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From the Private Secretary

27 July 1983

Dear Jonathan,

The Prime Minister held a further meeting about the Stock Exchange in her room in the House last night. The Lord President, the Lord Chancellor, the Chancellor of the Exchequer, the Lord Privy Seal, your Secretary of State, the Chancellor of the Duchy of Lancaster, the Attorney General, Sir Robert Armstrong, Mr. Peter Gregson and Mr. Alison were present.

In discussion, it was noted that the main reason why the Stock Exchange had become an issue just before the Recess was the Stock Exchange's earlier refusal to countenance any change in their procedures. But a decision was urgently required, which would permit your Secretary of State to make a statement in time to allow the Stock Exchange in turn successfully to request a stay for four months of the case currently before the Restrictive Practices Court. If no statement were made and if no stay were granted, the Stock Exchange as well as the Treasury and Bank of England would incur very large expenses in the coming months as they went ahead in preparing their case before the Court. Sir Gordon Borrie was likely to acquiesce in the Stock Exchange's request for a stay if the Government had first made a statement indicating that it would do what was necessary to secure Parliamentary approval for the exclusion of the Stock Exchange from the provisions of the Restrictive Trade Practices Act.

On the other hand, it was noted that the laying of an Order in the autumn might not prevent the Court from going ahead with the case. It was essential to avoid a situation in which the Government first announced that it would exclude the Stock Exchange from the provisions of the Act, then failed to carry that through. In this circumstance primary legislation would be necessary. It was noted that such legislation could be short and simple, given that its purpose would simply be to add the Stock Exchange to the list of people exempted from the provisions of the Act; there was no question of the Bill itself setting out a framework of regulation for the Stock Exchange. On the other hand, it would be desirable if possible to avoid a commitment now to primary legislation. Your Secretary of State should tell the House that the Government would seek the approval of Parliament for measures to exclude the Stock Exchange from the operation of the Act.

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Your Secretary of State's statement would also need to indicate that the Government welcomed the changes proposed by the Stock Exchange Council. These proposals were, of course, subject to ratification by the Members of the Stock Exchange, and so the Government's agreement to seek the exemption would have to be dependent upon such ratification. It was recognised that the Stock Exchange Council's proposals went only some way in the right direction, and that it would be essential to maintain and strengthen the penultimate paragraph of the draft statement attached to Ruth Thompson's letter to me of 26 July, which indicated that the Bank of England and the Department of Trade and Industry would be monitoring the implementation of the Stock Exchange's proposed measures, and the evolution and development of the Stock Exchange as an efficient, competitive and suitably regulated central market which affords proper protection to investors. It might be that the single capacity rule should in time be abandoned: there were those who argued that the single capacity system had seriously inhibited the expansion of the United Kingdom securities industry, that stock markets abroad operated successfully without this system, and that many domestic financial institutions free of such restrictions had developed both strongly and prudentially. Similarly, there were those who thought that it would be vital for the Stock Exchange's future that its Membership should be enlarged to include corporate bodies with limited liability, since this would provide a substantial boost to the capital employed in the industry and enable it to take greater advantage of its opportunities. But these were changes for the medium or longer term, and it was important to ensure that the reform of the Stock Exchange remained an evolutionary and gradualist process. Your Secretary of State's reply to Sir Nicholas Goodison's letter recording the resolutions of the Council would, in this context, be an extremely important document: it would indicate the Government's seriousness about the further reforms, whose shape could not now be clearly envisaged, after the implementation of the present proposals and the exemption of the Stock Exchange from the provisions of the Act.

The Prime Minister, summing up the discussion, said the immediate important task was to retain control of events, to secure a stay this week, and an adjournment sine die after the long vacation. To this end your Secretary of State should welcome the Stock Exchange Council's proposals, and tell the House that, subject to approval by the Stock Exchange Membership of the necessary changes to their Deed of Settlement, and subject to the agreement of satisfactory monitoring arrangements for the period after the exclusion measures had been implemented, the Government would seek the approval of Parliament for measures to exclude the Stock Exchange from the operation of the Restrictive Trade Practices Act. It was recognised that this might involve primary legislation, but of a relatively uncomplicated nature. Your Secretary of State would clear with colleagues the terms of his reply to Sir Nicholas Goodison. His statement should be as short and free from technicalities as possible and the four last paragraphs in the present draft should have substituted for them the attached three paragraphs.

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I am sending copies of this letter and enclosure to Bob Whalley (Lord President's Office), David Staff (Lord Chancellor's Office), John Kerr (HM Treasury), David Heyhoe (Lord Privy Seal's Office), Alex Galloway (Chancellor of the Duchy of Lancaster's Office), Henry Steel (Attorney General's Office), Peter Gregson (Cabinet Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Trade & Industry.

The next step will be for the Membership to approve the necessary changes to the Stock Exchange Deed of Settlement.

I shall also make arrangements for the Department of Trade and Industry and the Bank of England to monitor the implementation of these measures, and the evolution and development of the Stock Exchange as an efficient, competitive and suitably regulated central market which affords proper protection to investors.

Subject to these two points the Government will seek approval of Parliament for measures to exclude the Stock Exchange from the operation of the Restrictive Trade Practices Acts.