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10 DOWNING STREET

From the Private Secretary

31 July 1985

cc MASTER SET

Dear Ravel,

JOHNSON MATTHEY BANKERS

The Prime Minister discussed developments over Johnson Matthey Bankers today with the Chancellor of the Exchequer and the Attorney General. The Chancellor said that when he had made his statement on 20 June he had been advised that there was, at that point, no evidence of fraud. Shortly afterwards new information had come to light and he had been required to make a fuller statement that, while there was no evidence of fraud, there were grounds for calling in the police to conduct an investigation. The Government had, as a result, been made to look defensive and evasive, although at all times he had revealed to Parliament as much as he properly could given the information available to him. The pressure for further investigation into the affairs of JMB had continued. Rather than be put in the position of responding to such pressure, the Government could instigate a further report on JMB.

The Chancellor said he had identified two ways in which this might be done: to seek the agreement of Price Waterhouse to the publication of the report they had prepared for the Bank; or for the Secretary of State for Trade and Industry to appoint a QC and a senior accountant to conduct a Companies Act inspection. The objection to the former was that Price Waterhouse had conducted their investigation on the understanding that it would remain confidential. If their agreement to publication were secured, the report could be published in full or with certain details of customers omitted, though this would encourage the press to seek to identify the people concerned. A Companies Act inspection would be unusual, especially at this stage. Difficulties in the banking sector had previously always been dealt with by the Bank, and appointment of outside investigators would be seen as an implied criticism of the Governor and of the Bank. It would also take a few months to complete.

The Attorney General said the case for a further investigation and report was linked to the progress of the police investigation. If evidence of fraud were found

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quickly and a trial soon followed, the case for a separate investigation would be weaker.

In discussion, it was noted that the Bank had shown shortcomings both in its supervision before the collapse of JMB and in its efforts subsequently to clear the matter up. The impression had been given of not being in charge of events. The Price Waterhouse report had been received in February and should have alerted the Bank to the need to consult the police or to consider writing to the Chancellor to recommend a Companies Act inspection. The Chancellor should also have been informed earlier on the material in the report.

Summing up the discussion, the Prime Minister said it was not possible to decide whether a further investigation and report should be undertaken, or what form this should take, though there was in principle a preference for publication of the Price Waterhouse report rather than a Companies Act inspection which would take much longer. Before these issues were considered further, the Attorney General should examine the likelihood of a prosecution resulting from the police investigation.

I am copying this letter to Henry Steel (Law Officers' Department).

*You need  
Andrew*

Andrew Turnbull

Mrs. Rachel Lomax,  
H. M. Treasury.