



CONFIDENTIAL

P 01846

PRIME MINISTER

Fraud

(Meeting with Ministers at 3.45 pm on Wednesday, 18 December)

You are holding a meeting tomorrow afternoon with Ministers concerned to discuss the issue of fraud, following the discussion in Cabinet last week at which you stressed the need for those investigating complex fraud to have sufficient resources to undertake their investigations swiftly; and for every effort to be taken to counteract any suggestions that the Government were protecting those who were suspected of fraud or impropriety.

2. With their joint minute of 9 December the Secretary of State for Trade and Industry and the Solicitor General have circulated a paper on fraud. This reviews the present arrangements for combatting fraud, describes the further improvements in hand (including those in the Financial Services Bill), and makes a case for increased resources both in the DTI and the DPP's office. Much of the paper is more about insolvency and regulation of financial services generally, rather than the specific issue of fraud, but (as the Chancellor of the Exchequer intends to make clear in his statement on the Banking Supervision White Paper) these regulatory arrangements condition the climate in which financial fraud becomes possible. The paper also notes that the Roskill Committee's report (of which you have just received a copy) is likely to recommend wide-ranging measures to reform the criminal proceedings relating to fraud trials, and that this is likely to have a significant effect on the climate in which the current problems are discussed.

Objectives of Meeting

3. It would seem premature to try to take specific decisions on the substance (eg on manpower) at tomorrow's meeting, but in view of the

CONFIDENTIAL



CONFIDENTIAL

serious continuing public concern at developments in the City, which must offer a potential threat to our invisible earnings, I suggest that you should use tomorrow's meeting at least to achieve the following objectives:-

(i) to impress on colleagues the very great importance of the right presentation. The Government must be seen to be responding vigorously and adequately to recent developments;

(ii) to satisfy yourself that the various measures in hand or in preparation are an adequate response to the current situation;

(iii) to make sure that the immediate issues on manpower and other resources will be taken forward and resolved by the Ministers concerned with the minimum delay;

(iv) to make arrangements for an early assessment for Ministers of the Roskill report, so that decisions can be taken on it as quickly as possible in the New Year.

Presentation

4. There is increasing public concern that the "authorities" are failing to react adequately to unsavoury City developments (witness the article by Miles Kington in today's Times - in jest, but a reflexion of current concerns). These worries must also be aggravated by the prospect of the "big bang" in the City next year when the opportunities for misconduct could be greater. Much of this criticism is no doubt uninformed and does not acknowledge the wide range of measures already introduced or in preparation by the Government. These include:-

- the Banking Supervision White Paper (to be published today, with a statement, by the Chancellor);
- the Building Societies Bill (second reading on 19 December);



CONFIDENTIAL

And the Insolvency Act.

- the Financial Services Bill (to be published on 19 December, with second reading early in the New Year);
- the Roskill Report, which it is the intention to publish before the second reading of the Financial Services Bill.

However, the fact is that the criticism exists and is likely to continue, and you will wish to consider how the Government can more effectively publicise the measures it is taking and convince the City and the public of its determination to ensure that action against fraud will be vigorous and adequate. You may wish to invite the Lord President to consider how best the presentation of the Government's stance might be coordinated. It will be particularly important, for example, to strike the right note in the Government's response when Roskill is published.

Adequacy of Current Government Response

5. The paper by the Trade and Industry Secretary and Solicitor General suggests that the range of measures described - subject to action on Roskill - is an adequate (and suitably flexible) response to the needs of the current situation. You will wish to consider, however, whether all the key problems are in fact adequately being covered. For example, the financial press certainly does not accept that it is right to allow self regulation to continue at Lloyds and to exclude it from the scope of the Financial Services Bill. I believe the Trade and Industry Secretary is himself giving further thought to this, and you may wish to ask him to comment. You will also want to ask the Chancellor to confirm that he still believes the Banking Supervision Bill will give the Bank of England and the Government sufficient powers and authority in the banking field, particularly given the increasing opportunities (not least through the application of new technology) for sophisticated and rapid manipulation of financial transactions. Finally, you may also wish to allude to the question raised in your comments on the Banking Supervision White Paper (Mr Norgrove's letter of 6 December)

Flag A.
"whether the Treasury and other departments are confident that the arrangements now being put in place for supervision of banks, other

financial institutions, brokers, conglomerates, etc are comprehensive - that there are no gaps through which particular kinds of activity or business can fall".

Extra Manpower

6. The Trade and Industry Secretary and the Solicitor General argue for extra staff in the DTI and the DPP's office. On the face of it, the case is a good one. But this needs qualifying. First, it is not clear that the problem is one of numbers only. As important, or more so, it is getting the right quality of staff. This could depend on ability to pay the right rates for the right people. Second, the immediate concentration should be on resources directly relevant to fraud. Much of the joint paper is about regulation and insolvency, which, through relevant, does not bear directly on the immediate problems and may be of lower priority. Third, it may not be sensible to take final decisions until the Roskill recommendations have been considered. These will broadly target on how to get a better "hit rate" from prosecution of fraud cases in the courts. I suggest, therefore, that you ask the Trade and Industry Secretary and the Solicitor General to take matters as far as they can bilaterally with the Chief Secretary, who should recognise the need for the Government to respond urgently to the current situation; but note also that it may be necessary to revert to this question when the Roskill report is being considered.

Arrangements for considering Roskill

7. Since other Ministers will not have seen the report, you will not be able to discuss it substantively tomorrow. You will, however, want to ask the Lord Chancellor and the Home Secretary to report back to this Group with their preliminary assessment of the recommendations by, say, the middle of January at the latest. It will then be necessary to process the recommendations in detail. On the analogy of the work done prior to the Chancellor of the Exchequer's July 1984 announcement (which foreshadowed the establishment of the Fraud Investigation Group (FIG)) one possibility would be for this to be done by an official Group chaired by the Permanent Secretary to the Treasury. This would be



CONFIDENTIAL

appropriate given the resource questions involved and the need to co-ordinate the policies of a number of departments. If the Chancellor of the Exchequer and other colleagues were agreeable to this, the Treasury might be invited to start considering now how best to set this exercise up so that the detailed work can start without delay after the next meeting of Minsiters in mid January.

Handling

8. You will wish to invite the Trade and Industry Secretary and the Solicitor General to introduce their paper. The Chancellor of the Exchequer may then wish to comment, particularly on the question of banking supervision. You may then wish to go through the objectives listed and discussed above, inviting the relevant Ministers to comment as appropriate (eg the Lord President and the Chancellor of the Duchy of Lancaster on the presentational and political issues, and the Lord Chancellor and the Home Secretary on the Roskill report).

CONCLUSIONS

9. You may wish to reach conclusions on:-

(i) the most effective way to present and coordinate the Government's image, not least in relation to the response to Roskill;

(ii) whether in substance the arrangements being put in place by the Government are an adequate response to the current situation;

(iii) how best to take forward the manpower issues;

(iv) how best to arrange for urgent consideration of the Roskill report in the New Year.

J B UNWIN

17 December 1985
Cabinet Office

From: The Right Honourable The Lord Roskill



16th December 1985

Dear Prime Minister.

I write to inform you that the Fraud Trials Committee of which I have been Chairman has completed its work. I have today handed its Report to the Lord Chancellor and, of course, sent a copy to the Home Secretary. I understand that you wish to see the Report immediately and I accordingly have pleasure in sending you a copy.

Yours sincerely,

G Roskill

The Right Honourable
Mrs. Margaret Thatcher, M.P.,
10 Downing Street,
London, S.W.1.