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PRIME MINISTER

FINANCIAL SERVICES

I sent you a minute on 12 July about our new policy for financial services and set out the line I proposed to take in the July debate in the House. You replied on 16 July agreeing with my approach.

2 The House and the City generally welcomed the policy objectives I stated: competitiveness, enforcement and freedom for market forces to stimulate competition and innovation, allied to a regulatory framework aiming to provide effective protection for the investor.

3 I have now concluded that, for the regulatory element in that policy, self-regulation within a new statutory framework is my preferred approach. To maintain the favourable momentum in City opinion (not least by allowing the Governor to get ahead with preparations which must be set in hand), and to give firm Government leadership, I think this should be publicly known ahead of issuing the full White Paper.

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4 I explained to the House my preference for institutions devised and largely administered by the financial services industry itself within the framework of a clear and simplified investment law. I welcomed the invitation by the Governor of the Bank of England to a group of senior City figures to advise him on the structure and operation of self-regulatory groupings which could be formed in the near future. I also referred to the similar group set up by Alex Fletcher to advise on parallel action concerning the marketing of life assurance and related products.

5 I have now received the Governor's advice and discussed it with him. He has told me that he favours, and believes he can deliver, a single City body of practitioners, users and independent people with business experience to oversee the securities and investment industries. The insurance industry has proposed a similar single body to oversee the marketing of life insurance policies and unit trusts.

6 There is a fine balance to be struck here. I need to ensure that there is in fact self-regulation, with flexible response to changes in practice, which means that we must not as Government be too directly involved; at the



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same time, if these two bodies are to be effective "self-regulators", they need statutory backing. I would be willing to give them that backing on condition that they satisfied basic principles of conduct to be laid down by Government e.g pattern of membership, constitution, competition, safeguards against conflicts of interest, protection for clients' funds. My plan therefore is to seek powers under new legislation which I would then delegate to these new bodies provided they meet the tests. As an additional safeguard against abuse, I would not want these bodies to have the final say on licensing and disciplinary questions; but to avoid involving myself in such matters I would require the bodies to have an independent tribunal whose members I would appoint. On this basis we should be able to harness the present - welcome - City impetus to achieve self-regulation to a measure of ultimate control and influence. I should also avoid being too closely involved in answering to Parliament. The legislation would be so drafted so as to ensure no obstacle to eventual amalgamation of these two bodies, if that were to be how they evolve.

7 I propose, and shall bring forward in due course, a White Paper. As well as being our major policy statement giving details of our plans for legislation and of these



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institutional arrangements this White Paper will contain the Government's response to the recommendations made by Professor Gower in his report and to the resulting comments on it from a wide cross-section of City opinion. To give time to prepare an adequately comprehensive document, and to give colleagues time to consider it, I have in mind publication early in December.

8 I have discussed with the Governor the danger that the currently favourable momentum in City opinion might be jeopardised if I give no further public indication of the Government's thinking before the White Paper is published. I am sure that it would maximise our chances without damaging the White Paper announcement if I stated publicly in the near future our decision to go for self regulation within a statutory framework as the preferred option and outlined how we see this developing on the lines of this minute. This would clear the way for further progress in establishing support for the City for the proposed arrangements and in implementing them.

9 I have discussed this with Nigel Lawson who is content.



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10 I am copying this minute to Nigel Lawson, Quintin Hailsham, the Governor of the Bank of England and Sir Robert Armstrong.

*McCluskey*

*PP*

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9 October 1984

*(Approved by the Secretary  
of State and signed in his absence)*

Department of Trade and Industry

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