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Prime Minister ②
To note
AT 30/15

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Sir Peter Middleton KCB
Permanent Secretary

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30 May 1985

Dear Robin,

JOHNSON MATTHEY BANKERS

The Chancellor, who is on leave, is intending to brief the Prime Minister fully on the JMB affair before he makes a statement to Parliament in the early part of June. But there is one matter about which I should warn you in advance. The Bank have come to the conclusion, following Counsel's advice, that they should sue for damages JMB's auditors at the time of its collapse. The auditors are Arthur Young.

It turns out however that the major firms of accountants take out indemnity insurance with Lloyds on an annual basis. The insurance year ends on 31 May. Given the possibility of a suit, the Bank have been advised that Arthur Young's cover may be renewed at a lower level from 1 June. The Bank have accordingly written to Arthur Young putting them on notice so that significant damages can be secured from the action. A final decision will be taken when the Governor returns from overseas next week. But this is virtually certain to confirm that the Bank go ahead with the suit; the Governor has already told the Chancellor, who agreed, that this was his intention.

It is not in anyone's interest to announce this initial step, but it might get out and I should be grateful if you would warn the Prime Minister. Otherwise the intention would be to announce the move at the same time as the Chancellor's statement to the House - along with the publication of the report of the Committee set up to consider the system of banking supervision in the light of JMB. The Governor is also producing a report on the reasons for the JMB collapse and the Bank's subsequent decision to purchase JMB for a nominal sum.

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I should perhaps add that Tony Wilson has considered the implications for Government departments. As the Crown is not involved the Bank's action clearly does not have the same consequences as the recent decision to sue Arthur Anderson. But we may need to issue some guidance when the decision becomes public.

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Northern Ireland Office
over De Lorean

Yours ever,
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P E MIDDLETON

30 MAY 1965

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