

PRIME
MINISTER

May 1989

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
6-7-89							
PREM 19/2807							

NOTE FOR THE RECORD

PRIME MINISTER'S MEETING WITH MR WILLIAM SCHREYER AND
MR STANISLAS YASSUKOVICH

The Prime Minister had a half hour meeting with Messrs Schreyer and Yassukovich this afternoon.

They had nothing very original to say; the main items discussed were:

- the problems resulting from the large Japanese savings ratio and trade deficit, and the cultural barriers in entering the Japanese market;
- the current position of the US economy;
- the scope for further developing share ownership by individuals in the United Kingdom.

Rec.

PAUL GRAY

6 July 1989

DASAWO

PRIME MINISTERMEETING WITH MR WILLIAM SCHREYER, CHAIRMAN AND CHIEF EXECUTIVE
OF MERRILL LYNCH

Mr Schreyer has been pressing over the last year for a short meeting with you. You resisted this last year, but agreed to meet him following a repeated request earlier this year. The case for a meeting has been pressed by Mr Stanislas Yassukovich, the head of Merrill Lynch in this country, who will also be attending tomorrow.

The main item originally suggested for the meeting was a discussion on the development of wider share ownership. You have already exchanged letters with Yassukovich on this issue (enclosed at Flag A).

You may also want to take Mr Schreyer's views on economic and monetary developments more generally in the United States.

You should also be aware that Mark Lennox-Boyd has received an approach from Michael von Clemm of Merrill Lynch Europe pressing you to urge Mr Schreyer to increase his commitment to various bits of sponsorship of the arts. Von Clemm's note on this is at Flag B. But all this is rather sensitive; von Clemm is one of Schreyer's subordinates, and you should not reveal the briefing you have been given. In any event I recommend you not to raise the issue of arts sponsorship, unless Mr Schreyer mentions it first.

See.

Paul Gray

5 July 1989

CF
R B/F 4/7.
PRCC
17/6

PAUL GRAY

Recently I met Doctor Michael von Clemm of Merrill Lynch Europe Limited. You will remember that on 6 July the Prime Minister will receive Mr William Schreyer, who is the Chairman and Chief Executive.

As a result of what Doctor von Clemm told me, I suggested he put a note in writing and I attach the material he has sent.

The only point you should be careful about in any brief you write for the Prime Minister is that Doctor Clemm is the subordinate of Mr Schreyer and would not wish his boss to know that the Prime Minister was being briefed behind his boss's back.

M.S

MARK LENNOX-BOYD
21 June 1989

ccBoylep.
B

DRAFT

Memo to: The Prime Minister

From: Mark Lennox-Boyd MP

re: The Royal Academy; the Compton Verney Opera Project,
and the City of Birmingham Symphony Orchestra

On Thursday, July 6, at 16:30 you will be receiving a visit from Mr William A Schreyer, Chairman and Chief Executive of Merrill Lynch & Co Inc., the largest investment bank in the United States and, by a number of important measures, the largest in the world.

The Schreyer will be accompanied by his local chairman, Mr Stanislas Yassukovich, who is the Chairman of the TSA and Deputy Chairman of The Stock Exchange.

There are three subjects that you might wish to raise:

I. The Royal Academy

On the previous evening Mr & Mrs Schreyer will have been special guests of the Royal Academy at the London Coliseum opening of the Bolshoi Ballet, and a celebratory dinner in the company of the lead dancers at the RA in Piccadilly. This "special treatment" is preparatory to a formal request that Merrill Lynch & Co. become a major corporate benefactor of the Royal Academy, and anything that you can say to make Mr Schreyer more favourably inclined towards financial support of the RA will be most effective.

II. The Compton Verney Opera Project

It would also be of great help to this project if you would congratulate Mr Schreyer on his farsighted support of this rather daring private sector initiative by a group of individuals (including George Harewood, Humphrey Burton, Dr Jonathan Miller, Sir Ian Hunter, Sir Kenneth Bradshaw, Christopher Buxton and Lord Willoughby de Broke) to build a state-of-the-art opera house for the Midlands at Compton Verney, 8 miles southeast of Stratford-upon-Avon.

../..

Merrill Lynch enabled this project to commence by posting a £100,000 "challenge" gift. The challenge gift has been matched by over £300,000 of private donations to enable the feasibility of the project to be studied; a "marketing" concept to be developed; and a very important world-wide architectural competition to take place.

III. The City of Birmingham Symphony Orchestra

Finally, you might also congratulate Mr Schreyer on his firm's unique support of the City of Birmingham Symphony Orchestra and Simon Rattle. In a press release dated June 8 1989 Rattle and company announced that Merrill Lynch & Co. has become the orchestra's first ever corporate patron under a two-year "evergreen" contract believed to be unique to corporate giving in the U.K.



City of Birmingham Symphony Orchestra

Paradise Place, Birmingham, B3 3RP. Telephone: 021-236 1555.
Telex No: 334231 CBSORC G. Fax No: 021-233 2423

Press Release

MERRILL LYNCH TO BE CBSO'S FIRST CORPORATE PATRON

The Board of Directors of the City of Birmingham Symphony Orchestra is pleased to announce that Merrill Lynch & Co., Inc. has become the Orchestra's first Corporate Patron.

Merrill Lynch was the primary sponsor of the CBSO's first highly successful American Tour in 1988. As a result of this collaboration, Merrill Lynch, the CBSO and its Principal Conductor, Simon Rattle, wished to continue and strengthen their relationship.

Initially for two years, the association will encompass many areas of the Orchestra's work including both concerts in this country and on tour abroad. On 3 September 1989 Merrill Lynch will sponsor the Orchestra's concert at the 1989 Henry Wood Proms, which will feature a performance of Benjamin Britten's *Sinfonia da Requiem* to mark the 50th anniversary of the outbreak of World War II. Later in the year, Merrill Lynch will sponsor concerts in Vienna, Frankfurt and Paris.

According to Simon Rattle: "This is great news for the development of the CBSO. As our first Corporate Patron, Merrill Lynch will enable us to pursue our goal of playing the best symphonic music to the widest audiences in the United Kingdom and abroad. I am particularly pleased that the association has grown from our first project together in the USA and look forward to working with Merrill Lynch in this important cultural endeavor."

William A Schreyer, Chairman and Chief Executive Officer of Merrill Lynch & Co., Inc., commented: "We are delighted to be associated with the CBSO, which has achieved such international distinction under Simon Rattle. Merrill Lynch has a long tradition of supporting excellence in the arts. As a global firm with a presence in over 30 countries, we feel it is in keeping with this tradition to be furthering the CBSO's continued success around the world."

Michael von Clemm, Executive Vice President of Merrill Lynch & Co., Inc., adds: "Simon will be the preeminent conductor of Western classical and modern music well into the next century, so we are convinced that our support for world class music is most highly leveraged by backing him and his Orchestra. Furthermore, we have a high regard for him as he has been a great moral support for Merrill Lynch's other major musical sponsorships, namely the Compton Verney Project, which also happens to be in the Midlands."

Merrill Lynch & Co., Inc. is the US-based parent company which, through its subsidiaries and affiliates, provides worldwide investment banking, securities trading and brokerage, financing, real estate, insurance and other related financial services. Outside North America, Merrill Lynch has 43 offices in 31 Countries. In Europe, where it has been established for over 30 years, Merrill Lynch has offices in London, Amsterdam, Athens, Berlin, Brussels, Dusseldorf, Frankfurt, Geneva, Hamburg, Lugano, Luxembourg, Madrid, Milan, Monte Carlo, Munich, Paris, Rome, Stuttgart, Vienna and Zurich.

* * * * *

For further information please contact

Edward Smith, Chief Executive, CBSO, Paradise Place, Birmingham B3 3RP, England, or Michael von Clemm, Chairman, Merrill Lynch Capital Markets, World Financial Center, North Tower, New York, New York 10281-1332, USA.



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THE SLEEPING BEAUTY

Composer

Pyotr Tchaikovsky

Artistic Director and Choreographer

Yuri Grigorovich

Director of the Bolshoi Theatre of Opera and Ballet

Vladimir Kokonin

This masterpiece was created by Marius Petipa for the St. Petersburg Ballet at the Mariinsky Theatre in 1890. Eight years later Alexander Gorsky restaged the ballet for the Bolshoi troupe. In 1973 Yuri Grigorovich made a new production which reflects his great love for the traditions of the Russian classic ballet, and for the supreme achievement of these traditions in the work of Petipa and Tchaikovsky.

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The Royal Academy Trust was founded in 1981 and the American Associates of the Royal Academy Trust in 1984. Working together, these two bodies raised over £6 million for the Royal Academy of Arts between 1982 and 1986 enabling it to earmark £2 million for essential work on the building and to invest £4 million in an endowment fund currently valued at £6.5 million. The Institution receives no state funding and relies heavily upon this endowment. The Trust now faces its greatest challenge ever.

The First Night of the Bolshoi's Season in aid of the Royal Academy Trust, marks the public launch of an £8 million campaign to fund building work essential for the continuation of its exhibitions. Without major improvements to the environmental controls, the quality of the exhibitions for which the Academy is renowned worldwide cannot continue; without scope for a continuous programme of important exhibitions throughout the year, the Academy cannot attract the number of visitors it now needs for financial security. The development will provide for two sets of first class galleries and improved facilities for the public in every respect.

The Trustees believe that this campaign is the right and proper way forward to take the Academy into the next century. £3 million has already been pledged towards that goal.

Royal Academy Raffle

To be Drawn on the 4th July 1989

1st Prize

The Dancer

Bronze by Sydney Harpley, RA

2nd Prize

Painting by Freddie Gore, RA

3rd Prize

Drawing by Norman Hepple, RA

4th Prize

Dress by Zandra Rhodes

5th Prize

A piece of jewellery from "Ilias Lalaounis Gallery"

6th Prize

A long weekend at the George V, Paris

Two return tickets with Brymon Airways

and many other prizes

Tickets sold only at the Royal Academy of Arts

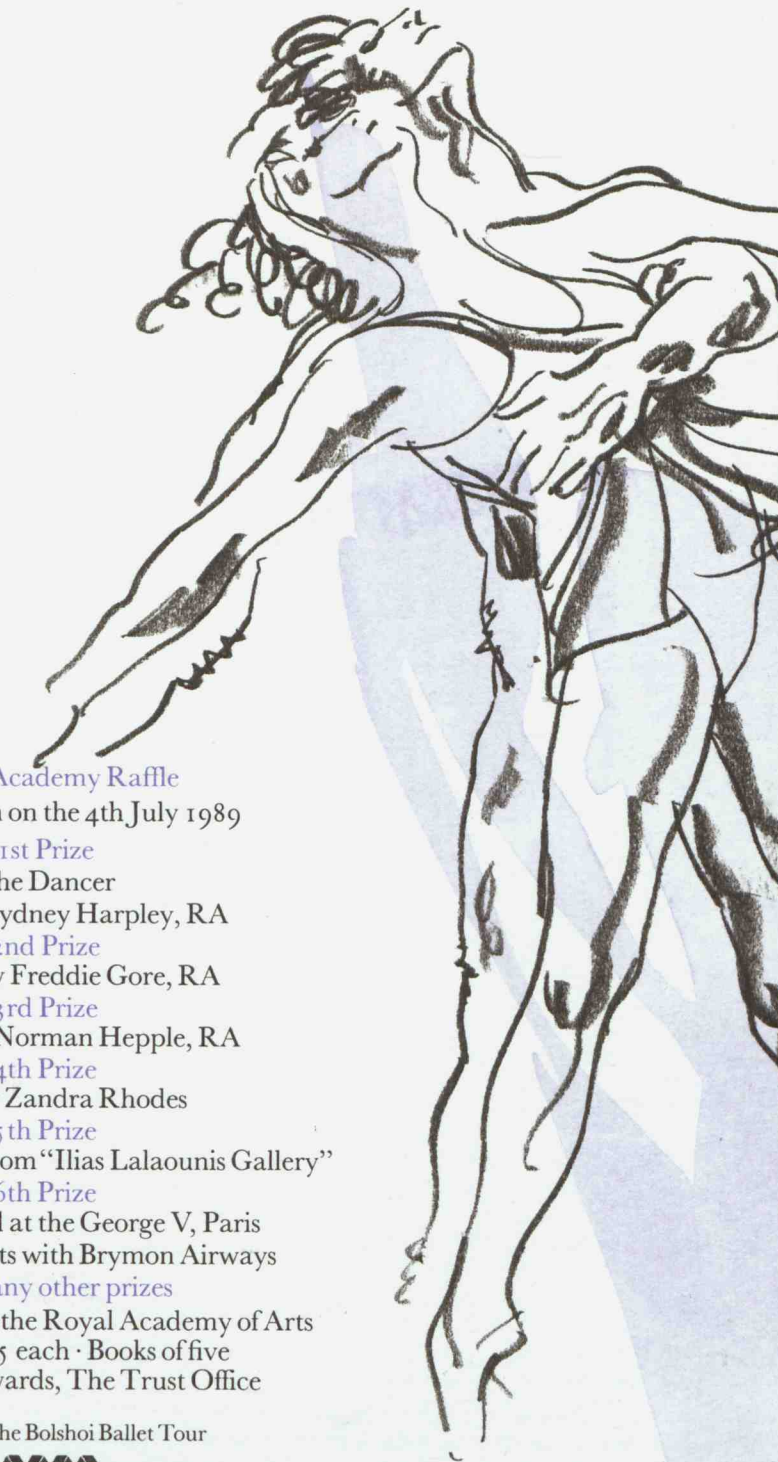
Tickets at £5 each · Books of five

Apply to: J Edwards, The Trust Office

Sponsors of the Bolshoi Ballet Tour



WESTERN MOTOR HOLDINGS PLC



Tickets will not be sent out before mid June
Please complete all details in BLOCK CAPITALS using ballpoint
American Express/Access/Visa/Diners Club (delete as applicable)

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Signature _____ Expiry Date _____

Name _____ Date _____

Address _____

Postcode _____

Telephone (Home) _____ (Work) _____

I enclose cheque/postal order payable to "The Royal Academy Trust Ltd." with the amount
left blank but limited to £_____

You may like to pay the donation with a Charity Cheque payable to: "The Royal Academy
Trust". The Royal Academy Trust's Charity number is: 212798

I regret that I am unable to attend but have pleasure in enclosing a
donation of £_____ payable to "The Royal Academy Trust Ltd."

Choice 1,2,3	No. of seats	Location	Price per seat	Total Cost

Royal Academy Raffle

I would like _____ (no. of raffle tickets) at £5 each and enclose
a cheque for £_____ payable to "The Royal Academy Trust Ltd."

Notes

- Please give alternative choice of price where possible
- Applications should be clearly addressed to:
The Bolshoi Ticket Office,
The Royal Academy of Arts, Burlington House, Piccadilly, London W1V 0DS,
Telephone Number 01-494 3976. Fax Number 01-434 0837

All guests seated in Area 1 are invited to a Grand Reception with a Russian theme at
The Royal Academy of Arts following the performance
Dress - Black Tie

Corporate and Individual Supporters

For an Individual Donation of £1000 the donor to receive two good seats in Area 1 including
two invitations to the Grand Reception. For a Corporate Donation of £2500 the donor to
receive four good seats in Area 1 including four invitations to the Grand Reception. Both
Individual and Corporate Supporters to be listed separately in the special Souvenir
Programme for the evening.

AREA 1

Please note Gala Seat Prices include Reception

Part of the House	Code	Ticket Price for Gala Per Seat	Price Includes A Donation of
Stalls	A	£350.00	£245.00
Stalls	B	£250.00	£155.00
Dress Circle	A	£350.00	£245.00
Dress Circle	B	£250.00	£155.00
Boxes		Per Seat	
Stage (4 or 2 seats)	B	£250.00	£155.00
Stall (3 or 5 seats)	A	£350.000	£245.00
Dress Circle (4 seats)	A	£350.000	£245.00

You may wish to deduct £50.00 from the Gala Ticket Price if you do not want to attend the
Reception following the performance (Donation to remain the same)

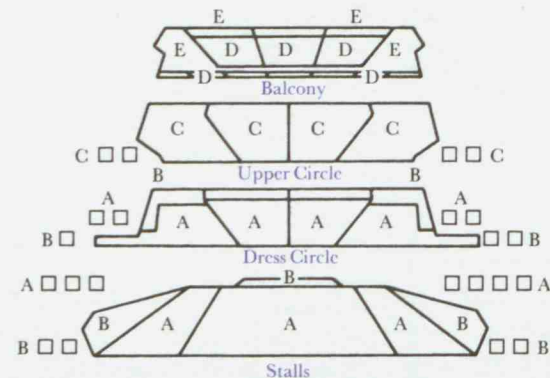
AREA 2

Please note seat prices only below

Part of the House	Code	Ticket Price for Gala Per Seat	Price Includes A Donation of
Upper Circle	C	£35.00	£7.50
Balcony	D	£15.00	£2.50
Balcony	E	£10.00	£1.50

Original Seat Prices

A = £55.00
B = £45.00
C = £27.50
D = £12.50
E = £8.50



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THE ENTERTAINMENT CORPORATION
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DIRECT FROM THE USSR
THE BOLSHOI BALLET

FIRST NIGHT PERFORMANCE

OF

THE SLEEPING BEAUTY

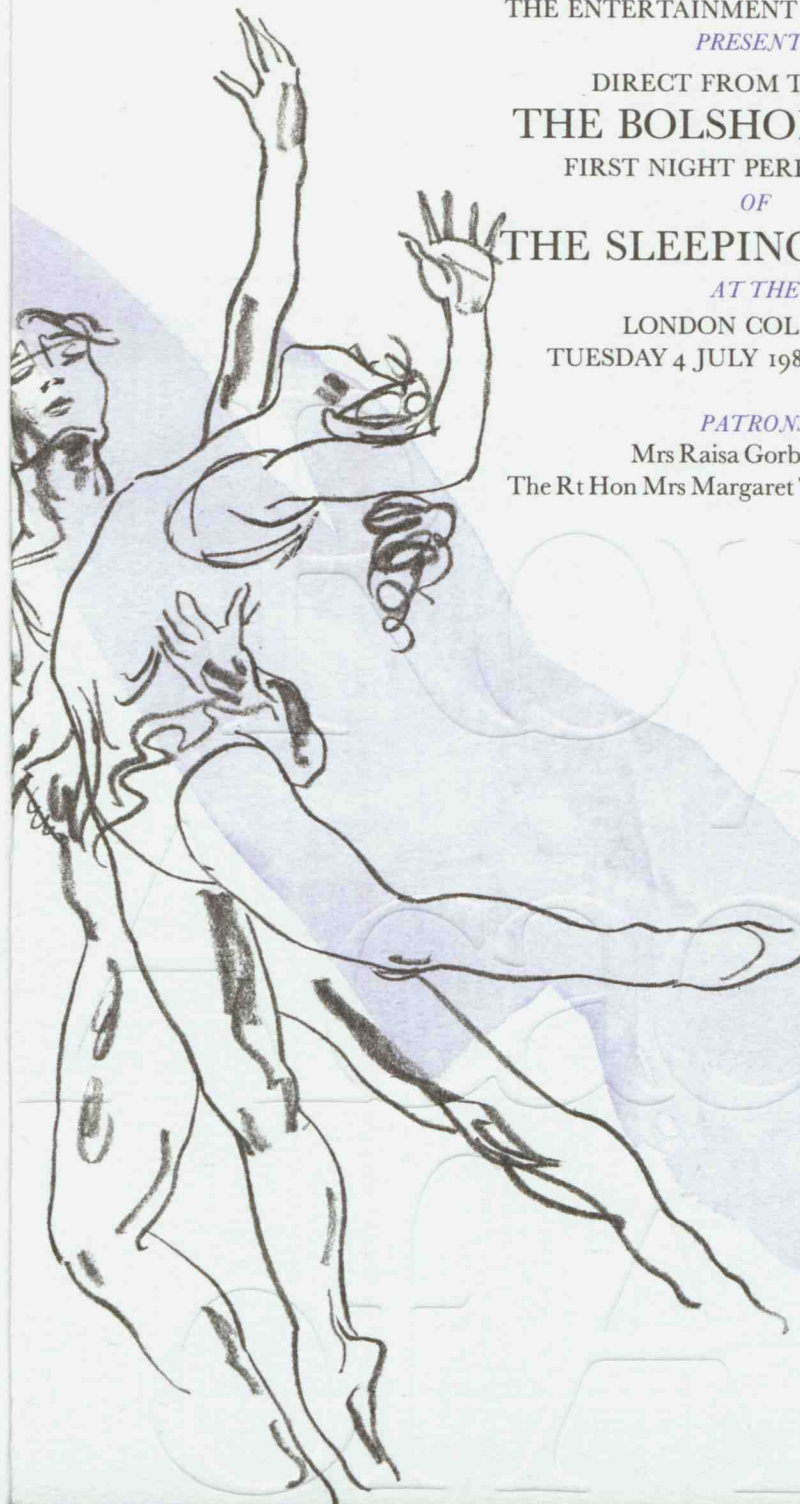
AT THE

LONDON COLISEUM

TUESDAY 4 JULY 1989 AT 7.30 PM

PATRONS

Mrs Raisa Gorbacheva
The Rt Hon Mrs Margaret Thatcher FRS MP




Royal
Academy
of Arts

It is a great privilege for the Royal Academy of Arts to have
been given the opportunity to benefit from the first night
of the Bolshoi Ballet's 1989 Season. The performance of
The Sleeping Beauty at the London Coliseum on
Tuesday 4th July will be followed by a Grand Reception
at the Royal Academy for members of the Bolshoi Company
and major ticket holders.

We hope that the evening will raise over a quarter of a
million pounds and in doing so launch the Royal Academy's
campaign to raise eight million pounds to improve its
galleries and develop the many services it offers to the public.

I do hope you will be able to join us
for what promises to be a magnificent
evening supporting a cause with far
reaching implications for the arts in this
country.

Yours sincerely,

Roger de Grey
President



file 25

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 May 1989

BT
||
The Prime Minister has asked me to thank you for your letter of 12 May concerning the possibility of a meeting with your Chairman, Mr William Schreyer. The Prime Minister would be happy to see Mr Schreyer at 1630 on Thursday 6 July; I hope that will be convenient.

PAUL GRAY

Mr. Stanislas Yassukovich

✓

PRIME MINISTER

Last year you turned down, on diary grounds,
a request from Mr. Stanislas Yassukovich
for you to see Mr. William Schreyer, the
Chairman of Merrill Lynch.

Mr. Yassukovich has now written again
(letter attached). We could find half
an hour for you to see him on 6 July.

Do you want to see him?

Will do

or

Turn down the request again?

PRC6

PAUL GRAY

15 May 1989

Paul

~~Andre~~

*He's in the
diary AP 10/5*

Still ok for 16.30?

*If so I will write to
Mr. Y.*

PRC6

10/5

Merrill Lynch Europe Limited
Ropemaker Place
25 Ropemaker Street
London EC2Y 9LY
Telephone: 01-867 2958
Telex: 8811047



From the office of
Stanislas Yassukovich
Chairman

R13/5 pps

12 May 1989

The Rt Hon Margaret Thatcher MP
10 Downing Street
London SW1

Dear Prime Minister,

Some time ago I tried to arrange a meeting for my group chairman Mr William Schreyer as I thought you might have an interest in his views on the question of wider share ownership. Unfortunately your schedule was full on his last visit.

Mr Schreyer will now be in London on 1st June, 5th and 6th of July and the morning of 7th July. I realise this is a busy time of the year but wonder whether you would be willing to receive Mr Schreyer briefly on one of those days.

*Sincerely yours,
Stan Yassukovich*

S M Yassukovich



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

23 August 1988

Dear Mr. Yassukovich.

Thank you for your letter of 22 July enclosing a paper summarising your views on the pursuit of wider share ownership in this country.

It has always been my objective to encourage the direct ownership of shares. So I share your view on the need to shift the balance away from institutional investment and towards individual ownership. Our policies of privatisation and the encouragement of employee share ownership have made a major contribution to tripling the number of individual shareholders since 1979. I very much agree that we need to consolidate this achievement by encouraging first time investors to take a continuing interest in the equity market. The ambitious privatisation programme to which we are committed, especially the water and electricity sales, should make a major contribution.

Your main proposal is that we should change our approach to privatisations, and place shares with retail investors via financial intermediaries rather than make public offers. I am not convinced that your approach could achieve a sufficiently wide spread of ownership while the client base of financial intermediaries remains so small relative to the number of individuals who have bought privatisation shares in the past. The offer for sale, suitably adapted to the needs of privatisations, is still the best way to achieve our wider

PM

File *Ch* *ce hnt* *DES* *DTI* *A*

share ownership objectives, given the circumstances which apply in this country.

But it is very important that a genuinely mass market retail share dealing network should develop in the United Kingdom to provide a lower cost and straightforward service for ordinary investors. The signs are that some firms are developing this sort of service, and we shall certainly look constantly at how best to structure privatisations in the light of developments in the market. In the first instance, however, it is for the private sector, and companies like your own, to exploit the opportunities.

You also point out that tax treatment affects the attractiveness of direct investment relative to investment through institutions. The Chancellor introduced PEPs precisely in order to encourage direct investment in the shares of British companies. The Scheme was designed to appeal both to first-time investors and to more sophisticated investors. The initial response has been encouraging; last year, for example, over a quarter of a million people took out PEPs, investing almost £½ billion.

You advocate the inclusion of education on saving and investment in the national curriculum. The national curriculum will ensure that all pupils study a broad and balanced range of subjects throughout their compulsory schooling. The first priority will be given to the core subjects of maths, English and science. It will be for local education authorities and school governors to determine what subjects should be taught in addition to those, religious education and the other foundation subjects. There will also be scope to develop a number of subjects or themes, such as economic awareness and personal finance, both in their own right and through the teaching of other subjects.

Finally, you argue that the current strict interpretation of pre-emption rights makes it difficult for firms to offer shares to the ordinary retail investor. You

may well be right, but this is not so much a legislative problem as an issue for companies to resolve with their institutional investors; companies should convince their institutional shareholders why there are benefits in widening their shareholder base, and institutions should give these arguments proper consideration.

Y
Yours sincerely

Nagant Halber

Mr. S.M. Yassukovich



R16/8

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

Paul Gray Esq
Private Secretary
10 Downing Street
LONDON SW1

15 August 1988

Mr Paul

Thank you for your letter of 27 July to Moira Wallace. I attach a draft reply for the Prime Minister to send to Mr Yassukovich's letter of 22 July. The draft has been cleared with the Department of Education and Science, and the Department of Trade and Industry.

Mr Yassukovich's main proposal is a familiar one - that privatisation shares should be placed with retail investors through financial intermediaries rather than sold in a public offer. The key problem with this approach is that it would not achieve an adequate spread of share ownership - financial intermediaries would only be able to place shares with their existing clients, who constitute a very small proportion indeed of those who have been attracted to past privatisations.

I am sending copies of this letter to Peter Swift (Department of Education and Science) and to Jeremy Godfrey (Department of Trade and Industry).

Yassukovich
Mr. Godfrey

J M G TAYLOR
PRIVATE SECRETARY

DRAFT LETTER TO

S M YASSUKOVICH ESQ
Chairman,
Merrill Lynch Europe Ltd
Ropemaker Place
25 Ropemaker Street
LONDON EC2Y 9LY



August 1988

Thank you for your letter of 22 July enclosing a paper summarising your views on the pursuit of wider shareownership in this country.

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Your main proposal is that we should change our approach to privatisations, and place shares with retail investors via financial intermediaries rather than make public offers. I am not convinced that your approach could achieve a sufficiently wide spread of ownership. ~~While~~ the client base of financial intermediaries remains so small relative to the number of individuals who have bought privatisation shares in the past. ~~My view is that~~ the

offer for sale, suitably adapted to the needs of privatisations, is still the best way to achieve our wider share ownership objectives, given the circumstances which apply in this country.

But it is very important that a genuinely mass market retail share dealing network should develop in the UK to provide a low cost and straightforward service for ordinary investors. The signs are that some firms are developing this sort of service, and we shall certainly look constantly at how best to structure privatisations in the light of developments in the market. In the first instance, however, it is for the private sector, and companies like your own, to exploit the opportunities.

You also point out that tax treatment affects the attractiveness of direct investment relative to investment through institutions. The Chancellor introduced PEPs precisely in order to encourage direct investment in the shares of British companies. The Scheme was designed to appeal both to first-time investors and to more sophisticated investors. The initial response has been encouraging; last year, for example, over a quarter of a million people took out PEPs, investing almost £½ billion.

You advocate the inclusion of education on saving and investment in the national curriculum. The national curriculum will ensure that all pupils study a broad and balanced range of subjects throughout their compulsory schooling. [I am confident this will stand them in good stead later, and help them to develop their capacity to adapt and respond flexibly to a changing world - including as a result of the spread of share ownership.] The first priority will be given to the core subjects of maths, English

and science. It will be for local education authorities and school governors to determine what subjects should be taught in addition to those, religious education and the other foundation subjects. There will also be scope to develop a number of subjects or themes, such as economic awareness and personal finance, both in their own right and through the teaching of other subjects.

Finally, you argue that the current strict interpretation of pre-emption rights makes it difficult for firms to offer shares to the ordinary retail investor. You may well be right, but this is not so much a legislative problem as an issue for companies to resolve with their institutional investors; companies should convince their institutional shareholders why there are benefits in widening their shareholder base, and institutions should give these arguments proper consideration.

RB

8W
S. M. YASSUKOVICH

10/8



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

uk / 27 July 1988

I enclose a copy of a letter which the Prime Minister has received from Mr S. M. Yassukovich of Merrill Lynch Europe Ltd.

I should be grateful if you would provide a draft reply which the Prime Minister might send to Mr. Yassukovich (in conjunction with the Department of Education and Science, and the Department of Trade and Industry to whom I am copying this correspondence) by Wednesday 10 August.

I am copying this letter and enclosure to Peter Swift (Department of Education and Science) and Jeremy Godfrey (Department of Trade and Industry).

(PAUL GRAY)

Miss Moira Wallace,
HM Treasury.

cc Backup
Merrill Lynch Europe Limited
Ropemaker Place
25 Ropemaker Street
London EC2Y 9LY
Telephone: 01-867 2958
Telex: 8811047



From the office of
Stanislas Yassukovich
Chairman

arb
22 July 1988

The Rt. Hon. Margaret Thatcher MP
10 Downing Street
London
SW1A 2AA

Dear Prime Minister,

As promised, I enclose a paper summarising our views on the pursuit of wider share ownership in the United Kingdom.

We are at the entire disposal of your policy staff to elaborate on any of the issues raised.

*Sincerely yours,
Stanislas Yassukovich*
S M YASSUKOVICH

WIDER SHARE OWNERSHIP ISSUES

1. An increasing proportion of industrial ownership is now in the hands of large institutional shareholders. These institutions and their managers are engaged in intense competition for savings and their investment performance is measured over shortening time periods. The result is increased volatility in equity markets, increased vulnerability of companies to outside predators leading to investment decisions by corporate management prompted by short-time earnings performance pressures often at the expense of longer term investment priorities.
2. Individual shareholders are by inclination more stable and more prepared to judge corporate performance against longer term criteria. Equity markets function best when an equilibrium exists between performance orientated institutional investors and less active direct individual investors. It is therefore in the interests of all concerned with macro economic performance that steps be taken to restore the balance by encouraging the development of individual share ownership.
3. In the United Kingdom, individual share ownership is notoriously under developed. Latest statistics suggest that there are approximately nine million individual share owners in the United Kingdom but more than half of this number own only one position - acquired as a result of subscription to a privatisation issue or through participation in schemes allowing employees to own shares in their employers. In fact, 77% of the shares owned by the nine million shareholders were acquired through subscription to new issues. Only four to four and a half million individuals in the United Kingdom own a portfolio of shares and are, therefore, individuals who, as a matter of principle, invest some part of their savings in the direct ownership of equity as opposed to the many millions who are indirect shareholders as beneficiaries of pension schemes, holders of unit trusts or other forms of collective investment schemes. It is this group which must be significantly expanded in order to restore depth to equity markets and increase the sense of direct participation by the public in the industrial and commercial process.
4. The Government, through its privatisation programme, has taken giant steps in the promotion of the concept of wider share ownership. As a result, the ownership of equity is now a national issue rather than an obscure subject of interest only to a small privileged minority. In pursuing its privatisation programme, the Government has felt it wise to stay within the existing capital market system. It was no doubt felt that any departure from the traditional method of marketing primary issues of shares would be risky. With the success achieved so far in establishing the concept of wider share ownership it might be time to develop an innovative approach and to engage in outright pioneering in order to achieve the ultimate objective of a share owning nation.

5. There are four initiatives which need to be taken to achieve wider share ownership in the United Kingdom. These are: fiscal equality, education, reform of the primary market system and a change in institutional attitudes to pre-emptive rights.
6. The current tax system is heavily biased in favour of home acquisition as a form of savings and also favours collective investment schemes over direct share ownership. PEP aims at a lower end of the market. Some review is required to devise greater incentives to direct equity ownership.
7. Public perceptions in the United Kingdom to the ownership of equities is conditioned by a low level of general financial education and media attitudes which equate equity investment with gambling. The public views the Stock Exchange as an up-market betting shop as opposed to a medium for the investment of a suitable percentage of family savings. Education on savings and investment is not generally included in standard curricula at any level. The development of the new national curriculum offers an opportunity in this regard.
8. The only aspect of City capital market activity to remain entirely unchanged after "big bang" is the primary market system. The principle method by which ordinary shares reach the public is through the Offer for Sale mechanism. The Offer for Sale technique, used in every major privatisation, has the presumed virtue of allowing equality of access to the shares being sold since the offer is advertised publicly and everyone has a theoretically equal chance of subscribing by clipping a coupon from the newspaper. However, the Offer for Sale does not effect distribution and rarely ensures accuracy of pricing since there is no mechanism for canvassing the interest of the public and establishing the appropriate price level. To avoid the risk of failure issuing houses are inclined to underprice an issue in order to leave a margin of safety. The result is that pricing is generally inaccurate reducing the chance that the issue reaches individual subscribers and subsequently remains held by these individual investors. If the safety margin has been too great the issue will go to an immediate premium tempting individuals to take their profit selling in the market to institutions who will have been under-allotted due to the high level of public subscription. Of course, if the price is wrong in the opposite direction, very little public subscription will have taken place and the issue will have been left with the institutional sub-underwriters.
9. Primary market methods used in the United States are more comparable to a placing in UK parlance and achieve wider ownership by individuals. Rather than being "offered for sale" primary issues are distributed. The difference is critical. Issues are not advertised in the press but placed through a large network of professional intermediaries. The syndicate of professional intermediaries bear and retain the whole of the underwriting risk. Their only method of limiting their risk is to ensure that the pricing is accurate and that shares are actually placed in firm hands. Although the period of time during which the issuer is

guaranteed his price, regardless of market circumstances, is shorter than under the UK system and the commissions tend to be higher, since the intermediaries must be remunerated for their placing effort, advertising expense is far lower since the media can not be used by law and, more importantly, the discount from real market value is minimal. The all-in cost of this system, therefore, normally compares favourably. There will now exist the possibility to adopt such a system in the UK by encouraging clearing banks and building societies to develop private investment services and become distributors of new issues. For example, if application forms for new issues were to be made available only through branches of authorised financial intermediaries, a true distribution process could be established. The only additional cost to intermediaries would be in training.

10. Finally, companies are themselves ill prepared and constrained from managing their shareholder composition. They must recognise that this is part of their corporate responsibility. This requires a fully developed investor relations programme which goes beyond merely keeping in touch with a few large institutional shareholders and involves the development of a broader base of shareholders including a considerable proportion of individuals. This is easier to accomplish in the case of companies that are engaged in providing high visibility products or services.
11. A constraint handicapping UK companies seeking to develop a broader spread of ownership is the very strict interpretation of pre-emption rights. Institutional shareholders, in particular, are concerned with dilution and consider that equity capital increases must always be by way of rights offerings to existing shareholders. Exceptions to this have been allowed in the case of vendor placings where a company acquires another for a consideration expressed in new shares which are then placed directly in the market without the requirement that they are offered first to the existing shareholders. However, the circumstances under which such an exercise can be carried out are very limited. A company seeking to expand either through acquisition or investment in new assets, and wishing to do so by adding new shareholders, has little room for manoeuvre under current practice. Thus one method by which new individual shareholders can be created - new equity capital issues by companies - is not fully effective.

12. A four point programme for achieving wider share ownership can be summarised as follows:

- a) a review of the tax system to benefit the development of a distribution infrastructure and to remove the fiscal bias in favour of collective investment schemes;
- b) an education programme through the schools to increase awareness and understanding of the role of direct equity investment within a balanced personal savings programme;
- c) reform of the primary market system to permit targeted distribution of new issues; and
- d) changes in company law and institutional attitudes to give companies greater freedom in issuing new equity.

21 July 1988
SMY3\031



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

20 June 1988

I am writing on behalf of the Prime Minister, who is currently attending the Economic Summit in Toronto, to thank you for your further letter of 16 June. I know that the Prime Minister looks forward to receiving the further note you promised about wider share ownership.

PAUL GRAY

Mr. Stanislas Yassukovich

R18/6
pps



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25 Ropemaker Street
London EC2Y 9LY
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Telex: 8811047

From the office of
Stanislas Yassukovich
Chairman

16 June 1988

The Rt. Hon. Margaret Thatcher MP
10 Downing Street
London
SW1A 2AA

Dear Prime Minister,

Thank you so much for your letter. I appreciate that your diary commitments do not allow a meeting in the near future. Mr Schreyer and I will prepare a note summarising our views on wider share ownership and how its cause might be furthered in the United Kingdom.

Sincerely yours,

Stanislas Yassukovich

S M YASSUKOVICH



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

9 June 1988

Dear Mr. Yassukovich.

Thank you for your letter of 6 June in which you suggested the possibility of a short meeting with your Group Chairman, Mr. Schreyer, on 4 July. I very much regret that because of other diary commitments it will not be possible for me to see Mr. Schreyer on that day. I would, however, very much welcome any thoughts you wanted to offer on the issue of wider share ownership; perhaps you or Mr. Schreyer could let me have a note on this.

Yours sincerely
Margaret Thatcher

Mr. S. M. Yassukovich.

DAG

PRIME MINISTER

The attached letter from Merrill Lynch requests a meeting on 4 July. Although there would be something to be said for seeing Mr. Schreyer, 4 July would be a very difficult day; there are a number of things already in the diary and it would be the first day of your first full week back after the Summit and European Council meetings. So I attach a reply for you to send regretting that a meeting will not be possible on that day.

PRG

PAUL GRAY

8 June 1988



10 DOWNING STREET

Dominic / Tessa

What does 4 Td look
like?

Rec
2/6

Paul

Horrible - at the moment

Some things which aren't

Confirmed - but it will
be a very busy day.

TG 8/6



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Telex: 8811047

From the office of
Stanislas Yassukovich
Chairman

6 June 1988

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

Dear Prime Minister,

My Group Chairman Mr William R Schreyer would be very grateful if you were prepared to grant him the favour of a short interview when he is in London on the 4th of July. You met Mr Schreyer at a small dinner party given by H M Consul General in New York for a group of bankers some time ago.

As the firm that "brought Wall Street to Main Street", Merrill Lynch considers itself expert in all matters pertaining to the development and maintenance of broad, individual share ownership. We believe that past experience and current trends in the United States affecting wider share ownership are relevant to your own Government's objectives in this area. Mr Schreyer is anxious to share with you some observations on the issue of wider share ownership and its importance in the furtherance of the free enterprise economic system.

I would accompany Mr Schreyer. I had the honour of being introduced to you recently by Mr Paul Reichmann of Olympia and York at the reception celebrating the initiation of Canary Wharf. I am also Chairman of The Securities Association and could add comment on how the new regulatory system introduced by the Financial Services Act relates to the issue of wider share ownership.

Smorgerson,
S Yassukovich
S M YASSUKOVICH



____ Grey Scale #13 ____



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