

CONFIDENTIAL



7/2  
Indebtedness  
(Arthur)

10 DOWNING STREET

*From the Private Secretary*

6 June 1984

BANKS' INTERNATIONAL LENDING

During the course of their bilateral today, the Prime Minister and the Chancellor discussed various mechanisms by which banks could restructure their balance sheets to take account of bad or doubtful loans. The Prime Minister said Sir Walter Salomon had suggested a scheme to her under which banks' capital could be divided into A and B shares. The A shares would be backed by the healthy parts of the business while the B shares would be backed by non-performing loans. (Sir Walter would obviously include a great deal more in this category than most other bankers.) Such loans would be held by a realisation trust and the value and return on the B shares would be determined by what in fact was recovered on these loans. The premise behind this scheme was that there would be merit in identifying clearly the healthy and the weak parts of banks' business.

The Chancellor remarked that the proposal bore a resemblance to a suggestion put forward by Mr. Macworth Young. When we discussed this on the telephone, you agreed to let me have a note on these ideas, as part of a larger study of special schemes which have been put forward in this area.

BH

MR. A. TURNBULL

David Peretz, Esq.,  
HM Treasury.

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