



10 DOWNING STREET

From the Private Secretary

14 November, 1984

RANAAC
cc: HWT
L. Chan
P/Eng
CO
CCD/S

FINANCIAL SERVICES

The Prime Minister was grateful for your letter of 7 November. She has also seen Richard Stoate's letter of 22 October. She is broadly content with the line your Secretary of State is taking, subject to the following three comments.

First, she welcomes his assurances on the tightening up of the law on disclosing misleading or false information in prospectuses. But there is a distinction between stringent rules on misleading investors, and elaborate requirements leading to the publication of masses of useless information deterring smaller companies from capital issues.

The Prime Minister is still not entirely clear about the relationship which your Secretary of State envisages with the supervisory bodies. In her view, the role of the Government - and, indeed, the House of Commons - should be to satisfy themselves about the general conduct of City regulation. One possibility would be to require a full annual report from the supervisory body concerning the level of complaints, the number of problems that have arisen, and the future direction of its regulatory activity. But the Government should steer clear of involvement in individual cases, and should not be answerable for these in the House of Commons. She endorses your Secretary of State's view that he should have the power of appointing the key men to the supervisory bodies.

Thirdly, the Prime Minister still hopes that it will be possible in due course for the DTI to shed its work supervising marketing of insurance and unit trusts. She would be grateful for a possible timetable for delegating these activities to the new supervisory bodies.

The Prime Minister would also be grateful for a note from your Secretary of State on the progress of decisions on arrangements for dealing in equities and gilts after 1986, and the extent of disclosure to all market participants. Adequate disclosure is needed to create a fair and

BF |

BF |

for

competitive market. She would be particularly interested in an account of the thinking underlying the Bank of England's consultation document on gilt dealing.

I am sending a copy of this letter to the recipients of yours.

(Timothy Flesher)

Miss R. Thompson,
Department of Trade and Industry.

14 November 1984

6/2
pa h/m

MR FLESHER

FINANCIAL SERVICES

I attach a draft letter for you to send to DTI replying to their letter of 7 November.

DK
fp

DAVID WILLETTS

14 November 1984

DRAFT LETTER TO PRIVATE SECRETARY TO SECRETARY OF STATE,
DEPARTMENT OF TRADE AND INDUSTRY

FINANCIAL SERVICES

RAMAAT

The Prime Minister was grateful for your letter of 7 November. She has also seen Richard Stoate's letter of 22 October ~~replying to my letter of 11 October~~. She is broadly content with the line your Secretary of State is taking, subject to the following three comments.

First, she welcomes his assurances on the tightening up of the law on disclosing misleading or false information in prospectuses. But there is a distinction between stringent rules on misleading investors, and elaborate requirements leading to the publication of masses of useless information deterring smaller companies from capital issues.

The Prime Minister is still not entirely clear about the relationship which your Secretary of State envisages with the supervisory bodies. In her view, the rôle of the Government - and, indeed, the House of Commons - should be to satisfy themselves about the general conduct of City regulation. One possibility would be to require a full annual report from the supervisory body concerning the level of complaints, the number of problems that have arisen, and

the future direction of its regulatory activity. But the Government should steer clear of involvement in individual cases, and should not be answerable for these in the House of Commons. She endorses your Secretary of State's view that he should have the power of appointing the key men to the supervisory bodies.

Thirdly, the Prime Minister still hopes that it will be possible in due course for the DTI to shed its work supervising marketing of insurance and unit trusts. She would be grateful for a possible timetable for delegating these activities to the new supervisory bodies.

The Prime Minister would also be grateful for a note from your Secretary of State on the progress of decisions on arrangements for dealing in equities and gilts after 1986, and the extent of disclosure to all market participants. Adequate disclosure is needed to create a fair and competitive market. She would be particularly interested in an account of the thinking underlying the Bank of England's consultation document on gilt dealing.

3. R.
The Minister: 1

There is a limit to the number of times we can go back to the

9 November 1984

DTI on this matter, but agree to put to them the Policy Units points on the DTI letter which is attached.

MR TURNBULL

FINANCIAL SERVICES

Yes

The DTI letter of 7 November deals with the Prime Minister's questions on Mr Tebbit's investor protection proposals. They are generally satisfactory, apart from the following points.

9/11

Disclosure and the requirement to issue a full prospectus

The tightening up of the law on disclosing misleading or false information is sensible. But we don't want everyone having to issue 100-page US-style prospectuses to raise modest sums in the market. We need DTI's assurance that the more stringent rules on misleading investors - which we welcome - won't lead to requirements to publish masses of useless information.

Relationship between the Secretary of State and the Supervisory Bodies

There is still muddled thinking in this area. The Secretary of State should not come to the Despatch Box to answer questions about particular deals, companies or City problems, as a result of having become too close to the regulatory body.

2.3.

The rôle of the Government and the House of Commons should be to satisfy themselves about the general conduct of City regulation. They could require a full annual report from the supervisory body concerning the level of complaints, the number of problems that have arisen, and the future direction of its regulatory activity. This could spark a House of Commons debate on the subject of how good or bad City regulation is in the hands of the regulatory body. If public disquiet becomes great, then the Government would have the option of changing the terms of reference of the body, its personnel, or the regulatory arrangements.

This shows the importance of the Secretary of State appointing the key men. If the Governor appoints them, as he wishes, it will appear to be a cosy City arrangement. If the Prime Minister agrees, it might be worth recording her endorsement of Mr Tebbit's view in your reply.

Supervision of Insurance and Unit Trust Marketing

It would be a good idea for the DTI to shed its supervisory work as quickly as possible. It has been neither very popular nor very successful, and there would be some sense in treating it in a similar way to other types of market regulation. Mr Tebbit could be asked for a possible timetable for delegating these activities.

5.3
0

The Stock Exchange

Crucial decisions on the operation of the market after 1986 have been taken over the past few weeks:

- Details of deals in the top 200 equities will be revealed on a public tape within 90 seconds of the transaction.
- There will be more limited disclosure of transactions in thousands of smaller equities, because there may not be enough market-makers, and because adequate technology will not be in place.
- Gilts dealings will not be publicly revealed.

The Prime Minister could reasonably request a short note from Mr Tebbit on these decisions.



JOHN REDWOOD



DAVID WILLETTS