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Secretary of State for Trade and Industry

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7 November 1984

A Turnbull Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

Dear Andrew,

FINANCIAL SERVICES

I am sorry not to have been able to reply sooner to your letter of 11 October seeking clarification of five points arising from the Secretary of State's minute of 9 October to the Prime Minister.

These and other matters will be covered in the White Paper about which the Secretary of State will be consulting his colleagues in due course, but his present thinking on the five points raised by the Prime Minister is as follows.

(i) Disclosure and the requirement to issue a full prospectus

It is indeed the intention to strengthen disclosure requirements. At present these apply only to public offers of securities. The proposal is both to amplify the requirements and to extend them to offers of other forms of investment. This should provide the public with significantly more information than they have to be given at the moment. Civil and criminal liability will attach to dishonesty, misrepresentation and omission in the prospectus document itself, but the authors of prospectuses will not be regulated as such.

(ii) Roskill

Richard Stoate has answered this point in his letter to you of 22 October. The DTI hope that the Committee's report will appear as early as possible in 1985, in case we have to take account of particular recommendations in the proposed financial services legislation.

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(iii) Competition policy and the Office of Fair Trading

The Secretary of State is determined that the regulatory bodies should not be, nor seen to be, cosy clubs or cartels. That would not be consistent with the Government's objectives of competitiveness and freedom of market forces. The intention is that the new legislation should make special provision for competition policy to apply to conduct in the financial services sector and to the rules governing that conduct. It would be for the Director General of Fair Trading to advise and for the Secretary of State (and not the Restrictive Practices Court) to decide the balance between competition and other factors including investor protection.

This proposal will not be welcome in all quarters. For example some Stock Exchange members may think that the agreement made with Mr Parkinson in July 1983 exempts them from competition policy. This is not the case. That agreement, implemented by the Restrictive Trade Practices (Stock Exchange) Act 1984, exempted the rules of the Stock Exchange only from the Restrictive Trade Practices Act 1976. Our forthcoming proposals will extend to all regulated financial services the exemption from that Act, but at the same time will impose equivalent competition surveillance through the Director General of Fair Trading.

(iv) The relationship between the Secretary of State and the supervisory bodies

It is intended that the legislation would make it an offence to carry on investment business without prior authorisation just as it is now an offence to carry on the business of dealing in securities without that authorisation. Authority to grant, vary, suspend or revoke such authorisation, and to make rules for the conduct of business by those authorised, will be given in the first instance to the Secretary of State. He would be empowered to delegate this authority to a private sector non-statutory body meeting certain criteria, to be laid down in the legislation; and to withdraw it if at any time that body cease to conform to such criteria. Provided that the two practitioner-based bodies which the City proposes to create are set up in satisfactory form, the Secretary of State would in practice delegate these powers to them.

One of the conditions of delegation should be that these two bodies include users as well as practitioners. For the securities and investments body, my Secretary of State is strongly of the view that he should appoint the chairman of the body, after appropriate consultation with the Governor. The Secretary of State would also appoint to the insurance and unit trusts marketing body.

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(v) Supervision of marketing of insurance and unit trusts

It is intended to delegate supervision of marketing after the legislation comes into force, provided that an appropriate body is formed which meets the statutory criteria. Further consideration is being given to the possibility of delegating the task of supervising unit trust schemes, and, at a later date, insurance supervisions. This could make more savings, but it is too early to form a firm view of just what the future arrangements will be.

I am sending copies of this letter to David Peretz (Treasury), Richard Stoate (Lord Chancellor's office), John Bartlett (Bank of England) and Richard Hatfield (Cabinet Office).

*Yours ever,*

*Ruth*

RUTH THOMPSON  
Private Secretary

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 task of supervising unit trust schemes, and at a later date,  
 insurance operations. This could save money, but it is  
 too early to form a firm view of just what the future  
 arrangements will be.

I am sending copies of this letter to David Parry (Secretary),  
 Richard House (Care Commission's Office), John Harries (Chairman of  
 England) and Richard Hilditch (Chief Officer).

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