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*TIP COPY CH/EX ACK LAY*

CH/EXCHEQUER <i>29/5</i>	
REC.	29 MAY 1979
ACTION	<i>Mr Wicks</i>
COPIES TO	<i>PS/BST</i>

*Sent 29.5 D-F*

*23rd May, 1979.*

The Rt. Hon. Sir Geoffrey Howe, Q.C., M.P.,  
 Treasury Chambers,  
 Parliament Street,  
 LONDON SW1P 3AG.

Dear Geoffrey,

Following recent comments about the probable sale of various equities held by the Government, I would like to make a "humble submission" as to how this can be done at greater advantage to the Exchequer.

A major equity sale generally produces an anticipatory fall in the market and, even then, the sale has to be made at a discount to the price on the day of announcement (i.e. B.P. about 5% in 1977). Should you offer a 10-year Bond convertible into the equity, I would submit you would get a 10-15% premium depending on coupon and, if this form of sale was known in advance, anticipatory selling would not be so great (+ 5% ?).

I would further suggest that the convertible be available in Bearer form (like War Loan) so that the coupon on the Bearer could be paid free of tax, thus creating an avalanche of foreign applications. This should cause no problems to the Revenue as U.K. residents must hold their Bearer stocks with authorised depositaries who are responsible for withholding tax.

*WJK*

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There are many variations on this theme with regard to coupon and conversion premium, etc., but I am confident that any sensible one would result in a better price to the Government.

I also enclose a memorandum on the Mexican Oil Bonds which have provided the Mexicans with some very cheap money. This could be repeated here as long as there is a general expectation of rising oil prices and one has oil. Again, there are many variations, but such a deal would make lending money to the Government a lot more attractive and thus bring in many new lenders. The laws of supply and demand being what they are, greater supply of lenders would lead to unchanged or lower demand from the borrower being satisfied at a lower price.

Yours,

David Hunt

Encl.