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10 DOWNING STREET

From the Principal Private Secretary

6 September 1985

Dear Rachael,

JMB

The Prime Minister had a long talk today with the Governor, at Dunphail, about the suggestion that there should be a Companies Act inquiry into JMB. As a result the Prime Minister is not yet convinced that an inquiry is the right course. The Prime Minister's doubts reflect the following seven concerns put to her by the Governor:

(i) While the Fraud Squad inquiry should not delay the sale of the bank, a Companies Act inquiry would cause a delay. This is because the Fraud Squad inquiry is directed against specific individuals, who are not now associated with the bank. Thus that inquiry need not impinge upon the bank's current business and prospects, and so need not deter prospective purchasers. But a Companies Act inquiry concerns the bank itself and thus would involve, to some extent at least, the new owner. Such involvement would be bound to deter any new purchaser, so that the bank's sale could be delayed or its sale price reduced.

(ii) A Companies Act inquiry would not, in the Governor's view, serve to deter bankers from the sort of conduct which had caused the downfall of JMB. That could only be achieved through the establishment of an effective prosecuting authority which would bring irresponsible bankers to book.

(iii) It was doubtful whether the present Board and Management of JMB would hold together during a Companies Act inquiry, with the consequence that the bank would collapse. The Bank would also lose the opportunity for recovering as much of its investment in JMB. This would be bad for the Bank of England, as well as for the reputation of the City.

(iv) If it could be argued that a Companies Act inquiry delayed the sale of JMB, or reduced its sale price, or indeed precipitated the bank's collapse, the Indemnity

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Group would, no doubt, seek compensation from the Government to the extent that there was a greater call on their indemnity.

(v) The Governor doubted whether there had been a Companies Act inquiry into a bank which was a going concern. The London and Counties inquiry was no precedent since that company had already totally collapsed.

(vi) A prosecution for fraud would, in the Governor's view, be ruled out while the Companies Act inquiry was proceeding. Thus there could be delay in bringing to justice those responsible for the JMB affair.

(vii) The Bank of England's civil action for damages against Arthur Young for their negligent audit of JMB's accounts could be held up by a Companies Act inquiry.

The Prime Minister believes that these issues were not disposed of in her earlier discussion with the Chancellor and she would like them to be considered at a meeting, under her chairmanship, between the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Attorney General, and the Governor (who should feel free to bring along one adviser to the discussion).

Our office will be in touch with yours about the timing of a meeting. Meanwhile, I suggest that the Treasury should set in hand the preparation of a paper which, among other things, deals with the several issues referred to above.

I am sending a copy of this letter to John Mogg (Department of Trade and Industry), Henry Steel (Law Officers' Department) and John Bartlett (Office of the Governor of the Bank of England).

*Yours sincerely
Nigel Wick*

Mrs. Rachel Lomax,
HM Treasury.