

11 May 1984

PRIME MINISTER

The Governor's letter is to be welcomed in so far as it shows that the debate in the City is now opening up concerning the future of the securities industry and how to regulate it.

My discussions with the Bank of England, the Chairman of the Stock Exchange, senior partners in stockbroking organisations, and directors of investment businesses indicate that there is still great uncertainty about the future course of Stock Exchange trading, and even more disagreement about an appropriate way of regulating it. Rushing into Gower is now, therefore, rightly thought to be dangerous.

If the Governor wishes to form a senior group to help him think through appropriate proposals, that is fine. It is not, however, a good idea to associate the Government with this process. It immediately raises the question whether this group is short-circuiting all the other groups and organisations like the Stock Exchange Council who have a legitimate interest in the formulation of proposals. There could be rows over who is and who is not consulted, and we cannot guarantee that the result of their deliberations will be a better system than anything so far on offer.

The Governor's letter also conceals a danger in his statement that the logic of events "might push us towards some kind of statute-based Securities Commission" like the SEC. One of the reasons why London is picking up some American business is because the SEC tends to over-regulate. Alan Walters' thoughts on the SEC are unprintable. Whilst the development of the markets makes regulation difficult to formulate, the need for a clear law to protect investors and for information about dealing will not be changed by events, and is the proper task for Government. The Governor's proposals would slow it all down and prevent Norman Tebbit sticking to his timetable on these crucial subjects.

I think the Government should stick to its line that it is sifting all the evidence on Gower from the recognised institutions who are submitting their comments; and will formulate its own proposals on an appropriate investment law. The results of the Governor's deliberations would be of interest, but would not be endorsed in any way by the Government. The Chancellor and Norman Tebbit should be consulted before responding to the Governor. Then you could respond.



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