

B/P in two reels

AT

18/7

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PRIME MINISTER

INTERNATIONAL DEBT CRISIS

Sir Walter Salomon put forward a suggestion for dealing with bad and doubtful international debts on the balance sheets of the banks. He has not spelt out his scheme in any detail but it seems to involve dividing a bank's assets into two. The sound assets would be included in a new smaller balance sheet, backed by A shares which would receive dividends based on profits in the normal way. The unsound assets would be held by a realisation account, backed by B shares. These shares would have a low value and would be rewarded by whatever the account managed to realise by selling the assets or by receiving a reduced flow of interest.

Sir Walter's scheme appears to be part of the family of schemes which seek to write down LDC lending to closer to its real value. The attached note by John Redwood distinguishes between various ways in which such a market could be created. As far as one can discern, Sir Walter's scheme appears to belong more to the second group which looks inferior, at least to the third approach.

AT

Has Alan had a  
talk with Sir W.S.?

9 July 1984

1. Have anything we can do with  
John Redwood's suggestions. If the  
situation gets worse we may need  
course 3 - but it's all up to the U.S. for now  
than us. not