Spare for Parliamentary section of bfg. submitted Weds night

DB

FROM D R H BOARD
11 December 1985

CHANCELLOR

cc Chief Secretary
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Peretz
Mr Hall
Mr Culpin
Mr H Davies
Parliamentary Clerk

JMB BRIEFING

I attach revised briefing. I understand No 10 would like a copy tonight.

2. The briefing is in the standard Treasury format and the draft line to take is in section B (positive); it reflects discussion with Mr Peretz in the light of the transcript of Mr Walker's press conference. We will however revise this section tomorrow morning if tomorrow's Press coverage makes this desirable.

Douglas Board

D R H BOARD

BRIEFING ON JMB

(A) FACTUAL

A1. Key dates:

early August 1984	- Bank/JMB supervisory meeting. Arthur Young (auditors) requested to re-examine loan book.
25 September	- JMB inform Bank that revised estimate of provisions threaten JMB's solvency.
1 October	- Announcement that JM plc have put in £50m and that Bank of England has taken over JMB for nominal sum.
17 December	- Chancellor's statement announcing banking supervision review.
20 June 1985	- Chancellor's statement presenting banking supervision report and Bank of England's annual report. JMB announce suit against Arthur Young. "No *prima facie* evidence of fraud has so far been uncovered."
17 July	- Chancellor's statement; JMB have requested police to come in. Preliminary report to be made to DPP on whether any criminal offences appear to have been committed.

24 October - Letter from David Walker to Sedgemore denying, inter alia, fraud by the Bank of England. Copy placed in Library of House. Chancellor's written answer publishes Solicitor General's letter to Sedgemore of 21 October refuting "cover up".

6 November - Bank announces prospective buyers to be approached on confidential basis.

28 November - Police announce evidence of fraud upon JMB in 1981 uncovered; Fraud Investigation Group set up.

11 December - JMB publish accounts for period to end-June (see A2 for factual summary).

Costs of rescue (as in JMB's accounts published on December 1985

Overall loss in accounts of £217.8m borne by:

Private sector	(£m)	
Johnson Matthey plc	152	(comprising - 102 last reported value of JMB in JM plc's accounts 50 additional injection part of rescue).
Other banks' estimated share of indemnity	26.65	
	178.65	
Bank of England		
Babk's estimated share of indemnity	26.65	
As shareholder	12.5	
	39.15	
TOTAL	217.8	

Comparison with Chancellor's 20 June statement:

x Estimate of potential cost to Bank of England ~~cost~~ now £39.15m, of which £26.65m under indemnity. Estimate in June was £34m, all under the indemnity.

The estimated loss of £12.5m attributed to the Bank of England as shareholder is on the basis of JMB's net worth on 30 June. There may well be scope as JMB's assets are realised for further reducing the call under the indemnity; and have yet to see what price JMB will fetch when sold, or what damages may be receivable from suit against former auditors (Arthur Young).

(a) Including £50m injection, Chancellor's June statement referred to £180m loss borne by JMB/JM plc. Why different from £152m above?

(b) Chancellor's June statement referred to estimated £248m loss - Why different from £217.8m above?

Different accounting bases. June figures included an estimated loss of £28m of JMB's internal resources on top of the £102m book value for JMB in JM plc's previous consolidated accounts, the presentation adopted in JMB's audited accounts has to reflect that. Detailed questions to JMB.

[IF PRESSED: Emphasise the position on cost to Bank of England stated above. Underlying changes between June figures and published accounts are at the margin: eg Bank's report in June estimated £248m provisions required at 30 April 1985, published accounts show £255m provisions at 30 June 1985.]

(B) POSITIVE/LINE TO TAKE

(a) JMB's accounts

This is the first properly audited* picture of the extent of mismanagement left behind by JMB's previous management on the banking side of the business. It confirms an utterly deplorable state of affairs in the loan book and in the provisions made for bad debts which the new management inherited.

(b) £39m cost to Bank of England?

Interim snapshot. Don't yet know if there will be any loss to the Bank of England:

- may be further progress in reducing provisions (and so the final call under the indemnities);

- possible gains when JMB is sold;

- possible damages from JMB's suit against its former auditors (Arthur Young)

Position not yet satisfactory (as JMB acknowledge) as, in current operating terms, the result is no more than break even - but this represents a considerable improvement.

(c) Fraud

Welcome the opportunity which JMB have taken to spell out again their full co-operation with the police. Government fully determined to see fraud rooted out wherever it occurs.

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* AVOID EXPLICIT CRITICISM OF PREVIOUS AUDITORS OUTSIDE PROTECTION OF PARLIAMENTARY PRIVILEGE

(C) DEFENSIVE

C1-10: Fraud

C11-19: JMB - public money/public accountability

C1. Police called in too late?

My RHF the Chancellor explained the position to the House on 17 July. When the Bank of England took over JMB they found a mess. That had to be sorted out. That work got to the point of establishing serious and unexplained gaps in the records and the police were called in.

C2. When will the results of the police investigation be known?

The timetable for the police investigation is not a matter for me, but the House will be informed of the outcome.

C3. Police have discovered fraud upon JMB in 1981. Pohoomull case went to DPP in 1983. Why did Bank take so long to wake up?

Fact is, as the Chancellor told the House on 17 July, even at that date strictly speaking prima facie evidence of fraud at JMB had not been established. Does not help to wrap up allegations against JMB in a confusing and misleading package with sensational allegations against customers. Question implies it has taken the police from July to the end of November 1985 to discover something which had been obvious since 1983 or 1984 - patent nonsense.

C4. Are JMB employees responsible for the accounts under investigation still in place?

Since JMB's rescue there has been a complete reorganisation of its banking functions in the course of which 8 individuals have either resigned or been dismissed.

C5. Why were the services of Mr Ian Fraser (alleged by Mr Sedgemore to be a crook) retained after the rescue? "Deal" with Sipra? Calling in receivers against Gomba/Shamji?

This is a question for the JMB board.

[Substitute page]

[IF PRESSED on possible Companies Act violations by former directors:] Any matters revealed by the accounts which call for investigations by DTI will certainly be looked into.

C6. Bank of England guilty of fraud?

The Bank of England have categorically denied this allegation in a detailed letter of 24 October, which has been placed in the Library of the House.

C7. Do you believe the Bank?

I believe we should look forward to the results of the police investigation in this respect. The statement issued by JMB with their accounts on 11 December suggests they and the Bank of England are looking forward to that too.

C8. Why then did Chancellor ask Sedgemore to withdraw his allegations?

There were two allegations which my RHF the Chancellor rightly asked the hon Member for Hackney South and Shoreditch (Mr Sedgemore) to withdraw: First, the grave allegation that the police investigation was a "cover up", which my learned Friend the Solicitor General had plainly refuted. Second that the Bank of England had been party to attempted fraud. The Bank categorically refuted this in Mr Walker's letter of 24 October which was placed in the Library of the House. My RHF the Chancellor emphasised that "If there are any matters for the police to pursue I am confident they will do so", and he has consistently urged the hon Member to place any evidence directly and promptly in the hands of the police.

[SUPPLEMENTARY IF MR SEDGEMORE ASKS ABOUT POLICE LETTER TO HIM: I understand the police have privately written to the hon Member for Hackney South and Shoreditch (Mr Sedgemore) asking him not to put publicity before the success of the police investigations. They have written entirely on their own initiative but the fact they have had to do so speaks for itself.]

C9. Symptomatic of wider decline in City standards; need for broad inquiry?

Don't accept this. The police have the full backing of the Government in rooting out corruption and fraud wherever it may be uncovered. Steps have already been taken to improve the effectiveness of the prosecution of fraud. The Fraud Investigation Group was established in January to strengthen co-operation between the police, DPP and DTI and has been doing a great deal of work. The Financial Services Bill will give investigators more powers. Effective investigation must, however, be followed by effective trial; and the law and procedure on complex fraud trials is under review by Lord Justice Roskill's Committee. I understand its report is expected early next year.

C10. Financial Services Bill? Lloyds?

Matter for my RHF the Secretary of State for Trade and Industry.

C11. JMB: public money used?

No taxpayer's money. Bank's own resources involved in rescue. These came from profits derived from the Bank's own activities, not voted by Parliament.

C12. JMB clearly not profitable, how much more money are Bank going to lose?

Matter for the Bank of England, but point out that JMB's statement on its accounts clearly shows the £12.5m erosion of its net worth is more than accounted for by non-recurring factors. The Bank's intention remains to sell JMB as soon as practicable for the best possible price. [Dr Owen's claims that JMB's bullion business in trouble have been vindicated? Accounts show £7.1m profit on bullion operations] [Refer more detailed questions to JMB.]

C13. Who gets the benefit of proceeds from selling JMB/JMB's action against Arthur Young?

The Bank of England and the private sector banks who provided the rescue, according to the terms of the agreements between them.

C14. Is it true that the Bank of England would have to give warranties/indemnities to sell JMB?

The Bank would have to weigh up the financial advantages and disadvantages to it of doing so.

C15. Bank dividend to Treasury?

Not affected. Losses to date have been absorbed by the Banking Department of the Bank of England. [IF PRESSED: Dividend to the Treasury has been published in the Bank's 1985 annual report: £25.3m for year to February 1985 compared with £21.75m the year before.]

C16. JMB will simply be sold on the back of its tax losses - taxpayer gets ripped off after all?

No special tax treatment. Inland Revenue have yet to agree JMB's position and JMB have made that clear. Not possible to know the detailed tax effects of hypothetical courses of action, but quite likely that more tax revenue would have been lost if JMB had collapsed.

C17. Need for an inquiry?

Point out that my learned Friend the Solicitor General's letter of 21 October to the hon Member for Hackney South and Shoreditch (Mr Sedgemore) refuted the hon Member's assertion that the criminal process is unsuited to find out what happened.
[IF PRESSED: Precedent of secondary banking crisis in 1970s. The Bank - on its own authority - provided financial support. The right hon Member for Leeds East (Mr Healey) told the House his approval was not sought or required. The then Labour Government did not

institute a public inquiry. The House was told virtually nothing. (**NOT FOR USE** - although the Select Committee on Nationalised Industries subsequently took evidence from the Bank).]

[ADDITIONAL SUPPLEMENTARY POINT:

The hon Member for Hackney South and Shoreditch (Mr Sedgemore) has told the Press that he wants an inquiry and that he thinks it would be necessary to give some of the witnesses immunity from prosecution. He might be right. But I would actually like to see any criminals brought to book.]

C18. JMB at risk from tin troubles on London Metal Exchange?

Its trading activities are a matter for JMB: see JMB's annual report.

C19. Johnson Matthey plc (JM plc) has had an easy ride (just declared an interim dividend?

JM plc, which owned JMB lost its existing investment in JMB and put a further £50m in before selling JMB to the Bank of England for £1. That was the maximum contribution which the Bank of England, and other private banks who helped to rescue JMB, judged JM plc could make. To do this JM plc had to receive a capital injection from its parent.

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(12 copies)

D A Walker
Executive Director

BANK OF ENGLAND
LONDON
EC2R 8AH

10 December 1985

D L C Peretz Esq
H M Treasury
Parliament Stree
S W 1

Dear David,

JMB REPORT AND ACCOUNTS

I am enclosing three copies of the JMB Report and Accounts and of the two press notices that accompany them. As you know, we are releasing these under an embargo for 2300 hours tomorrow, 11 December, so that Thursday morning's press will give the first reporting of all this.

I am sending a similar set of documents simultaneously to Rachel Lomax.

Yours Ever

David

cc Sir P Middleton
Mr Board

Johnson Matthey Bankers Limited

Press Notice

EMBARGO

JOHNSON MATTHEY BANKERS REPORT AND ACCOUNTS

1

1 Johnson Matthey Bankers Limited published today their report and accounts for the 15-month period to 30 June 1985. JMB was acquired by the Bank of England on 1 October 1984 and the reporting period was subsequently extended to enable the new board to get to grips with the accounting and other difficulties that they had found and to complete a capital reconstruction that was achieved on 18 June 1985.

2 The profit and loss account shows that JMB lost £70 million in the 15-month period and needed to provide a further £140 million to make good the shortfall of provisions against bad and doubtful debts at the previous year-end. This produced a loss attributable to shareholders of £210 million. Already included in this figure was an item of £11.3 million recoverable under the indemnity as interest. There was also a favourable movement to reserves of £3.5 million outside the profit and loss account. Taking these figures together, they produce an overall loss of £217.8 million before any of the contributions from outside sources that have supported JMB since 1 October 1984.

3 This loss of £217.8 million has been borne by:

	£m	£m
Johnson Matthey plc		152.0
Other banks under the indemnity:		
Principal	21.0	
Interest	5.65	26.65
Bank of England		
Under the indemnity	26.65	
as shareholder	12.5	39.15
		£217.8m

4 The total amount of provisions against the loan book in the balance sheet at 30 June 1985 was £254 million. Of this amount, £234 million was set up during the 15-month period, almost wholly by the new board. Although this immense provisioning exercise took place after 30 September 1984, it was entirely in respect of loans and advances made prior to that date. Claims under the indemnity are, as shown above, borne equally by the Bank of England and the group of banks who are the other contributors. These claims, called and anticipated, are currently expected to total £53 million; a reduction of £15 million from the £68 million foreseen at the end of April in the Annual Report of the Bank of England.

5 Within the overall pre-tax loss of £69.4 million, profit and loss has been attributed to main activities as follows, each activity having been credited with the benefit or charged with the interest cost of the capital resources allocated to it.

	£m (bracketed figures signify a loss)
Bullion operations	7.1
Commodities dealing	0.3
Futures broking	(2.7)
Insurance broking	1.0
	5.7
Banking	(73.7)
Closure and reorganisation costs	(1.4)
	(69.4)

6 The 15-month period fell into two parts divided by 30 September 1984. The losses of the banking department were attributable to events that preceded 30 September 1984. Their effect was to strip JMB of its entire capital and reserves at that time (ie £102 million as last reported in the consolidated accounts of the former shareholder), together with JM plc's cash contribution of £50 million. Thereafter, additional banking losses were to be covered by the indemnity. Effective protection as the indemnity was, it did no more than leave JMB in a "nil capital" condition. To remedy this, the Bank of England placed £100 million on deposit with JMB on 22 November 1984 and converted this into share and loan capital on 18 June 1985.

7 The consolidated balance sheet at 30 June 1985 shows JMB's net worth at £87.5 million, an erosion of £12.5 million of the new funds provided by the Bank of England. That decline is attributable to three main factors, all of them of an exceptional nature. They are:

	£m
The additional interest cost from operating without normal capital between 1 October 1984 and 18 June 1985	7.0
The cost of foreign exchange cover for doubtful debts denominated in US dollars, not indemnified	4.7
Closure and reorganisation costs	1.4
	£13.1m

This indicates that at the ordinary operating level JMB broadly achieved a break-even result in the period from 1 October 1984 to 30 June 1985. This is not satisfactory but it marks a turning point.

8 The erosion of net worth, taken together with the contribution of the Bank of England under the indemnity, points to an estimated potential burden on the Bank of England as seen now of £39 million. Leaving aside the outcome of the claim against the previous auditors and of other litigation in which JMB is involved, the eventual final cost of the rescue to the Bank of England will be reduced if and to the extent that future realisations permit further writing-back of provisions; it will, of course, depend also on the terms of disposal of the group.

9 In his Statement, the Chairman, David Walker, indicates that the main focus of effort since October 1984 has been on establishing satisfactory controls and securing recoveries in the loan book. In the period, special regard has been paid to liquidity, and the group has held back from major initiatives even in the profitable bullion operations. But with such consolidation now achieved, it is time to accord greater attention to improving the return on capital. In this situation, preparations are now in train for the return of the group to private ownership, which will provide the best foundation for exploiting the commercial opportunities that lie ahead and for taking JMB into its next phase.

10 The Chairman's Statement also refers to the institution of legal proceedings alleging negligence against the previous auditors, Arthur Young, and JMB's intention is to claim substantial damages to recoup its loss.

11 December 1985

STATEMENT BY JMB ON FRAUD AND RELATED ALLEGATIONS

1 The Report and Accounts of JMB are published today, just over 14 months after the acquisition of the group by the Bank of England in October 1984. The Chairman's Statement indicates that the task of the new board was to put the business of the group back on a sound footing, and substantial progress has now been made. But the task of the new board has been complicated by the glare of publicity and a good deal of ill-founded comment in circumstances in which JMB has been seriously constrained in its ability to respond, in particular because of banking confidentiality. The aim of this press notice is to help put the allegations of fraud and impropriety that have been made in perspective.

2 The Chairman's Statement includes the following passage in respect of co-operation between JMB and the police:

> The new board of JMB faced a large task in reconstructing the bank's records and in seeking to establish the causes of the losses. The detailed and intensive enquiries which we ourselves had initiated led us to conclude in July that the Fraud Squad should be invited to carry out a preliminary investigation. It does indeed seem that some acts of fraud may have been committed against the bank, though the evidence available at present does not suggest that these account for more than a fraction of the losses sustained on the loan book; as we see them now, these losses are principally attributable to the very poor quality of lending undertaken in the past. But whatever the nature and extent of misfeasance that has, directly or indirectly, affected our business, the board feel most strongly that evidence of it must be definitively identified and vigorously followed up. The police have expressed to me their appreciation of the co-operation that they have had from our staff, many of them on secondment to us, in helping them to unravel the often complex transactions undertaken by some customers of the bank. The police will continue to have our unreserved support in their investigations. It is clearly in the interests of our shareholder, of the board, of our staff, indeed of all concerned with the integrity of our business - and, of course, of banking business generally - that malefactors be identified and brought properly and swiftly to book.

3 Allegations of impropriety or fraud relating to JMB have been made in the four categories set out below:

(a) fraud against the bank by customers before 30 September 1984;

(b) impropriety or fraud (before 30 September 1984) relating to transactions where any losses were sustained not by JMB but by others, in particular through apparent breach of Nigerian exchange control arrangements;

(c) impropriety or fraud as in (a) and (b), in which former directors or staff of JMB may have been implicated;

(d) impropriety since the change of shareholding on 1 October 1984 in the context of the efforts and procedures set in train by the new board and its agents to make recoveries from debtors.

4 There is clearly the possibility of links between (a), (b) and (c), but they each represent a different category of impropriety or fraud. The Fraud Investigation Group has enquiries in train on the basis of evidence of varying degrees of impropriety or fraud in each of the first three categories. But while the eventual outcome of the FIG enquiries remains to be seen, the board of JMB are confident that the very substantial provisions that they have made are full and sufficient. The information at present available does not suggest that the amounts that have, or may have, been lost as a result of fraud are significant in relation to the total scale of provisions that have now been made.

5 JMB itself has identified certain transactions by a few customers, apparently undertaken in some cases with the knowledge of the bank, designed to circumvent Nigerian exchange control. The Nigerian authorities were informed when evidence of these transactions came to light, and we will be giving them every assistance in getting to the bottom of the matter.

6 Each and every one of the suggestions of impropriety on the part of JMB or its agents since October 1984 has been very closely investigated by the board, and by our legal advisers, and we have of course given every assistance to the police in their own enquiries. We believe that there is no substance in any of the allegations that have been made, and we hope accordingly that those who have sought to propagate them will now desist. For our part, the board and management of JMB will continue vigorously to seek to make recoveries in respect of lending against which provisions have had to be made.

11 December 1985

Written Answers to Questions

Thursday 24 October 1985

NATIONAL FINANCE

Johnson Matthey

Mr. Sedgemore asked the Chancellor of the Exchequer (1) if he will set up an inquiry to examine the evidence in the letter to him from the hon. Member for Hackney, South and Shoreditch and enclosures of 4 October together with subsequent evidence relating to the conduct of members of the Bank of England, Mahmud Sipra, his solicitors and others in matters arising out of the Johnson Matthey banking collapse;

(2) if he will set up an inquiry to examine the conduct of *(a)* the Governor of the Bank of England, *(b)* directors of Johnson Matthey bank appointed by the Bank and *(c)* David Curtis and Mr. Thomason of Hambros Bank in relation to their activities concerning Johnson Matthey bank.

Mr. Lawson: The hon. Member's letter to me of 4 October, which was reported in the press, raised criminal and other allegations against the management of Johnson Matthey Bankers, their advisers Hambros Bank, and the Bank of England. The hon. Member also made the accusation that the police investigation of which I informed the House on 17 July, at column 320, was "a cover up". I referred the hon. Member's letter to the law officers and to the Governor of the Bank of England.

With the Governor's agreement the chairman of JMB has today sent the hon. Member a detailed letter denying the hon. Member's allegations in categorical terms. A copy is being placed in the Library of the House. As for the grave accusation of a "cover up", the hon. Member received earlier this week an equally categorical rebuttal from my hon. and learned Friend the Solicitor-General, and I am arranging for the text to be published in the *Official Report*. If there are any matters for the police to pursue I am confident they will do so. I see no need for an inquiry into any of the matters which the hon. Member has raised and I hope that, in the light of the very full replies which he has received, he will withdraw his allegations.

Following is the letter:

21 October 1985

Brian Sedgemore Esq MP
House of Commons
London SW1

Dear Brian,

Your letter of 4 October to the Chancellor of the Exchequer was copied to the Attorney-General and to the Governor of the Bank of England, because it raised matters falling within their respective responsibilities. In the continuing absence of the Attorney-General following his recent operation I am replying on his behalf.

I have of course taken serious note of your grave allegation that the preliminary police investigation into JMB is a cover-up, and that it is being constrained by less than full cooperation from JMB itself. The Controller of Fraud Investigation Groups within the DPP has discussed with Detective Chief Superintendent Squires (who is leading the investigation into JMB's affairs) your allegation that the Bank of England has "kept a lid" on the investigation by, in particular, restricting access to papers. I am informed that DCS Squires disagrees: he has no complaint to make of lack of cooperation from the present management of JMB. Up to now it has not been necessary for the police to seek access to the whole of JMB's papers, but whatever they have needed to see has in each instance been made freely available. I understand that Treasury officials have also been in touch with JMB, whose Chairman has reaffirmed JMB's full and willing cooperation with the police investigation.

I hope I do not need to assert to you that in the conduct of such an investigation the Police Service is wholly independent of the Executive, as is the DPP (who is subject only to the superintendence of the Attorney-General).

Your letter of 4 October also outlined allegations made by a Mr. Hussein that there had been an attempt on behalf of JMB to procure the execution of a back-dated agreement, which would have had the effect of giving JMB priority over other creditors of companies owned by Sipra, thereby defrauding them. I understand Mr. Hussein has been seen by the police who are looking into the matter.

I do not agree with your assertion that the criminal process is "wholly unsuited to find out what has happened". In the face of allegations that serious criminal offences have been committed I regard it as entirely appropriate.

I am copying this letter to the Chancellor.

Yours,
Patrick

Banking Supervision (Review Committee's Report)

4.23 pm

The Chancellor of the Exchequer (Mr. Nigel Lawson): With permission, I should like to make a statement.

In my statement on 17 December, I told the House that the Johnson Matthey Bankers affair raised important issues about our present procedures of banking supervision, and the legislative framework within which it is conducted. I announced a full review, which would consider whether any early changes in present supervisory procedures were called for in the light of the problems that had arisen in Johnson Matthey Bankers, and whether there was a need to review or amend the Banking Act 1979.

The review committee has now presented its report, which I have arranged to be published as a Command Paper and have laid before the House. I shall be considering the committee's proposals carefully. In the meantime, I have accepted the report as a basis for immediate consultation. Many of the recommendations do not require legislation. Some are already being implemented. But some of the committee's proposals do require fresh legislation. I therefore propose to publish a White Paper later this year, with the intention of bringing a Banking Bill before the House as soon as possible. The group of Treasury and bank officials which I set up under the review committee's terms of reference is continuing its detailed examination of the Banking Act 1979.

I am most grateful to the Governor of the Bank of England, who has chaired the review committee, and to its members, who comprised senior officials of the Bank of England and the Treasury, and a distinguished commercial banker, Mr. Deryk Vander Weyer.

A note by the Bank of England on events leading to the failure of JMB, the subsequent rescue by the bank, and its conduct of JMB's affairs is annexed to the bank's annual report and accounts, which have been laid before the House today.

The bank's account makes it clear that serious shortcomings in the management of JMB led to its collapse — over-rapid expansion of the loan book, heavy concentration of exposures, and lack of adequate control systems. JMB was also guilty of serious misreporting to the supervisory authority.

The circumstances described in the bank's report must inevitably raise questions about the role of the auditors, Arthur Young. The board of JMB, which is a wholly-owned subsidiary of the Bank of England, has today announced that it will be initiating legal action against Arthur Young.

The bank's account also explains its reasons for rescuing JMB. In mounting the rescue, I am satisfied that the Governor was acting properly within his discretion.

The board of JMB now estimates the company's losses at £248 million. Of this, £130 million has been met by JMB's original capital, reserves and provisions, and £50 million by a cash injection from Johnson Matthey plc, the former parent company. The rest of the losses are to be met from the indemnity of £150 million, split pound for pound between the Bank of England and a group of private sector banks and members of the London gold market. Potential claims on the indemnity to date thus amount to £68

[Mr. Nigel Lawson]

million, of which £34 million falls to the bank. Though in many instances recoveries will be only over the long term. JMB's present board of directors is satisfied that the total eventual calls on the indemnity will fall comfortably within the £150 million ceiling.

Since JMB is now its wholly owned subsidiary, the Bank of England stands fully behind it. On 22 November the bank placed a deposit of £100 million with JMB, which has since been converted into £100 million of additional capital to strengthen JMB's balance sheet. This will, of course, be fully reflected in the price the Bank of England receives for the sale of JMB back to the private sector, which it plans to conclude as soon as practicable.

The review committee has made 34 specific recommendations. Their implementation will require action by the Bank of England, by supervised institutions, by their auditors and by the Government. The committee proposes two fundamental changes in the present arrangements, and several important modifications. It has taken the view, which I share, that the JMB case exposes major shortcomings in the present legislative framework and supervisory procedures. I shall, in my statement, outline only the committee's main proposals. A full summary of its recommendations is annexed to its report.

The Banking Act 1979 — which was Labour legislation — draws a distinction between recognised banks and licensed deposit-takers. JMB was, and still is, a recognised bank.

Most of the Act's provisions, and of the bank's powers set out in it, relate to licensed deposit-takers. A dual system of supervision has resulted. Licensed deposit-takers have been subject to a more rigorous regime of supervision, whereas the supervisors have relied heavily on the integrity and co-operation of the management of recognised banks. With most banks, this confidence has not been misplaced. But the banking industry has expanded rapidly, and its activities have diversified. Recognised bank status—as we have seen with JMB—has not always guaranteed prudence and responsibility.

The committee recommends that the two-tier system be abolished and that the powers given to the bank under the Act should apply to all authorised institutions. I accept this recommendation. The committee recommends that all authorised institutions should, in consequence, be entitled to use banking names.

I also intend to tighten the criteria for authorisation, including the minimum net assets required.

The second fundamental change recommended by the review committee concerns bank auditors. In this context, I am grateful to the Institutes of Chartered Accountants of England and Wales and of Scotland for the co-operation that they have afforded the committee.

The committee recommends that there should in future be a regular dialogue between the supervisors and banks' auditors. I strongly endorse this proposal.

A banks' auditors are uniquely placed to monitor its control systems and assess its financial prudence. The accountancy profession at present considers itself prevented by a duty of confidentiality to the client from passing information to the supervisors. At the same time, the supervisors are themselves inhibited by the Banking Act from communicating supervisory information to third parties without the institution's consent.

This is clearly an unsatisfactory state of affairs. It is in cases where consent is not forthcoming that dialogue might be most necessary. That is why I accept the committee's recommendation that the constraints on contact between auditors and supervisors be removed.

I emphasise, however, that it is the directors and senior managers of banks who are responsible for the conduct of their business. They have duties both to depositors and to shareholders. This responsibility cannot be shuffled off to auditors or supervisors. The lesson of the JMB collapse is that banks must have in place adequate management and control systems. I therefore endorse the committee's suggestion that banks should appoint an audit committee and finance director where they do not already have them.

The committee has also made important recommendations on the staffing and organisation of the banking supervision division of the Bank of England.

The work of the supervision division has increased greatly in both complexity and volume in recent years, and the Bank of England now supervises more than 600 institutions. In general, it does a difficult job diligently and well. But in the case of JMB, the supervisors cannot escape criticism for failing to respond more quickly to the danger signals.

The committee has recommended that the staff of the division would benefit from wider commercial experience; that there should be more secondments in both directions between the division and commercial banks; that a significant cadre of experienced long-term banking supervisors must be built up; and that there should be more professionally qualified accountants in the division. It has also been suggested that more staff are needed.

The bank has already begun to implement these recommendations. The division is being strengthened both in numbers and in the range of expertise available. Some rearrangement of responsibilities has taken place within the division and further secondments to and from commercial banks have been arranged. To provide advice at a senior level, Mr. Sidney Proctor, chief executive of the Royal Bank of Scotland group, who retires from that position on 30 September, has accepted the Governor's invitation to serve on a part-time basis as an adviser on banking supervisory issues.

JMB's failure stemmed directly from a number of large, related exposures. The committee recommends—and the Bank of England has accepted — that in future no exposure to a borrower, or to closely related borrowers, should exceed 25 per cent. of the lender's capital base, other than in the most exceptional circumstances.

An effective system of banking supervision is essential, not merely for the protection of depositors but for the financial health of the economy as a whole.

The review committee's report brings out very clearly the lessons to be learnt from the collapse of Johnson Matthey Bankers. But more than that, it proposes a number of important changes to banking supervision in this country, which I am confident will greatly strengthen the system and make a repetition of the JMB affair very much less likely to occur. I commend it to the House.

Mr. Roy Hattersley (Birmingham, Sparkbrook): I wish at the outset to make it absolutely clear to the Government that the Opposition expect an early debate on this subject, for it raises the most serious questions about the relationship betwen the banks and the Bank of England, the Bank of England and the Treasury, and the Treasury and the House of Commons.

The Chancellor now proposes a Banking Bill to review the system of statutory regulation. I welcome that, and the Opposition will help its passage—that is, the passage of a Bill which offers adequate safeguards and supervision. I hope, however, that the Chancellor is aware that our co-operation depends on the inclusion of three essential ingredients.

The first is the abolition of the two-tier system of supervision and the extension to the banks of the information requirement now placed on licensed deposit-takers. The second is the power of the Bank of England, when it fears a bank collapse, to provide relevant information to other Government Departments. The third is the duty — not the right, as recommended by the working party — of auditors to warn the Bank of England if they have information about impending collapse.

However, the Chancellor will be aware that that is all in the future. Opposition members will not agree that the history of this matter can be swept under the Bank of England's carpet. Indeed, unless we fully understand and learn the lessons of this unhappy affair, new legislation will be no more successful than the old; for under present powers, the Bank of England should have detected, and prevented, the JMB collapse.

Why did the Bank of England not appoint an investigator under section 17 of the Banking Act in the autumn of 1983 or in early 1984, when it certainly knew that JMB was moving into desperate difficulties? Indeed, why did the Bank of England not know of the danger earlier? Is it not a fact that every bank must submit Q7 forms to the supervising authority listing the largest depositors, the amount of the loan book and the geographical spread of loans? Does the Chancellor agree that that information gave the Bank of England a most serious warning signal and that the Bank of England did not act on it?

It is not only the Bank of England that has such questions to answer. The Chancellor tells us that when he made his statement to the House on 17 December, he did not know of the £100 million loan to JMB. Does he now accept that he should have known and that the Bank of England should have told him? Perhaps more important, does he accept that when he found out, he should have corrected the mistaken impression that he inadvertently gave to the House?

The Chancellor cannot hide behind the fiction that the behaviour of the Bank of England is not a matter for him; nor can he take refuge in the pretence that public money was not involved. No one now accepts the arbitrary and artificial distinction which he chooses to make, since the Bank of England dividend is payable to the Treasury, and Bank of England money is, in a real and practical sense, within the public weal.

That raises the fundamental question which I hope the Chancellor will answer. Why, of all the companies that the Government and their agencies might have rescued, has this incompetent bank been singled out for special treatment. In short, why Johnson Matthey and Cortonwood? Why JMB and not Stone Platt, the textile machinery company which the Bank of England ditched in 1982?

With such a sorry tale of incompetence and concealment before the Chancellor, does he still retain any confidence in the Governor of the Bank of England, and does he expect us to retain any confidence in him?

Mr. Lawson: The right hon. Gentleman first asked for a debate. That is a matter which, as he knows, can be pursued through the usual channels.

Secondly, the right hon. Gentleman welcomed the proposed Banking Bill, and I am glad of that. He asked for an assurance that it would include the abolition of the two-tier system. I have already indicated in my statement that that will be a most important part of the Bill. I do not think that the right hon. Gentleman was concerned with financial matters at the time, but when the then Labour Government put forward the Banking Bill with the two-tier system that system was opposed by the then Conservative Opposition, particularly by my hon. Friend the Economic Secretary. The two-tier system was put in place by the then Labour Government against the wishes of the Conservative Opposition. It has proved to be a mistake, and we shall certainly be changing it.

The right hon. Gentleman then asked why the Bank of England did not get on to the situation of Johnson Matthey Bankers at an earlier date. I have already made it clear that the Bank of England, despite its excellent record in general of carrying out its supervisory duties, did not on this occasion act as promptly as it should have done. It did, to some extent, fall down on the job. I must say, however, that there was persistent late reporting and misreporting by JMB, so the Bank of England was provided with wholly inadequate information.

The right hon. Gentleman asked if I did not feel that I should have been told at the time about the £100 million loan. Yes, I do think that I should have been told at the time; and that is accepted by the Governor of the Bank of England and, indeed, by the bank generally. I think, however, that the point that the right hon. Gentleman went on to make is false—that I should have revealed this to the House as an additional exposure. It is important to distinguish between loans made by JMB prior to 30 September 1984—which included, as we now know, a large number of very bad and doubtful loans—and the £150 million indemnity to cover them, and the £100 million which was to provide JMB with effective working capital to continue after 30 September 1984 and stands to be recovered in full when JMB is sold back to the private sector.

The right hon. Gentleman then asked why JMB was rescued. I have already indicated quite clearly why the Governor, exercising his responsibilities, decided that, because of the combination of the risk to the London gold market — which is a very important market — and the effect on the banking system, it was right to rescue JMB.

In reply to the question whether I now have confidence in the Governor, I must tell the right hon. Gentleman and the House that I have the fullest confidence in the Governor of the Bank of England.

This is not the first occasion on which a bank has collapsed and a rescue operation has been mounted. Right hon. and hon. Gentlemen on the Opposition Benches and, indeed, the whole House will recall very clearly the secondary banking crisis some 10 years ago and the rescue operations that were mounted by the the then Governor of the Bank of England, backed by the then Chancellor of the Exchequer, the right hon. Member for Leeds, East (Mr.

[Mr. Lawson]

Healey). I have to say that no information of the kind in the Governor's report to the House and in the report that I have given to the House today and no action to tighten up on banking supervision was offered to the House at that time.

Mr. Terence Higgins (Worthing): Is my right hon. Friend aware that when an event of this size and seriousness occurs it is very important that it should be fully investigated so that the House can take a view on the reforms that need to be made? Therefore, we obviously need to study in detail the information now before us, and it is very important that the lessons should be learned. We are now in a position to do this as a result of the action that my right hon. Friend has taken. His proposals and the other remedies which he may feel to be appropriate are being implemented against the background of a situation in the City of London which is nothing short of a revolution. Therefore, it is important to ensure that we take an overall view of the problems which may arise in that context. Is my right hon. Friend satisfied that there is sufficient co-ordination between the Treasury and the Department of Trade and Industry, which is responsible for many other aspects of the City's operations? There is some danger, I fear, if there is not sufficient co-ordination and if the interrelationship of the various financial institutions is not taken fully into account when we carry out the reforms which are undoubtedly necessary in the light of this event.

Mr. Lawson: I am grateful to my right hon. Friend for his initial remarks about the particular case which is the subject of my statement today and about the action that the Government have taken.

On the wider issue of the City revolution, I welcome his statement that these reforms are essential if the City of London is to remain a world financial centre, particulrly as far as the securities industry is concerned. It is obviously important that there are adequate regulatory systems and financial protection in place. He will know that the Government will be bringing forward, before very long, I hope, a financial services Bill, when these matters can and should be very fully and rigorously debated.

I am satisfied that there is full co-operation between my Department and the Department of Trade and Industry, as indeed there must be, and not only between those two Departments, but between them and the Bank of England.

Mr. Robert Sheldon (Ashton-under-Lyne): Will the Chancellor bear in mind the clear danger of rushing in with public money before the extent of the problem is realised —and, of course, this should have been realised much earlier? Will be contrast the treatment given to Johnson Matthey Bankers with the failure by a previous Conservative Government to come to the rescue of Rolls-Royce—the most important industrial company in this country, probably in Europe, and even conceivably in the world? They let that company go for sums of money rather less than this. Does that not show the bias of this Conservative Administration towards services in the City of London and away from industrial expenditure, which should be one of our highest priorities?

Mr. Lawson: That is a most extraordinary statement, because, as the right hon. Gentleman should recall, Rolls-Royce was indeed rescued by the previous Conservative Government. It is a thriving business. I hope that during the course of this Parliament we shall be able to return it successfully to the private sector.

Sir William Clark (Croydon, South): I am sure that everybody in the City and in financial circles generally will appreciate the fact that the Government are going to introduce a new Banking Bill. When will this legislation be brought forward? I have one caveat about such a Bill. In his statement, the Chancellor said that the lending authority—that is, a bank—should not expose itself to a borrower, or a series of borrowers who are connected, to the extent of more than 25 per cent. of its capital. Surely that is far too high a proportion, because a lending authority, such as Johnson Matthey Bankers, for example, could, with four borrowers, commit the whole of its capital. Would my right hon. Friend think again about the recommendations of the review committee and consider whether 25 per cent. is not perhaps too high?

Mr. Lawson: On the second point, my hon. Friend has to bear in mind that we have a very flexible discretionary system of banking supervision in this country. I am not proposing, nor is the review committee, that it should be replaced by a system of rigid rules. It is possible to have a system of rigid rules. The United States has such a system, but that does not prevent banks occasionally collapsing in the United States — for example, Continental Illinois, which was, of course, rescued. If there were to be rigid rules, the sort of matters to which my hon. Friend referred would have to be covered by them. This 25 per cent. rule is a general upper limit guideline. It does not mean that circumstances might not arise of the kind that my hon. Friend suggested, in which case, long before that, the supervisory authority would say that that was not in keeping with the supervision rules that it imposed informally and it would require the lending authority to reduce its exposures.

As to my hon. Friend's first question, we hope that we shall be able to bring forward legislation during the 1986-87 Session.

Mr. Brian Sedgemore (Hackney, South and Shoreditch): For the benefit of those members of the public who are not well versed in matters of high finance, will the Chancellor of the Exchequer distinguish between stupidity, incompetence and greed and fraudulent trading, fraudulent accounting and fraud? Bearing in mind the fact that in any language, other than Tory language, the conduct of Johnson Matthey Bankers, the auditors and the Governor of the Bank of England has coalesced into a fraud on the public, should not the Governor of the Bank of England resign under this Government before he gets the sack under the next Labour Government?

Mr. Lawson: That question is hardly worthy of any answer, although it is worthy of the hon. Gentleman. No prima facie evidence of fraud has so far been uncovered. The Price Waterhouse report turned up no prima facie evidence of fraud. However, if any prima facie evidence of fraud were to be turned up in further investigations, of course the appropriate action would be taken.

Sir Anthony Grant (Cambridgeshire, South-West): Will my right hon. Friend confirm that the strictures, rightly levelled at the banking side of Johnson Matthey plc, do not apply to the industrial subsidiary located in my constituency which does some excellent work and gives valuable employment to my constituents? Is not the saving of that employment and the industrial side of Johnson Matthey plc a justification of the rescue operation?

Mr. Lawson: My hon. Friend is right in a number of respects. First, the parent company, Johnson Matthey plc, conducts industrial operations successfully and well in a number of constituencies, not just his. It would have been brought down completely had that rescue not been mounted. However, that was not the prime reason for mounting the rescue operation. It was for the reasons that I gave in my statement. The same goes for the bullion business of Johnson Matthey plc, which is a sound business, contrary to the impression given by a long and completely misguided campaign by the right hon. Member for Plymouth, Devonport (Dr. Owen), who is not in his place.

Mr. Ian Wrigglesworth (Stockton, South): In view of the comment that the Chancellor of the Exchequer has just made, will he explain why it was necessary to give a massive £150 million indemnity involving substantial public funds to keep the whole of that operation going? If the future of the gold market were not going to be rocked, because the bullion side of the business was viable, why was it necessary to save the whole of the institution? When he considers future banking supervision, will he take into account the views put forward by a number of people when the subject was discussed previously? It was then said that the Bank of England is the wrong body to be responsible for the supervision of the banking system, as it is acting as an advocate for and a supervisor of the banking system, and that it should be contained in its role as a central bank and not carry out that supervisory role. Will the Chancellor of the Exchequer also explain why no charges are being brought and the fraud squad is not pursuing the matter further, when there has been such massive misreporting and misleading of the supervisory body by the bank's management?

Mr. Lawson: The answers to the hon. Gentleman's three questions are as follows. First, whether the Bank of England should continue to be the supervisory body was one of the matters considered by the review committee, which unanimously reached the conclusion that it should remain as the supervisory authority.

As to whether there was any danger to the gold market, I hardly think that the members of the gold market would have contributed to the indemnity, as they did, had they not thought that it was important to the London gold market that the bank should be rescued. That was the view of the Governor of the Bank of England and of those from the private sector who contributed to the indemnity.

Misreporting, even on the appalling scale that occurred in this case, does not constitute a fraud. That is a point of law.

Mr. Jonathan Aitken (Thanet, South): Although this affair is a most bizarre Alice-in-Cityland fable of unbelievable incompetence by the management of Johnson Matthey Bankers, does my right hon. Friend agree that considerable good may yet come out of it, because of the important reforms and changes to banking supervision in the legislation that he has announced in his statement? Does he further agree that, far from sweeping matters under the carpet, as the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) appeared to be claiming, the Governor of the Bank of England deserves some credit for setting new standards of openness in this matter with the full record which has been published today in the Bank of England's annual report? Does not that candour compare favourably with the cover-up operation which the Labour Government carried out throughout the secondary banking crisis when details of the many bank rescues and lifeboat operations were completely concealed from the House of Commons by the then Ministers?

Mr. Lawson: My hon. Friend is correct with each of his points. I hope that good will come from, as he said, the appalling and bizarre record of incompetence and mismanagement by Johnson Matthey Bankers and the collapse. I believe that it will. I believe that we shall have a much better banking supervisory system than we have had hitherto.

Mr. D. N. Campbell-Savours (Workington): Is not the truth that there has been far too much socialising between JMB and Bank of England personnel and far too little supervising? If everything is being revealed, why does the Chancellor not publish the Price Waterhouse report? What is in it? Why cannot the public know its contents? Will it reveal the extent of the Bank of England's negligence? Why does everyone resist publishing that crucial document, which would enlighten the British public and reveal the full nature of the negligence of the Government, the Bank of England and JMB?

Mr. Lawson: I recommend to the hon. Gentleman that he reads the account given in the annual report of the Governor of the Bank of England, which was published today. As my hon. Friend the Member for Thanet, South (Mr. Aitken) said, he will see a great deal of information. It contains far more information than was ever provided by the Labour Government. The Price Waterhouse report was commissioned by the Bank of England to assist it in assessing the position in JMB. It contains details of the accounts of the customers of JMB, which, of course, cannot by law be published. To publish it would also undermine to some extent the suit——

Mr. Campbell-Savours: The cover-up.

Mr. Lawson: No, the legal action—that the Bank of England, through Johnson Matthey Bankers, proposes to take against the auditors, Arthur Young McClelland Moores and Co.

Mr. Tim Smith (Beaconsfield): My right hon. Friend mentioned the tough recommendations made in March to the Governor's committee by English and Scottish Institutes of Chartered Accountants. Many of those have been incorporated in the committee's report. Does my right hon. Friend agree that the opening up of the relationship between the Bank of England and individual banks' auditors lies at the heart of any improvement in banking supervision? Will he ensure that those recommendations are implemented as soon as possible — even ahead of any legislation — if necessary, voluntarily?

Mr. Lawson: I agree with my hon. Friend. Those points are at the heart of the matter. Some require legislation, because at the moment there is an iron curtain both ways between auditors and supervisors. The auditors,

[Mr. Lawson]

by their code of professional confidentiality, feel that they cannot reveal to the supervisors what they learn about a bank. Equally, under the Banking Act 1979, supervisors are not empowered to reveal what they discover to a bank's auditors. The iron curtain must be removed in both ways.

Mr. John McWilliam (Blaydon): Will the Chancellor tell the House whether the Governor of the Bank of England was aware of his intention to make a statement to this House on 17 December at any time before he made that statement?

Mr. Lawson: Yes, Sir.

Mr. Gerald Howarth (Cannock and Burntwood): Will my right hon. Friend confirm that those who made the ill-judged banking decisions have now been dismissed from Johnson Matthey and have nothing further to do with it?

Does my right hon. Friend agree with the report's assertions that it is the flexible nature of the supervisory regime in London that has made it the centre of the financial world, with the Bank of England now supervising more than 600 institutions, most of which are not British? Will he ensure that nothing is done to imperil the City's standing in that respect?

Mr. Lawson: I agree with my hon. Friend. The chairman, deputy chairman, managing director, deputy managing director and two other directors who had responsibility for the banking operations have resigned. I am, of course, referring to the old board.

Mr. James Lamond (Oldham, Central and Royton): Will the Chancellor answer a question which, rather surprisingly, has not been asked by his hon. Friends who allege that they are very interested in the taxpayers of this country? Will he tell me—in round figures, if necessary —exactly how much my constituents, as taxpayers, will have to find to meet the provisions in this statement?

Mr. Lawson: Nothing.

Sir Kenneth Lewis (Stamford and Spalding): Is my right hon. Friend aware that I support the package that he has put before the House to deal with this matter? However, I have a feeling that if this company had been wholly industrial and approached its bankers, they would have said that it was lost and, therefore, should get lost. The company would not have received support. It is a privileged community.

Will my right hon. Friend say to the banks generally that it would be a good thing if they could support industry in return for the support that they obviously receive?

Mr. Lawson: If my hon. Friend is under the impression that any bank that gets into difficulties will automatically be rescued, I am happy to take this opportunity to say that that is certainly not the case. The banking community should be well aware of that. In this particular case, for the reasons that I have already given, the Governor felt that it was right to mount a rescue.

Mr. Max Madden (Bradford, West): The Chancellor appears to be unduly nervous today about his statement, which may in part be due to his anxiety about the whereabouts of my hon. Friend the Member for Bolsover (Mr. Skinner), who has taken a great interest in these matters. I can tel him that, like so many other hon. Members, he is campaigning in the Brecon and Radnor by-election. I am sure that the right hon. Gentleman's statement will do nothing to answer the very serious questions that my hon. Friend and others have been asking.

Are we not told that people like the Chancellor take the view that all uneconomic units should die—that that which cannot create a profit should die? In view of that, why on earth was this bank propped up with public money? Will the Chancellor give a clear assurance that not a single penny piece of public money has been used to shore up that uneconomic bank?

Mr. Lawson: I have already made the position on public money very clear—not only on this occasion, but on a previous occasion. Currently, the exposure of the Bank of the England in terms of money that may be lost looks like being £34 million. However, we must take into account what the bank will receive when it tells Johnson Matthey Bankers back to the private sector. There is also the question of what it might receive as a result of the legal action it proposes to take against the auditors Arthur Young.

On the hon. Gentleman's first point, I think that he is confusing my demeanour. It is not nervousness, but deep disappointment at the absence of the hon. Member for Bolsover (Mr. Skinner) from our proceedings.

Viscount Cranborne (Dorset, South): Does my right hon. Friend accept that his remarks about fraud will be widely welcomed, especially in view of recent events at Lloyds and in other parts of the City, which have far too often led to the clear indication in certain parts of the press that people who perpetrate white-collar fraud get away with it while blue-collar fraudsters and criminals do not?

Mr. Lawson: I have considerable sympathy with my hon. Friend's sentiments. I hope that nothing that is said in this House will give the impression outside that the appalling conduct of those responsible from the happenings at Johnson Matthey Bankers is in any way typical of British banking.

Mr. Stuart Bell (Middlesbrough): In response to the question asked by my right hon. Friend the Member for Ashton-under-Lyne (Mr. Sheldon) on 17 December, the right hon. Gentleman said that only £1 was invested in Johnson Matthey by the banking department of the Bank of England together with an indemnity of £75 million from the banking sector. He told my hon. Friend the Member for Sedgefield (Mr. Blair) that he was informed the following day that there was a £100 million deposit with Johnson Matthey. Why has he waited six months to give the House that information? Does he agree that he should have given a full personal statement to rectify that error once it had been brought to his attention? Does he not owe the House an apology?

Mr. Lawson: I do not accept any of that. I have been open with the House since December last year when I made a statement, although I was under no pressure to do so. There was certainly no request for a statement from the Opposition. Opposition Members have not asked a single question about Johnson Matthey or banking supervision——

Mr. Madden: What about my hon. Friend the Member for Bolsover?

Mr. Lawson: I accept that there were one or two questions from the hon. Member for Bolsover, but there has been no question from the Labour Front Bench. As for the hon. Member for Bolsover, he is not even here.

I made that statement and also set in motion the review of the supervisory system. As a result, we shall get a better supervisory system — not only through legislation, but because of the changes that the Bank of England is introducing. I should have thought that the hon. Gentleman would welcome that.

Mr. Eric Deakins (Walthamstow): Is the Chancellor satisfied that resignation is a suitable punishment for directors responsible for such financial mismanagement and incompetence? What sort of example will that set for people in the rest of the economy?

Mr. Lawson: It is not just a matter of resignation. The shareholders in the Johnson Matthey parent company have lost 70 per cent. of their money — well over £200 million. Of all the money that has been put behind the staggering losses of bad debts, 86 per cent. is private sector money.

Mr. Jack Straw (Blackburn): Just who was the Chancellor trying to kid when he told my hon. Friend the Member for Oldham, Central and Royton (Mr. Lamond) that not a penny piece was at risk for the taxpayer? On our reading of his statement, it is likely to cost up to £134 million from the public purse. That is the extent of the risk. It is well over half the amount of money that was taken from beneficiaries of child benefit. If no public money is at risk, why is the Chancellor making this statement in his capacity as Chancellor, and where will the £134 million come from?

Mr. Lawson: The hon. Gentleman has got his figures completely wrong. The £34 million is indeed money that is lost in the sense of recovering bad debts; but, as I said earlier, against that must be set the money that will be recovered when Johnson Matthey is sold. The money that is then recovered will, as I said in my statement, include the £100 million additional capital that has been put in. That will be paid first. Therefore, currently £34 million is the risk, but money will be recovered from the sale of Johnson Matthey Bankers, and money may also be recovered from the legal action against the auditors.

HANSARD

Johnson Matthey Bankers

3.51 pm

The Chancellor of the Exchequer (Mr. Nigel Lawson): With permission, Mr. Speaker, I should like to make a statement. I told the House on 20 June that if further investigations into the affairs of Johnson Matthey Bankers were to turn up any evidence of fraud, appropriate action would be taken. Investigations have been continuing since then. Although, strictly speaking, they have not so far established prima facie evidence of fraud, they have revealed serious and unexplained gaps in the records of Johnson Matthey Bankers, including the possibility of missing documents relating to substantial past transactions on certain accounts that are the subject of large losses.

In the light of that, Johnson Matthey Bankers has today requested the Commissioner of the City of London police to conduct a preliminary inquiry with a view to establishing whether any criminal offences may have been committed. The result of the inquiry will be reported to the Director of Public Prosecutions, who will advise what, if any, further action should be taken. The House will, of course, be kept informed.

Mr. Roy Hattersley (Birmingham, Sparkbrook): The Chancellor of the Exchequer was wholly right to inform the House of this latest development in the Johnson Matthey affair at the first opportunity, and I thank him for that. Obviously, it is not possible to speculate about the outcome of the police inquiry — [HON. MEMBERS: "But."] It is, however, essential to clarify the procedure which now follows. Will the Chancellor of the Exchequer confirm that two prosecutions may now result from the unhappy affair: first, regarding the auditors, about which he told the House a month ago, and now Johnson Matthey Bankers? What is more, because of their mutual mismanagement, the Bank of England and the Government are involved in the whole episode. It grows increasingly difficult to answer the question why Johnson Matthey Bankers was bailed out in the first place, and so quickly.

Does the Chancellor of the Exchequer agree that the fullest revelation of all the facts is essential? Will he promise that after the police inquiries there will be a general inquiry into the whole Johnson Matthey Bankers' scandal, either by a Select Committee of the House or under the Tribunals of Inquiry of (Evidence) Act 1921?

Mr. Lawson: I am grateful to the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) for his initial welcome. He referred to the two matters which are now under way as if they are somehow similar. In fact, they are very different. There is the prospect of civil action by JMB, which is now a wholly owned subsidiary of the Bank of England, against the auditors Arthur Young McClelland Moores and Co. Secondly, there is the separate preliminary police inquiry.

The right hon. Gentleman asked why Johnson Matthey Bankers was bailed out. I gave a full explanation of that when I made my statement on 20 June, and the matter was covered fully in the annual report of the Bank of England. As for what might happen in future, I think that it is better at this stage to wait and see.

Sir William Clark (Croydon, South): Is my right hon. Friend aware that his statement will be very welcome, so th[illegible] whole affair can be cleared up once and for all? Does he agree that if the Bank of England had not intervened in the Johnson Matthey affair there could have been a loss of confidence in the City, which would have been detrimental to the invisibles sector of the economy?

Mr. Lawson: My hon. Friend is right. There were obvious dangers to the London gold market especially, which was a special and important feature of the case. It is striking how open the Government have been in revealing to the House details of this matter, in sharp contrast to what happened under the previous Labour Government during the lifeboat incident.

Mr. Richard Wainwright (Colne Valley): Will the Chancellor of the Exchequer explain to the House why it is only now that he is able to tell the House that serious and unexplained gaps in the records have come to light, when various skilled teams of investigators have been engaged in the Johnson Matthey investigation over the past six months? How much longer does he think it will take possibly to produce prima facie evidence?

Mr. Lawson: The fact that the documents were missing was not established until quite recently. Since the Bank of England took over Johnson Matthey it has stopped further out-flows and has been working to establish the full extent of the bad debts, which I reported to the House on 20 June. It has been engaged also in getting Johnson Matthey Bankers back into a shipshape and saleable condition, so as to protect taxpayers' and the Bank of England's money and that of the indemnifiers. The inquiry is not the only matter in which the Bank of England has been engaged, but I am satisfied that it is diligently pursuing the inquiry with the aid of its advisers. I am sure that it is as anxious as the House to have a prosecution for fraud if any evidence of fraud should be found.

Sir Anthony Grant (Cambridgeshire, South-West): Is my right hon. Friend aware that the deplorable goings on at Johnson Matthey Bankers have caused the most acute embarrassment to many of my constituents who work successfully and honourably with the chemical division of Johnson Matthey? Will he emphasise that the two companies are quite separate, and in so doing wish every success to those who work in Johnson Matthey chemicals?

Mr. Lawson: I did so when my hon. Friend properly raised the matter on 20 June, and I gladly do so again now.

Mr. Dennis Skinner (Bolsover) *rose*——

Hon. Members: Hear, hear.

Mr. Skinner: Is the Chancellor of the Exchequer aware that if the Attorney-General had acted on 12 November 1984 when I asked him a question about the fraud squad's investigation of this matter there is a fair chance that some of the tracks that have probably since been covered up would have been found and explored thoroughly by the fraud squad?

The right hon. Gentleman will be aware that in the Crown Agents' affair very few people were trapped at the end because there was too long a delay. In the London and Counties Security scandal, Gerald Kaplan managed to get to America because of the delay. The result is that he has got off scot-free. In other words, he has obtained an amnesty. If the right hon. Gentleman compares the Johnson Matthey Bankers' affair with the Slater, Walker fiasco, and all the others that arose at about that time, he will find that most of those involved got off scot-free. Against that background, is he not open to the charge that, because he has delayed matters and refused to answer my questions and those of my hon. Friends, people such as James Firth, a director, whose son was employed by one of the largest borrowers from Johnson Matthey, have been able to cover up all their tracks? The borrower is a personal friend of the Prime Minister and of the Secretary of State for Trade and Industry.

Is it not a scandal that the Chancellor has come to the House eight months after Johnson Matthey's exposure on 30 September? The result is that we will be lucky to get hold of any of the culprits, yet there are so many people to pick on. Why does the right hon. Gentleman not act against the Governor of the Bank of England? Why is the Governor not charged with the fact that he allowed so much neglect to take place? What about Michael Arnold, who worked for the auditors and apparently could not discover anything throughout 1984? One of those auditors is now in charge of looking after the NUM's funds. What a scandal this is.

Is it not a fact——

Mr. Speaker: Order. The House knows that the hon. Member for Bolsover (Mr. Skinner) has taken a special interest in this matter, but he must not make a speech.

Mr. Skinner: Is it not a fact that, by being so laggardly, the Chancellor and the Attorney-General, with the connivance of the Prime Minister, will allow these people to get off scot-free while miners have been locked up in gaol for doing absolutely nothing?

Mr. Lawson: I resent and reject the hon. Gentleman's allegations. I had hoped that he would welcome my statement.

Mr. John Maples (Lewisham, West): Does my right hon. Friend agree that one of the most difficult decisions that a central bank has to make from time to time is whether to rescue a particular financial institution? It is, by contrast, extremely easy for the Opposition to cast doubt on those decisions in ignorance of the full facts.

Mr. Lawson: My hon. Friend is correct, but, strictly speaking, that is not the issue before the House. This is a serious matter. It concerns the fact that the Bank of England, through Johnson Matthey Bankers, has reached the point where sufficient suspicion has arisen through the missing documents to lead the Bank of England to feel justified in asking the City fraud squad to make a preliminary inquiry.

Mr. Robert Sheldon (Ashton-under-Lyne): Is it not clear that the rescue of Johnson Matthey Bankers, by comparison with a large number of firms which have been allowed to go to the wall, represents an error of judgment by the Chancellor? Does the right hon. Gentleman agree that Johnson Matthey Bankers has shown itself to be the unacceptable face of capitalism, whereas the Chancellor's actions have shown themselves to be the unacceptable face of Government intervention?

Mr. Lawson: The right hon. Gentleman is wrong on both counts. First, the decision to rescue JMB was not my decision, but that of the Governor of the Bank of England. Secondly, it was not an incorrect decision. In my judgment, the Governor of the Bank of England was correct in taking that decision.

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): Does my right hon. Friend accept that most of us will think that he was right to make this statement, because the invisible earnings of the City of London are important to our balance of payments? Does my right hon. Friend accept that what has happened at Johnson Matthey is a scandal which should be investigated, wherever it goes, and whatever its results? Bearing in mind the City revolution to come, the loss of confidence in the City by events such as the Johnson Matthey incident and the fact that Lloyd's has cast a great cloud over many people's views of the City's reputation, should not the same strictures be applied to Lloyd's, as a police investigation would bear heavily upon many people involved in some of the disgraces there?

Mr. Lawson: My hon. Friend will know that investigations into Lloyd's are going on. The prosperity and future of our people are threatened by the unacceptable face of Socialism. Whereas we are acting properly against what the right hon. Member for Ashton-under-Lyne (Mr. Sheldon) called the "unacceptable face of capitalism", the unacceptable face of Socialism is publicly embraced by the Leader of the Opposition.

Mr. Brian Sedgemore (Hackney, South and Shoreditch): Is the Chancellor aware that Mr. Michael Hepker, the chairman of a public company, Sumrie Clothes Ltd., who today left the country, has been leading the Bank of England auditors, Graham Mark and Robin Collier, up the garden path ever since the collapse of Johnson Matthey in relation to a £1·5 million loan made to Ravensbury Investments, an offshore Isle of Man company, which loan involved a whole series of frauds, including a fraud on Johnson Matthey? Will the right hon. Gentleman confirm that on 29 June 1982 Eric Ellen, the director of the International Bureau of Maritime Fraud, went to see Ian Fraser, a director of Johnson Matthey, to tell him about various proven misdemeanours in which Mr. Mahmud Sipra, who controls the El Saeed empire which led to the collapse of Johnson Matthey, had been involved? Will the right hon. Gentleman confirm that, on 12 December 1982, he telephoned Mr. Fraser to tell him that Mr. Sipra was caught up in a £3 million fraud and that it was ridiculous to continue to lend him money, only to be met with the reply by Mr. Fraser, "You chaps are all the same. You don't give anyone a chance."? Will the Chancellor give a guarantee that he will come to the House next week, when I hope to present further details of fraud at Johnson Matthey?

Mr. Lawson: If the hon. Gentleman has any relevant evidence, I hope that he will immediately make it available to the police.

Mr. Eric Cockeram (Ludlow): Will my right hon. Friend accept that his assurance that if any fraud is uncovered the matter will be brought to the attention of the Director of Public Prosecutions is little comfort, in view of the repeated lethargy of that Department? I remind my right hon. Friend that fraud at Lloyd's was uncovered more than 12 months ago, yet no action has been brought by the DPP.

Mr. Speaker: Order. Wide questions promote wide answers.

Dr. Oonagh McDonald (Thurrock): Is the Chancellor aware that his statement makes nonsense of the Prime Minister's reply to me last Thursday, which was reinforced in her Monday letter to me, when she said that she saw no purpose in an inquiry into the relationship between Johnson Matthey and companies to which loans had been made? Does not everything that the Chancellor has said today underline the need for such an inquiry? What will the right hon. Gentleman do to shake the Prime Minister's complacency about Johnson Matthey?

Mr. Lawson: There is no question of complacency on the part of my right hon. Friend the Prime Minister, myself, any member of the Government or the Governor of the Bank of England. We have acted throughout on all the evidence that has been made available. It was impossible to act before there was any evidence. Now that further facts have come to light, the Bank of England and Johnson Matthey Bankers, without any delay, have called in the police, who will report to the Director of Public Prosecutions.

Mr. John Stokes (Halesowen and Stourbridge): Disregarding much of what the Opposition have said, is my right hon. Friend aware that the honesty and integrity of the City of London is at stake? We look to my right hon Friend to help us in every possible way.

Mr. Lawson: I agree with my hon. Friend that the honesty and integrity of the City of London are of the first importance. As I made clear in my statement of 20 June, it would be wholly wrong to assume that the shambles, and worse, at Johnson Matthey Bankers was in any way characteristic or typical of banking in the City of London. It does no good to this country to pretend otherwise.

Mr. Laurie Pavitt (Brent, South): Is the right hon. Gentleman aware that, apart from the large companies which were caught, a large number of small businesses are affected? I know of the tragedy of a small concern in Norfolk which had been built up over 30 years and which has gone to the wall. Does the Chancellor's announcement offer any hope that, after a lifetime of work, these small businesses will be rescued from bankruptcy?

Mr. Speaker: Order. That question has nothing to do with Johnson Matthey.

Viscount Cranborne (Dorset, South): Now that my right hon. Friend has set such a good example in dealing with white collar fraud, can we expect him to encourage the responsible authorities to promote similar investigations into the Lloyd's insurance market?

Mr. Speaker: Order. That question is no good either.

Mr. D. N. Campbell-Savours (Workington): May I ask the Chancellor to give an assurance that every penny of public money expended on rescuing that bank will be returned to the public purse before the company is again privatised? May we now have a copy of the Price Waterhouse report?

Mr. Lawson: As I made clear to the hon. Gentleman earlier, the Price Waterhouse report contains details which, because of the law relating to banking confidentiality, cannot be revealed. It also bears upon the legal action which the Bank of England and Johnson Matthey Bankers contemplate against Arthur Young McClelland Moores and Co. On the hon. Gentleman's point about money being returned before privatisation, the money that will be received by the Bank of England as a result of the privatisation of Johnson Matthey Bankers will play an important part in the recovery of funds which have been expended.

Mr. Tam Dalyell (Linlithgow): Did it come to the Chancellor's ears from around the gold market and elsewhere in the City before Christmas that there was a likelihood of fraud being involved? On what date, before or after Christmas, were Sir Robert Armstrong, the Prime Minister and the Chancellor warned of the likelihood of fraud in the Johnson Matthey Bankers case?

Mr. Lawson: I received no such warning at any time. The Bank of England discovered the documents to be missing last week.

Mr. Robert C. Brown (Newcastle upon Tyne, North): As it becomes increasingly apparant that a large sum of public money has been involved in fraud, will the Chancellor give the House an assurance that if, after the fraud squad's inquiries, the Director of Public Prosecutions reveals that the villians have fled, he will dismiss the Governor of the Bank of England, and resign?

Mr. Lawson: No, Sir.

Mr. Hattersley: Does the Chancellor agree that the exchanges of the past few minutes confirm the need for a general inquiry? At some point, must he not answer the question why, when my hon. Friends below the Gangway suspected fraud six months ago, the Bank of England suspected it only yesterday?

Mr. Lawson: The right hon. Gentleman's colleagues below the Gangway suspect fraud on every occasion, whether or not there happens to be any evidence of it.