

CONFIDENTIAL

Prime Minister

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Not very promising.

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NOTE OF A MEETING ON THE STOCK EXCHANGE, 20 JULY

Mus 21/7

Those present

Secretary of State
Attorney General
Mr Fletcher, PUSS,DTI
Sir Anthony Rawlinson
Mr Beckett, Solicitors
Mr Reid
Mr Oates, Law Officers Dept
(briefing meeting only)

Sir Nicholas Goodison,
Chairman, Stock Exchange
J R Knight, Chief Executive
Stock Exchange
Mr Bellamy, Counsel
Mr A Ground, Linklaters

1 The purpose of the meeting was to bring Sir Nicholas up-to-date with the Government's position on the possible withdrawal of the Stock Exchange case from the Restrictive Trade Practices Court. In particular, it was arranged following the Attorney General's meeting with Sir Gordon Borrie, and the Prime Minister's meeting on this case, to discover whether Sir Nicholas believed the Stock Exchange would be prepared to reach a new Agreement if this course proved necessary to secure withdrawal of the case.

2 At the Secretary of State's request, the Attorney General explained that Sir Gordon Borrie was now unwilling to co-operate in withdrawing the case from the Court. The DG's counsel had advised him that he had a duty to pursue the case which he had put before the Court; while the Attorney General did not agree with this, Sir Gordon seemed adamant. The course that was open to us in these circumstances was for the Stock Exchange to make a new Agreement, embodying the changes the Government was seeking, which could be exempted by Order from the RTP legislation. In these circumstances, there would be no purpose in the DGFT pursuing the case against the current Agreement - and it had appeared from the Attorney General's meeting with the DGFT that the latter accepted this. However, the Government recognised that there would be legal and tax implications if the Stock Exchange were to formulate a new Agreement and determine their old one. It was not yet clear what these implications would be, but the Chancellor of the Exchequer believed it should be possible to assist (via the Finance Bill) on the tax aspects.

3 The Attorney General said that the choice before the Stock Exchange was either to prepare a new Agreement, or to proceed in seeking an adjournment under the old Agreement, with the risk that the Judge would accede to the DG's likely insistence that the case be proceeded with.

4 Sir Nicholas asked about the procedure that would apply if the Stock Exchange were prepared to make a new Agreement. The Attorney said that, as already envisaged, the Stock Exchange should apply to the Judge for an adjournment shortly after the

Secretary of State's statement to the House (indeed, the Court had been put on informal warning to expect such an application on 28 July). This adjournment would be for 4 months, to give time for the exemption Order, and the Order embodying the EC Directive requirements on single capacity, to come into effect. Within 7 days of that, the Stock Exchange would then return to the Judge to seek an adjournment sine die.

5 Sir Nicholas said he was concerned to establish what was meant by the term Agreement; the Agreement lodged with the OFT included the Stock Exchange's Deed of Settlement, its Rulebook, its "Yellow Book", and a number of Notices. The Attorney General asked which parts of the Agreement referred to the OFT were affected by the settlement proposed to the Government by the Stock Exchange. Mr Bellamy said that it would be necessary to amend the Deed of Settlement to allow for lay members of the Council, and lay members of the appeal panel proposed. If the Deed of Settlement were to be amended, there would be considerable tax implications which would need to be solved. The Counsel for the Stock Exchange said that he, like Sir Nicholas, had some misgivings about emerging overnight with a new Agreement which was very largely identical to its predecessor.

6 The Secretary of State said he would not be able to make any oral statement to the House before he was very confident that there would be a successful outcome to the negotiations, both in terms of a solution to the legal difficulties and, indeed, in terms of the substance of the agreement reached. He and the Attorney asked Sir Nicholas whether it was practicable for him to secure the agreement of the Stock Exchange Council to his proposals, and, if it proved necessary following further consideration by the lawyers, to a new Agreement. Sir Nicholas said that his Council was standing by for meetings from tomorrow (21 July) right through until Monday 25 July. The Council had the power to decide changes in Stock Exchange rules, and what action to take on the present Case. If there were a need to alter the Deed of Settlement, this would have to be put to the Stock Exchange members as a whole.

7 On the substance of the Stock Exchange proposals, the Secretary of State said he was very anxious to be able to assure the House that the dismantling of the minimum commission system - due to be completed by the end of December 1986 - would take place in stages, and would start shortly. It would be impossible to defend to the House of Commons any regime which meant in effect that the present system was retained until the end of that period. Sir Nicholas said it would not be feasible to do away with minimum commissions in three equal stages; it was not a simple question of step-by-step monetary reductions. He felt very strongly that it would be necessary to experiment, possibly on a sectoral basis. The dismantling of minimum commissions would be monitored by the proposed monitoring group; given the uncertain effects of abolishing them, it was impossible to plan ahead a programme for the next 2½ years. If the monitoring organisation felt that the dismantling was endangering the central market, Sir Nicholas would want then to have the ability to put a stop to it. Sir Anthony suggested that the Secretary of State might be able to assure the House on the basis of some variant of the "three equal stages" formula, perhaps by promising "substantial progress by date X". Sir Nicholas was not particularly attracted to this proposal and stressed that he could not assure the Government that the central market would

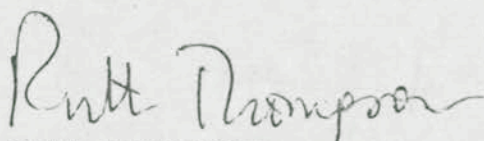
survive the phasing out of minimum commissions that was proposed. He said this, of itself, made him very anxious.

8 Mr Fletcher asked whether the proposed monitoring arrangements - to be conducted by the Government and the Bank of England - would not create presentational difficulties; it appeared that the OFT were being supplanted by the Bank. Sir Nicholas said that there was no chance that he could get this monitoring proposal through his Council without the Bank's involvement. Mr Fletcher thought the reasons for the involvement of the Bank should be made clear to the House, if not as part of the Statement, in answer to questions.

9 The Attorney General asked whether there were any other points, which had been put to the Court by the OFT, on which the Stock Exchange might be able to make concessions; this would have presentational advantages. Mr Bellamy and Mr Knight said they doubted whether anything of substance would result; nonetheless, they agreed to look at the whole range of points put to the Court by the OFT, to see whether there were any on which the Stock Exchange might be able to yield.

10 On restrictions on entry, Sir Nicholas felt that his proposals had gone as far as it was possible for the Stock Exchange to go. In answer to a question from Sir Anthony, he said that the Stock Exchange had only very recently (during the last year) changed its rules to allow banks to hold up to 30% of limited corporate members. It was not desirable to abandon all restrictions, and was premature to make changes additional to those only recently agreed. In any case, the proposed appeals committee would have a majority of non-members, to safeguard the interests of applicants.

11 The Secretary of State said he still believed that a satisfactory out of court settlement would be the least damaging way of making much-needed changes in the way the Stock Exchange functioned, while at the same time preserving the central-securities market which was an important contributor to the economy. This was one of the arguments he would use, both in the House, and when he saw Sir Gordon Borrie to inform him of the substance of the agreement reached with the Stock Exchange. This meeting - which will most probably take place *tete-a-tete* - has been provisionally arranged for Tuesday morning, 26 July, at 8.45.



RUTH THOMPSON
PS/Secretary of State for Industry
Rm 11.01 Ashdown Ext 3301

21 July 1983

Circulation
Ministers and Officials present
Mr Dell
Mr Wollman Sol A
Mr Lowry CL 1

Mr Scholar, No 10
Mr Kerr, PS/Chancellor of
the Exchequer
PS/Attorney-General