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 bcc Mr David Willetts

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10 DOWNING STREET

12 June 1985

*From the Private Secretary*

THE REVIEW OF BANKING SUPERVISION AND JOHNSON MATTHEY BANKERS

The Prime Minister discussed with the Chancellor his minute of 7 June and the terms of his draft statement. She was generally content that the right balance had been struck between acknowledging faults and not undermining the position of the Bank. The Chancellor explained that para 19 of the draft statement was intended to demonstrate his view that the Bank had been in part to blame, but without weakening the Bank's case against the auditors.

The Prime Minister asked whether the Chancellor thought the Bank had been wrong to rescue JMB. The Chancellor said the Bank had put forward two defences - the need to protect the banking system as a whole and the need to protect the London Gold Market. He did not accept the first argument but did not feel in a position to reach a conclusive judgment on the second. The Prime Minister added that, at the point of decision, the Bank had very little time in which to consider its course of action.

The Prime Minister suggested amendments to the drafting of the statement at three points. Para 20 implied that the Chancellor was sure that the Bank's supervision of the remaining 600 banks was sound. This seemed to be a hostage to fortune. The statement in para 21 that the manager directly responsible had been moved to another part of the Bank might sound trivial. Finally, she thought the statement should end on a stronger note. As drafted the statement appeared almost to be looking for the next collapse.

(ANDREW TURNBULL)

*Sum*

Mrs. Rachel Lomax,  
 HM Treasury.