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LAW OFFICERS' DEPARTMENT
ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

H. STEEL, CMG OBE
LEGAL SECRETARY

Prime Minister 2
Thanks
DHS
20/12

David Norgrove Esq.
Private Secretary to the
Prime Minister
No.10 Downing Street
London SW1

20 December 1985

Dear David,

FRAUD

The Solicitor General undertook after Wednesday's meeting to let the Prime Minister have a note outlining where we now stand on the Lloyds case. I now enclose that note which, for good measure, also covers the JMB case.

When we spoke on the telephone yesterday you mentioned that the Prime Minister had also asked the Attorney General for advice on whether there was any way to prevent Fraser (in the JMB case) from leaving the country whilst the police investigation was still in progress. The Attorney General's advice is that this would be possible only if we could find some other charge against him on which he could be arrested, brought before the court and held. We have consulted the DPP who tell us that they have no evidence against him in respect of any offence which would justify arresting him and charging him at this stage. There is therefore no action which can be taken to hold him in this country if he should choose to abscond.

Yours ever,
Henry Steel

H STEEL

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PRIME MINISTER

1. This note sets out the present position in relation to the enquiries being conducted by Fraud Investigating Groups established by the DPP into the allegations of fraud relating to Lloyds and Johnson Matthey Bankers Limited.

Lloyds:

2. The Fraud Investigating Group comprises the Deputy Director of Public Prosecutions, the Controller of FIG, an Assistant Director and a professional officer, two Detective Superintendents, 5 Counsel (2 Leading Counsel). Special arrangements have been made for the whole team to thoroughly familiarise itself with Lloyds underwriting practices and in particular the operation of re-insurance contracts. Enquiries have concentrated on identifying re-insurance contracts which have been used as a vehicle for transferring funds from the syndicates concerned out of the United Kingdom. But it is the tracing of those funds to establish the identities of the ultimate beneficiaries which is crucial to the success of the investigation. The relevant transactions occurred in several different foreign countries.

3. Several persons who have been associated with PCW and Howden and who could, if so minded, undoubtedly shed considerable light on what occurred, have been interviewed by the police. Each has proved untruthful or, at best, highly unreliable. Other difficulties encountered by the Investigators are the securing of evidence from persons who are abroad (and who cannot therefore be compelled to testify) and overcoming restrictions on the disclosure of confidential information imposed by the law in other jurisdictions. These circumstances have given rise to three specific serious problems, two of which have attracted substantial publicity. They are :

- (a) Obtaining evidence from Switzerland: This is the most serious problem. The Banque du Rhone in Geneva was acquired by Howdens and became



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the vehicle by which money fraudulently obtained from Lloyds syndicates was laundered. Furthermore, two Directors of the Bank, Benbassat and Zilkha, played a large and important part in the operation. Information as to transactions conducted through the Banque du Rhone is essential if the Investigators are to trace the ultimate destination of the moneys.

Although the Swiss authorities responded to a commission rogatoire at an early stage of the Inquiry, a further commission rogatoire was sent on 2 January 1985 seeking information concerning banking transactions and of Benbassat and Zilkha remains unanswered - despite numerous reminders, visits to Switzerland and negotiations through diplomatic channels. Delay was occasioned at one point when the Swiss decided that they could give no assistance to the British authorities on the ground that we could not grant reciprocity were the circumstances to be reversed. They have now resiled from that position.

Negotiations resulted in an arrangement that the Swiss Examining Magistrate would lift banking secrecy and permit the two witnesses (Benbassat and Zilkha) to be interviewed in England but despite initial optimism this visit has not materialised. Efforts are continuing and if their presence in the UK interview cannot be procured, the Director will again press for execution of the commission rogatoire. However, that process is likely to be slowed down by the elevation to the Supreme Court Bench of the Magistrate originally assigned to the case.

- (b) Deloitte Report: Following the acquisition of the Howden Group by Alexander and Alexander Inc. and discovery of the true financial position, the firm of Deloitte Haskins and Sells was instructed to investigate the affairs of the Howden Group and prepare a report with a view to the institution of proceedings by Alexanders against the former auditors of Howden, including Arthur Young and Company, for negligence. A number of draft reports have been produced by a Partner, one Shearer.



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Because the reports are for the purpose of litigation, they attract legal privilege both in this country and the United States.

Alexanders' legal advisers are extremely anxious to ensure that nothing is done which might constitute waiver of that privilege.

A major source of concern was the duty which would arise on the part of the Director, in the event of criminal proceedings being instituted, to disclose to the defendants any material documents in his possession, including the reports.

The following agreement has been reached with the solicitors acting for Alexanders as regards the various categories of information and documents :

(i) The draft reports by Shearer: These have been made available to the DPP subject to arrangements which are consistent with his duty of disclosure mentioned above. But they are privileged and under no circumstances must it be disclosed that the Director has had sight of them. It can safely be said that "the DPP has sought and received informal advice from Deloittes".

(ii) Documents seized from Howdens: Upwards of a million documents were seized by Deloittes from the offices of Howdens. They are available to the investigation team but the sorting and identification of originals is a major task.

(iii) Banque du Rhone documents: Alexanders, as part of their purchase of Howdens, became owners of the Banque du Rhone in Geneva. Mention has already been made of the significance of transactions through this Bank.

Swiss Banking law imposes stringent requirements as to confidentiality. The solicitors to Alexanders managed to obtain documents from the Bank on stringent terms and undertakings which preclude their disclosure to the DPP. Ironically, these are the documents the DPP seeks to



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acquire through the outstanding commission rogatoire mentioned above.

- (c) Lloyds Transcripts: The Director first requested the Lloyds transcripts in May 1985. Lloyds declined to hand them over on the basis that to do so would constitute a breach of their bye-laws. The DPP has continued to press his request and recently has been able to point to a very recent helpful decision by the Courts on public interest (Lion Laboratories -v- Evans). Lloyds took the Opinion of Leading Counsel and conceded that the transcripts could be handed over and this was done on 16 December. It is likely that Lloyds were also influenced by the adverse publicity attracted by their refusal.

Prognosis : Although the obtaining of the Deloitte Reports and the Lloyds transcripts represents substantial progress, the prospects of ultimate success still depend heavily upon securing evidence from the Banque du Rhone. Until a break through is made in this respect it is not possible to say when the investigation will be completed.

3. It must also be borne in mind that even when sufficient evidence is available to justify the institution of proceedings, it may still be necessary to overcome extradition hurdles. For example, Cameron Webb and Dixon are believed to be either in the United States or Costa Rica. We have no extradition arrangements with the latter and proceedings in the USA are notoriously lengthy. Grob has both British and Swiss nationality but resides in Switzerland. The Swiss do not extradite their own nationals and it remains to be seen what attitude they will take to a request in his case.

Johnson Matthey Bank Limited:

4. Since the announcement by the City of London Police on 27 November that he had requested the formation of the Fraud Investigation Group, arrangements have been made to ensure that the investigation team is sufficiently staffed and



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equipped to carry out a swift and effective investigation. The Head of the City of London Fraud Squad will lead the Inquiry and he will have no less than 40 officers to assist him, drawn both from the City of London Fraud Squad and the Metropolitan Police Fraud Squad. Premises at Bishopsgate are being swiftly converted to form a headquarters for the Inquiry and a computer has been purchased.

5. The positive evidence of fraud so far revealed by police enquiries involves the submission of false documents in order to obtain money from the Bank. The sums involved in this aspect of the case are extremely modest when set against the enormous losses of Johnson Matthey Bank Limited. Thus, although the press statement made by the City of London Police made direct reference to the discovery of this evidence, it does not represent any narrowing of the scope of the Inquiry and the Fraud Investigation Group will be concerned with any fraud at whatever time it has arisen.

6. As regards this wider Inquiry, there is, as yet, no evidence of fraud by any of the senior officers of the Bank although there is strong suspicion of corruption by some as a quid pro quo for the granting of giant loans to borrowers such as Spira and Shamji. One junior official in JMB has admitted a relatively minor offence of corruption and consideration of his position has been reserved. It may be that the Director and the Attorney General will have to decide whether, if he is able to provide evidence concerning other more serious offences, the public interest might be better served if he were treated as a witness rather than prosecuted.

7. Although the present police inquiry is the result of a request from JMB Limited itself, Mr Brian Sedgemore MP has made a large number of allegations which have also been passed to the police for investigation. These include a particularly serious allegation against the new management of JMB Limited. The majority of the allegations made by Mr Sedgemore allege criminal conduct on the part of clients of JMB and persons associated with them but not to the detriment of JMB. Where appropriate, these allegations have been referred,



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in accordance with police procedures, to the appropriate enforcement authorities (e.g, Inland Revenue, Scottish police). As the result of the disproportionate amount of time which the police were required to spend investigating and responding to these ancillary allegations, Detective Chief Superintendent Squires, Head of the City of London Fraud Squad, wrote to Mr Sedgemore requesting that he cooperate with the police by passing to them any useful information he may receive rather than using it to attract sensational publicity. He received an uncooperative answer.

Prognosis: The investigation is proceeding but it is still too soon to make any prediction as to when it will be concluded and the likely outcome.

P.M.

20 December 1985

