry to say that it will not be possible to meet you to discuss this during the next few weeks. But I have looked very carefully into the points you raised in your letter.

I have great sympathy with your concern that the supervision of banks should be carried out effectively, but without unreasonable encroachment on individual rights and liberties. Clearly a balance is needed so that firm and effective powers are available to protect depositors and financially unsophisticated members of the public, but matched by adequate controls to prevent abuse of such powers.

I think that the Government's Banking Bill has this balance about right. For example, in any case where the Bank of England is empowered to grant or refuse to grant authorisation, or restrict or impose conditions on an authorisation, or give directions to an authorised institution, then the exercise of that power is subject to appeal. If the institution, or any individual affected by the decision, is not satisfied then they will have a right of appeal to an independent Tribunal, under the jurisdiction of the Council on Tribunals. The same applies to any decisions by the Bank concerning the controls on shareholders, which you mentioned in your letter. This is in addition to, and leaves unaffected, a person's right of recourse to the Courts.

In the same way, a sensibly balanced approach has been taken to the question of who should carry out the job of supervision. In the UK, this task has traditionally been the responsibility of the Bank of England and that was reflected in the Banking Act 1979 which placed statutory supervisory functions on the Bank.

In the course of reviewing that Act, we have considered seriously whether it would be better to create a new supervisory body separate from the Bank. I recognise that there might be advantages in this in some circumstances and I appreciate why you argue the case for such a change. But we were nevertheless not convinced that, in the context of UK banking, the possible advantages could outweigh the risks and difficulties of such a fundamental change. Despite occasional isolated problems, the British system of banking supervision has in general served us well.

I would also stress the point, which I know Ian Stewart has made to you, concerning the importance we attach to the role of the new Board of Banking Supervision. The Board, which will have an essentially independent role, is there to ensure that the Bank's decisions are taken in the light of advice from senior people with outside experience of banking. The Bill includes safeguards to ensure that their voice will be heard; and these now include a right for the Board's independent members to approach the Chancellor of the Exchequer if their advice is rejected.

The creation of this statutory Board is an important step. It is relevant not only to your concern that the Bank, acting alone, might suffer from conflicting duties, but also to the need for experienced bankers to contribute to the supervisory process and to monitor the exercise by the Bank of its statutory powers and functions.

It is particularly important at this time that the statutory framework for supervision of financial institutions

is - and is seen to be - adequate to deal with the challenges and problems of modern financial markets. The Banking Bill is a key part of this framework. It stands very much to the credit of this Government that the Banking Bill will be the third major piece of supervisory legislation to be completed, following the Financial Services Act and the Building Societies Act last year. The Bill has been given a general welcome in Parliament.

Because I value your own support in these matters, I hope that what I have said is helpful and will go some way towards reassuring you.

Kind regards,

Yours sincerely

Nayana Thakur

Sir Walter Salomon

SIR WALTER SALOMON

NEPTUNE HOUSE
TRITON COURT
14 FINSBURY SQUARE
LONDON EC2A 1BR
TEL: 01-256 8873

Prime Minister!
Do you wish now to
see Sir Walter?

Yes mb

4th March, 1987

Dear Prime Minister, 4/3
DWS

Thank you very much for your letter dated 3rd March. With the overwhelming pressure of responsibility with which you have to deal I could not have expected that you would study in detail the papers which I submitted. You naturally gave them to your advisers. There is an old saying "dog doesn't eat dog", and the conclusions which they came to in no way meet the criteria which I set out in my papers.

Of course, one of the things I suggested was that we have a personal meeting at which I could give you some information (which I would not wish to put in writing) which might have influenced your judgment, but alas, I quite understand you are very busy and other things must take priority. However, I feel that this matter is of such importance that if at all you could squeeze in half an hour to see me I would very much welcome it. I am afraid that the letter which I am now acknowledging does nothing at all to reassure me.

I hope you will forgive my direct approach, but you know me well enough to know that I cannot sit back and keep quiet on a matter where such vital principles are involved.

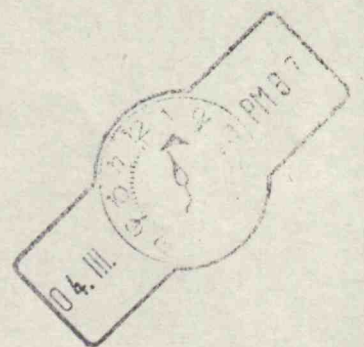
Last, but not least, I quote to you the well-known Latin expression: quis custodiet?

With a prayer
Yours faithfully
Arthur M. Jones

The Rt. Hon. Mrs. Margaret Thatcher, MP.,
10 Downing Street,
London, SW1

RECEIVED
MAY 15 1967
FEDERAL BUREAU OF INVESTIGATION
WASHINGTON, D.C.

MAIL ROOM



SIR WALTER SALOMON

NEPTUNE HOUSE
TRITON COURT
14 FINSBURY SQUARE
LONDON EC2A 1BR
TEL: 01-256 8873

4th March, 1987

Dear Mrs Gaisman,

I enclose herewith a letter addressed to the Prime Minister
and should be most grateful if you would kindly put it before
her at the earliest possible moment.

Yours sincerely
Tessa Gaisman

Mrs. Tessa Gaisman





10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

3 March 1987

Dear Sir Walter,

Thank you very much for your letter of 19 February. I am very sorry to say that it will not be possible to meet you to discuss this during the next few weeks. But I have looked very carefully into the points you raised in your letter.

I have great sympathy with your concern that the supervision of banks should be carried out effectively, but without unreasonable encroachment on individual rights and liberties. Clearly a balance is needed so that firm and effective powers are available to protect depositors and financially unsophisticated members of the public, but matched by adequate controls to prevent abuse of such powers.

I think that the Government's Banking Bill has this balance about right. For example, in any case where the Bank of England is empowered to grant or refuse to grant authorisation, or restrict or impose conditions on an authorisation, or give directions to an authorised institution, then the exercise of that power is subject to appeal. If the institution, or any individual affected by the decision, is not satisfied then they will have a right of appeal to an independent Tribunal, under the jurisdiction of the Council on Tribunals. The same applies to any decisions by the Bank concerning the controls on shareholders, which you mentioned in your letter. This is in addition to, and leaves unaffected, a person's right of recourse to the Courts.

BM

In the same way, a sensibly balanced approach has been taken to the question of who should carry out the job of supervision. In the UK, this task has traditionally been the responsibility of the Bank of England and that was reflected in the Banking Act 1979 which placed statutory supervisory functions on the Bank.

In the course of reviewing that Act, we have considered seriously whether it would be better to create a new supervisory body separate from the Bank. I recognise that there might be advantages in this in some circumstances and I appreciate why you argue the case for such a change. But we were nevertheless not convinced that, in the context of UK banking, the possible advantages could outweigh the risks and difficulties of such a fundamental change. Despite occasional isolated problems, the British system of banking supervision has in general served us well.

I would also stress the point, which I know Ian Stewart has made to you, concerning the importance we attach to the role of the new Board of Banking Supervision. The Board, which will have an essentially independent role, is there to ensure that the Bank's decisions are taken in the light of advice from senior people with outside experience of banking. The Bill includes safeguards to ensure that their voice will be heard; and these now include a right for the Board's independent members to approach the Chancellor of the Exchequer if their advice is rejected.

The creation of this statutory Board is an important step. It is relevant not only to your concern that the Bank, acting alone, might suffer from conflicting duties, but also to the need for experienced bankers to contribute to the supervisory process and to monitor the exercise by the Bank of its statutory powers and functions.

It is particularly important at this time that the statutory framework for supervision of financial institutions

is - and is seen to be - adequate to deal with the challenges and problems of modern financial markets. The Banking Bill is a key part of this framework. It stands very much to the credit of this Government that the Banking Bill will be the third major piece of supervisory legislation to be completed, following the Financial Services Act and the Building Societies Act last year. The Bill has been given a general welcome in Parliament.

Because I value your own support in these matters, I hope that what I have said is helpful and will go some way towards reassuring you.

Kind regards,

Yours sincerely

Nayana Mahite

Sir Walter Salomon

Sir Walter SALOMON

27/2



File PA.
encls sent to
HMT with request
to return with
draft.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 February 1987

SIR WALTER SALOMON

The Prime Minister has now agreed to write to Sir Walter Salomon rather than to see him.

I should be grateful for a detailed and sympathetic draft reply which the Prime Minister might send to Sir Walter. It may cause some offence to Sir Walter that the Prime Minister is not willing to see him, and to help matters on this I should be grateful to receive the draft in time for the Prime Minister's weekend box.

I enclose the material Sir Walter sent the Prime Minister.

(David Norgrove)

Peter Barnes, Esq.,
HM. Treasury.

KB



Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
10 Downing Street
LONDON
SW1A 2AA

27 February 1987

Dear David,

SIR WALTER SALOMON

Thank you for your letter of 25 February.

... I attach a draft reply as requested for the Prime Minister to send to Sir Walter Salomon. It is possible that you will want to condense this letter, but the Economic Secretary thinks that it would be helpful in answering Sir Walter for the Prime Minister to spell out the arguments in some detail.

Yours sincerely,

Peter Barnes

P D P BARNES
Private Secretary

DRAFT LETTER FOR PRIME MINISTER TO SEND TO SIR WALTER SALOMON

Sir Walter Salomon FIB
Neptune House
Triton Court
14 Finsbury Square
LONDON EC2A 1BR

Please type,

DS

EL3BUA

BANKING BILL

Thank you very much for your letter of 19 February.
~~Much as I should like to, I am afraid that pressure of other business will prevent my being able to meet you for a discussion. I have, as you know, found our previous conversations interesting and helpful, but~~

It will not be possible to meet during the next few weeks. But
I have ~~however been able to look~~ *looked very carefully* into the points you raised in your letter, ~~and~~ I have great sympathy with your concern that the supervision of banks should be carried out effectively, but without unreasonable encroachment on individual rights and liberties. Clearly a balance is needed so that firm and effective powers are available to protect depositors and financially unsophisticated members of the public, but matched by adequate controls to prevent abuse of such powers.

I think that the Government's Banking Bill has this balance *about* right. For example, in any case where the Bank of England is empowered to grant or refuse to

grant authorisation, or restrict or impose conditions on an authorisation, or give directions to an authorised institution, then the exercise of that power is subject to appeal. If the institution, or any individual affected by the decision, is not satisfied then they will have a right of appeal to an independent Tribunal, under the jurisdiction of the Council on Tribunals. The same applies to any decisions by the Bank concerning the controls on shareholders, which you mentioned in your letter. This is in addition to, and leaves unaffected, a person's right of recourse to the Courts.

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In the course of reviewing that Act, serious consideration has been given to whether it would be better to create a new supervisory body separate from Bank. I recognise that there might in some circumstances be advantages in so doing, and I appreciate why you argue the case for such a change. But we were nevertheless not convinced that, in the context of UK banking, the possible advantages could outweigh the risks and difficulties of such a fundamental change. Despite occasional isolated problems, the British system

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As I have said, the creation of this statutory Board is an important step. It is relevant not only to your concern that the Bank, acting alone, might suffer from conflicting duties, but also to the need for experienced bankers to contribute to the supervisory process and to monitor the exercise by the Bank of its statutory powers and functions.

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third major piece of supervisory legislation to be completed, following the Financial Services Act and the Building Societies Act last year. The Bill has been given a general welcome in Parliament.

Because I value your own support in these matters, I hope that what I have said is helpful and perhaps goes some way towards removing your concerns.



COMMUNICATIONS

III

~~David N~~

~~Tessa~~
✓ The Prime Minister has
26/2 decided to write,
David.

I am still "holding" on (F)
Walker Saloman although I wish
need to go back to the Ec. Sec's
office about this as they have
things pencilled in - and I am
stalling W. Saloman himself.

Can you let me know what's
happening?

Tessa
25/2

papers please att

*ie letter from
Walter
Salomon.*

PRIME MINISTER

SIR WALTER SALOMON

You said that you felt you would have to see Sir Walter Salomon about the Banking Bill.

May I come back to you on this, in view of the very great pressures on your diary over the coming weeks and your comments at yesterday's diary meeting?

There is absolutely no possibility that Sir Walter Salomon will be able to change the Government's position on the proposed Banking Commission, and the record, attached, of the meeting he had with the Economic Secretary would very probably be replicated at a meeting with you. (You might also look at the confidential annex to that record.)

Would you be willing to write to Sir Walter rather than meet him?

Yes

DWS

David Norgrove
24 February 1987



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 February 1987

Thank you very much for your letter of
19 February and enclosures which I will of
course make sure the Prime Minister sees.

Mrs. Tessa Gaisman

Sir Walter Salomon

PRIME MINISTER

SIR WALTER SALOMON

Sir Walter Salomon has sent you the large bundle of papers below in which he proposes that the Banking Bill should provide for a body to supervise banks which would be completely independent of the Bank of England. He asks for a meeting.

Ian Stewart has been corresponding with Sir Walter courteously and at length, and has also met him. But Sir Walter is persistent. The Treasury believe that the origin of his complaint lies in an incident when the Bank of England made Rea Brothers provide much more against a possible bad debt than Sir Walter thought was justified, with consequent effects on their financial position.

There would be no objection from the Treasury point of view to your seeing Sir Walter now: the problems at Rea Brothers have been resolved. But a meeting would almost certainly not be productive, except in the sense of staying in touch with an old acquaintance.

Would you like to see Sir Walter or to write a full and sympathetic letter?

DW

David Norgrove
20 February 1987

I shall have to see him
I will take at least 45 mins. (I'll
him & show) He will come with
various statements written down
MS

SIR WALTER SALOMON

NEPTUNE HOUSE
TRITON COURT
14 FINSBURY SQUARE
LONDON EC2A 1BR
TEL: 01-256 8873

19th February, 1987

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3. my strong objection to the now existing Banking Act, which I expressed in an address given to the Institute of Bankers on 1st April, 1980, (copy enclosed) in which circumstances have proved me entirely right.

4. The decision in line with my advice not to join the EMS which I warned was a political rather than a purely monetary set-up and could be counter-productive as far as this country was concerned.

I take great exception to the continuance under the new Banking Bill of the wide and largely unfettered supervisory jurisdiction of the Bank of England. Its position remains ambiguous and gives rise to potential conflict in that it has responsibility on the one hand for prudential supervision of banks and on the other hand for the stability and efficient running of the monetary markets.

The sweeping powers to interfere with the rights of shareholders, which under recent proposed amendments can be operated retrospectively, are a frightful erosion of individual liberty giving rise to serious long-term consequences and make it all the more important that there be a division of those responsibilities.

The Board of Banking Supervision is no protection in that it remains an advisory body only, despite the recent proposal that the independent members should have the right to inform the Chancellor of the reasons for any advice they give which is not followed.

Apart from this, those within the supervisory division of the Bank of England (who to a large extent are not practical bankers) together with the Bank and others are to have a complete immunity against claims for damages in the absence of bad faith which it will be very difficult, if not impossible, for an aggrieved party to establish.


I am very concerned that on the introduction of the new Banking Bill we are not taking the opportunity to rectify the present most unsatisfactory supervision arrangements by introducing an entirely independent body for this purpose. Instead, we will continue to ignore the interests of shareholders of banks and in some respects place them under additional disadvantages.

I was interested to read an article by the Banking Correspondent of The Times Newspaper in its issue of 18th February, referring to an amendment proposed to the Banking Bill to empower the Treasury, in the absence of reciprocity, to block foreign holdings in British banks or the exercise of voting rights attached to such holdings. The article states that the proposed amendment follows a similar clause in the Financial Services Act because "in the case of banks, the removal of a licence - which could cause a run on deposits - was felt to be so drastic as to be unusable".

My views are expressed at greater length in the papers herewith
and I will supplement them at the meeting which I hope you will find
it possible to arrange in the near future.

Warmest regards
Yours ever
Indira Gandhi

The Rt. Hon. Mrs. Margaret Thatcher, MP.,
10 Downing Street,
London, SW1



COPY/

C O R R E S P O N D E N C E

with

Mr. Ian Stewart
Economic Secretary to the Treasury

19.2.1987

SIR WALTER SALOMON

NEPTUNE HOUSE
TRITON COURT
14 FINSBURY SQUARE
LONDON EC2A 1BR
TEL: 01-256 8873

4th February, 1987

Thank you very much for your letter dated 2nd February. I note what you say.

I shall now think the matter over and see how I can advance my views in a different way.

With all good wishes.

Ian Stewart, Esq.,
Economic Secretary to the Treasury,
Treasury Chambers,
Parliament Street,
London, SW1

Sir Walter Salomon FIB
Neptune House
Triton Court
14 Finsbury Square
LONDON EC2A 1BR

2nd February 1987

Dear Walter,

Thank you for your letter of 21 January.

I enjoyed our meeting, and the opportunity to hear your views at first hand. I am grateful for this further underlining of the points about which you feel strongly.

There is, however, one point in your letter where I need to correct your interpretation of what I said. In saying that I was giving consideration to changes designed to strengthen the role of the independent members of the Board of Banking Supervision, I did not indicate that I was reconsidering the question of whether the supervisory function should remain with the Bank of England.

I should make it quite clear that the Government has taken a firm decision not to set up a new independent supervisory body for banks. It is indeed the case that the decision was taken "on balance", and that an independent body was one of the options we looked at; but I should not like you to feel that there was any prospect of the Government changing its mind on this fundamental point at this stage. At our meeting, I explained to you that in my view you give insufficient weight in your arguments to the role of the new Board of Banking Supervision. This will be a source of independent opinion on supervision matters, to which the Bank must make reports, and which will inform the Chancellor if the advice of the independent members is not followed. Concerns have been expressed in Committee about the need to ensure that the Board has a sufficiently high degree of independence, and it was in this respect that I undertook to give thought to how it might be further strengthened.

I should add that the views I have explained to you are fully shared by the Chancellor.

With all good wishes
Yours sincerely
Ian Stewart

IAN STEWART

SIR WALTER SALOMON FIB,

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STRICTLY PRIVATE AND CONFIDENTIAL

21st January, 1987

BANKING BILL

Thank you for the courtesy shown me at our meeting on the 25th January in the presence of your Mr. Hall and Mr. Barnes.

In view of the importance I attach to this matter I am writing to reiterate some of the comments I made at the meeting and I am heartened by your assurance that you had not made up your mind as to the creation of a new independent supervisory body although in your letter to me of the 17th December you wrote that a decision had been taken "on balance" against such a body.

It was kind of you to suggest that, had I been a member of the Committee, the arguments in favour of an independent authority would have been presented more effectively than had been the case.

You support the view that supervisory powers should remain with the Bank of England on the footing that other central banks in Europe have such responsibility and that its transfer to an independent body would give rise to "loss of continuity and administrative upheaval".

On the first point, a letter dated 23rd December from the Bank for International Settlements, of which I handed you a copy, records that in the majority of European countries, banking supervisory functions are vested in bodies separate from central banks. I am sure this does not prevent the "cross fertilization" to which you refer in the fourth paragraph of your letter of the 17th December.

As to the second point, I suggested that you read "Audit of War" by Professor Correlli Barnett of Cambridge in which he showed that the desire to avoid loss of continuity and upheaval has been for many years one of the greatest drawbacks to proper development in this country and a major reason for our comparative decline, a situation likely to continue in the absence of a major change in attitude.

This cannot be achieved by the retention of the present set up whereby the supervisors have to a large extent little or no practical knowledge of banking or the workings of a bank and are drawn in the main from inside the Bank of England. I believe

and I feel that right-minded people will agree it is most undesirable that, for instance, decisions as to fitness to conduct a banking business be left to people who have little experience as practical bankers and whose pasts were more occupied in the bank by administration and public relations.

The situation will worsen under the extended powers of decision making by the Bank of England now proposed and the risk that decisions may still be made (as they have in the past) in a totally arbitrary manner will be compounded by the immunity from claims to be provided to the Bank and others.

You have informed me you are considering further the degree of independence of the outside members of the proposed Board of Banking Supervision but this would not appear to assist a banking institution in obtaining the reversal of a proposed exercise by the Bank of its powers or of a supervisory decision already made by the Bank in an individual case.

I also pointed out under heading 5 of my letter to you of 26th November the serious shortcomings of the new appeals procedure.

I think the protection against publicity to which you referred in the last paragraph of your letter of 17th December is illusory and that it is naive to imagine there will be no leak of information at some stage of the lengthy process between the initiation of action by the Bank of England and the exhaustion of the appeals procedure. Recent experience in other fields must surely underline this view and as I have already pointed out, damage caused to a banking institution through the resulting loss of confidence by the outside world will be irreparable.

I agree that the protection of depositors is a major concern but this must not be at the cost of banking institutions and the arrangements do not provide a satisfactory balance between the respective interests.

I have maintained for a long time that the Bank of England is up to a point on a collision course with the banking community. The Bank is required to represent the Treasury and other government agencies in addition to banking institutions and it is also linked to other central banks, with the result that its decisions may be influenced by political considerations.

I have already pointed out that both the present and proposed supervisory arrangements offend against the principles of natural justice and fair play and I wonder how the EEC or the European Court would regard them if they were challenged.

I feel sure you will reconsider the arguments I have put forward at our meetings and in the correspondence but I should like to know at an early date whether you will take on board all or any of these arguments so that I can timeously decide whether to raise the matter with the Prime Minister or The Chancellor or to air my views in some other way.

Ian Stewart, Esq.,
Economic Secretary to the Treasury,
Treasury Chambers,
Parliament Street,
London, SW1

22nd December, 1986

I have recieved your letter dated 17th December for which I thank you.

I think it is most important that you and I meet because whilst I appreciate your remarks they do not deal with the principle of the matter.

I should like to discuss with you whether I should have a conversation with Nigel Lawson about the matter, or even the Prime Minister, because I feel very strongly that banking supervision cannot be exercised by the Bank of England, and I would like to give you verbally some personal experiences which I have had in this connection.

Ian Stewart. Esq.,
Economic Secretary to the Treasury,
Treasury Chambers,
Parliament Street,
London,
SW1



Treasury Chambers, Parliament Street, SW1P 3JL
Sir Walter Salomon, FIB
Neptune House
Triton Court
14 Finsbury Square
LONDON
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17 December 1986

Dear Walter,

BANKING BILL

Thank you for your letter of 26 November and for your stimulating memorandum. I am so sorry that the pressure of work on the Bill has prevented me from replying sooner, or indeed arranging a meeting at which we could discuss it. But I do want to respond in this letter to the main points you have raised.

I did, by the way, much enjoy our previous conversation on this subject. Since we ranged over such a wide area, however, I decided that minutes of the meeting need not be prepared. If it is helpful for your own records, however, on the basis of notes taken by my private secretary at that time I can recollect that we discussed the organisation of supervision and you proposed that a new supervisory commission should be appointed. We also covered the quality of personnel dealing with supervision at the Bank, which you felt was low; and you touched on the Johnson Matthey Bankers case in this regard. We also discussed the two-tier system of authorisation and supervision, which you considered unworkable (and which is of course to be abolished by the new Bill) and the minimum capital requirements for authorisation. You also stressed the need for supervisors to have appropriate commercial experience and to be independent.

The issues in your latest letter and memorandum fall into three broad categories: the organisation of supervision ('who should supervise?'); the tools of supervision ('what powers should they have?'); and the procedures of supervision ('how should the powers be exercised?')

On the first of these, you suggest that a new public authority should be set up to carry out the supervisory functions which have traditionally been the responsibility of the Bank of England. I certainly recognise the arguments in favour of a new supervisory body, independent of the central bank. We gave serious thought to this option when considering the policy for the new legislation. But on balance we decided against creating a new body: we felt that any benefits of such a radical approach would be outweighed by the inevitable loss of continuity and administrative upheaval, as well as of 'cross-fertilization' with other areas related to banking supervision which would have to remain as central bank responsibilities. The UK is by no means unique in Europe in adopting this approach. The central bank has the main supervisory responsibility, for example, in the Netherlands and in Italy

The Government is, however, determined to ensure that the supervisory process should be informed by experienced, independent, outside advice at a very senior level. That is the purpose of the new Board of Banking Supervision, provided for in the Bill. It is not true to say that the Board has no 'teeth'. Its role is explicitly advisory. The independent members are distinguished figures, qualified in banking, accountancy and the law, who will bring to bear valuable commercial experience on the policy and practice of supervision. They will be given a statutory duty to provide advice on the whole range of banking supervisory issues, including individual cases. And, if on any occasion the advice of the independent members is not to be followed, then there will be a duty on the ex officio members of the Board to notify the Chancellor of the Exchequer. I believe this structure will give the independent members substantial authority, but I have undertaken in Committee that I will give further consideration to the question of whether a sufficient degree of independence is established by the existing provisions in the Bill.

As well as addressing quality of supervision, the Bill makes important improvements in the range of powers available to the supervisors. I appreciate your concern that statutory powers might be abused. But in today's fast-changing and increasingly complex financial markets, it is essential that the supervisors have adequate powers. The need for this has been seen all too clearly in the area of investment business, covered by the new Financial Services Act. The protection of depositors is the basic concern of the Bill, and the new powers it contains, for example those on changes of control, and for the investigation of the affairs of authorised institutions, are no more than the Government consider necessary for proper banking supervision in the 1980s and beyond. And because it is important that, where necessary, these powers are used, we have provided in the Bill for the immunity from

damages for supervisory actions carried out in good faith, to which you refer in your letter. This will ensure that the Bank is not unduly inhibited in taking the action necessary to protect depositors. The same principle lies behind the immunities granted to supervisory authorities under the Financial Services Act.

At the same time the Bill continues and strengthens the existing safeguard provided by the procedure for appeals against supervisory decisions. (Such appeals will in future be determined by an independent tribunal, rather than by the Chancellor of the Exchequer following the advice of the tribunal.) The Bill provides new procedures for individuals affected by supervisory decisions to appeal in their own right against the supervisors' findings. The appeals procedures provided for in the Bill accord with the best principles of good administration. They have been the subject of extensive consultation with, and been approved by, the Council on Tribunals.

Finally, on the point you raised concerning the risk of damaging publicity if the Bank were to take supervisory action under its statutory powers, I understand that it is the Bank's practice to give no publicity whatsoever to the appointment of investigators nor to the imposition of conditions on an authorisation. Indeed, the Bank's decision to have new contact with supervised institutions on their own premises makes this kind of visit more routine and therefore even less likely to lead to damaging publicity. If nevertheless an institution wished to challenge the Bank's action in the courts, then the institution might clearly wish to make representations to the court to the effect that proceedings should be kept confidential in order not to prejudice its position. I understand that the courts have looked sympathetically on such representations, including in an analogous supervisory case concerning the New Cross Building Society.

With all good wishes

Yours sincerely

Ian Stewart

IAN STEWART

Direct line 270 5126

Sir Walter Saloman FIB
Neptune House
Triton Court
14 Finsbury Square
LONDON
EC2A 1BR

11 December 1986

Dear Sir Walter,

I am sorry you have not yet received a reply to your letter of 26 November to the Economic Secretary. As I told you on the telephone this morning, we will endeavour to ensure you receive a reply as soon as possible.

*Yours sincerely,
Guy Westhead.*

GUY WESTHEAD
Assistant Private Secretary

SIR WALTER SALOMON, FIB .

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PRIVATE AND CONFIDENTIAL

26th November, 1986

Some time ago, at your suggestion and that of the Chancellor, I had a discussion with you on the working of the Banking Act 1979, in particular the supervisory provisions, and those involved in its implementation. Our meeting took place on 16th September, 1985.

Since our meeting the proper supervision of banking institutions has become of increasing importance in the expanding banking and financial spheres and I am enclosing a recently prepared Memorandum setting out further thoughts on the supervisory functions of the Bank of England.

This Memorandum was produced before the issue a few days ago of the Banking Bill and although I have not had an opportunity of considering the Bill in detail, my preliminary perusal indicates that it does nothing to meet the criticisms in the Memorandum in that:

1. Under clause 1, the Bank's free exercise of discretion is underlined by immunity against claims to be granted to the Bank and its officials in the absence of bad faith.
2. Under clause 2, the bank is required to establish as soon as possible a Board of Banking Supervision to comprise the Governor as Chairman, the Deputy Governor, the Executive Director of the Bank responsible for supervision and five independent members (who, I note, are to be appointed by the Governor and removable by the Bank, albeit in each case with the consent of the Chancellor). However, the independent members will have no "teeth". Their function is only to advise the Bank representatives but the clause makes it clear such advice can be ignored by the Bank in which case the Chancellor is to be advised of such decision - presumably by the Bank or its representatives on the Board.

The independent members are to receive regular reports from the Bank but only on matters which the Bank considers relevant to the discharge by the independent members of their advisory functions and the independent members are also to be provided with such other information as they may reasonably require, but there is no procedure whereby an authorised institution can refer a problem to the Board or the independent members.

3. The Bank will retain power, without prior consultation with or notice to an authorised institution, to appoint investigators, to give directions or to impose or vary restrictions on the institution's authorisation in cases the Bank considers to be urgent. The problem of publicity remains.

The nature and extent of the restrictions and directions which the Bank will be authorised to impose are more extensive than those set out in the present Act.

4. The Bank is to have a 3 month period within which to object to a person becoming a shareholder controller or an indirect controller of an authorised institution incorporated in the United Kingdom or which is a United Kingdom partnership.

There are similar provisions in relation to acquisitions of additional voting power at general meetings of the institution or of its holding company.

It will be a criminal offence for a person to become such a controller or partner or to increase his voting power without giving notice of intention to the Bank.

If a person becomes a shareholder controller without notice to the Bank and continues to be one after notice of objection has been served on him or if he becomes a shareholder controller after such notice, the Bank has power to restrict dealings with or voting or other rights attached to any shares in the institution he did not hold before he became such controller.

Taking into account the 3 month period for objections by the Bank and any extensions which may arise as a result of representations or appeals, this clause will impose a very harsh burden.

5. While the proposed appeal procedure shows some improvement over that under the present Act, it does not meet the requirements of fair play and natural justice enshrined in our general administrative law.

The appeal tribunal is now to have right to suspend the operation of a restriction or direction made by the Bank or a variation thereof pending the determination of the appeal, but this will do nothing to avoid adverse publicity.

The onus will continue to be on the authorised institution to establish that the Bank's decision was unlawful or not justified by the evidence on which it was based. But even where the institution succeeds and the tribunal directs the Bank to restrict instead of revoke the authorisation or to vary restrictions or directions imposed or given, the Bank will be entitled to decide what restrictions or directions should be imposed or given or how they should be varied.

The authorised institution will then have a right of further appeal to the tribunal against the Bank's decision and the appeal procedure will continue until the tribunal confirms the Bank's most recent decision or that decision is accepted by the authorised institution - probably through exasperation or because, the institution having gone out of business in the meantime, that decision is of no practical importance.

6. On page 10 of the enclosed Memorandum, I draw attention to the risk that the vesting of discretionary powers in the wrong hands can lead to oppression or worse.

Clause 37 of the Bill is in my view a prime example of that risk.

This clause gives a right for the Bank's officers, servants or agents to enter premises for the purpose of obtaining information or documents and it is to be a criminal offence to obstruct the exercise of such rights.

This provision conjures up the police state within our "free and pleasant land". The thought that such a clause should be necessary for banking supervision and as additional to the wide discretionary powers contained elsewhere in the Bill is an indication of the path we are unfortunately treading even under a Conservative Government.

So far as I am aware, England is the only European country in which the Central Bank exercises supervisory powers. This gives rise to a serious conflict of interest and the risk of placing the Bank of England on collision course with authorised institutions - a situation to be avoided.

I would welcome a further opportunity of seeing you on this most important subject, which I consider affects our constitutional freedom and perhaps you will ask your secretary to let my secretary know when it would be convenient for us to meet.

As far as I remember, at the meeting on 16th September, 1985, we arranged that you would send me a copy of the minutes of the meeting which then took place. No such copy has been received by me and I would be glad if you could make one available to me.

Ian Stewart, Esq.,
Economic Secretary to the Treasury,
Treasury Chambers,
Parliament Street,
London, SW1

01-233 3608

Sir Walter Salomon
c/o Rea Brothers plc
Alderman's House
Alderman's Walk
London
EC2 MZXR

6 September 1985

Dear Sir Walter

The Economic Secretary to the Treasury, Mr Ian Stewart, is the Treasury Minister with responsibility for matters concerning banking supervision. As you are aware, the Government is currently reviewing a number of supervisory and prudential questions, and both the Economic Secretary and the Chancellor think it would be very useful for the Economic Secretary to discuss some of the questions with you.

If you would like to have an informal discussion with the Economic Secretary, perhaps you could ask your secretary to give me a ring to arrange a convenient time.

Yours sincerely,
A M Ellis
A M ELLIS
PRIVATE SECRETARY

I N D E X

of

papers sent to the Prime Minister
with letter dated 19th February, 1987

1. Bank of England - report on supervisory powers under
the Banking Act, 1979
2. Copy correspondence with Mr. Ian Stewart,
Economic Secretary to the Treasury
3. Independent view of experienced banker
4. Address to The Institute of Bankers give on 1st
April, 1980 *Already sent - copy on PREMIA/2082*

19.2.1987

INDEPENDENT VIEW OF EXPERIENCED BANKER

The root problem in the system of banking supervision is the ambiguity of the Bank of England's position. On the one hand it has responsibility for prudential supervision of banks; on the other it has responsibility for the stability and the efficient running of the country's money markets. In that latter capacity it may from time to time have to take the view that it must rescue a bank which is ailing in order to prevent great damage to the financial system and the general public. In taking such a decision it is entirely wrong that the Bank of England might find its decision affected by its supervisory functions. It must never be put in a position where its money market activities can be impugned because of deficiencies in its prudential supervision.

The proposed amendments to the Banking Act which will give the Bank of England sweeping powers to interfere with the rights of shareholders in banks make it all the more important that there should be a division of powers. It may be that these Draconian sanctions are needed for bank regulators and it is certainly the case that the Bank of England's effective power has diminished substantially since the suspension of the Exchange Control Act. However, the powers apparently to be given under the new Banking Act are so widely drawn, it may be very difficult to appeal against their use. If such powers are to be given, they should not go to an organisation which will have other relationships with the bank concerned with a consequent risk of confusion of motives.

5.2.1987

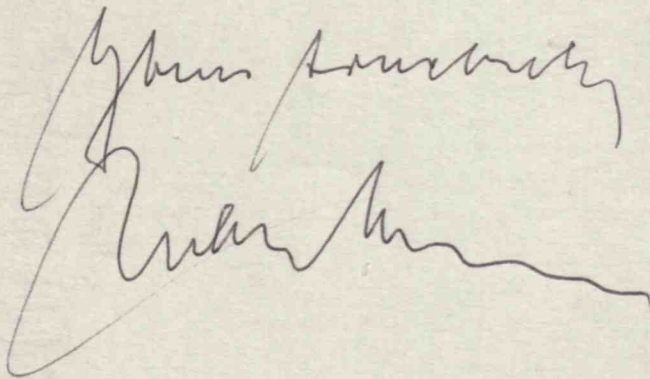
SIR WALTER SALOMON

NEPTUNE HOUSE
TRITON COURT
14 FINSBURY SQUARE
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TEL: 01-256 8873

19th February, 1987

Dear Mrs Gaisman,

I enclose herewith a letter addressed to the Prime Minister.
I should be most grateful if you would kindly put it before
her at the earliest possible moment.

Yours faithfully


Ms. Tessa Gaisman

PART 1 ends:-

HMT Meeting Record 23.1.87

PART 2 begins:-

Sir W Salomon to TS 19.2.87



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