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10 DOWNING STREET

From the Private Secretary

7 January 1986

Dear John,

LLOYD'S AND THE FINANCIAL SERVICES BILL

The Prime Minister has seen your Secretary of State's letter of 6 January to the Chancellor proposing an inquiry into Lloyd's.

The Prime Minister has commented that she is very sceptical about the proposal.

The proposal could if necessary be discussed further at a meeting on fraud which has been arranged for Thursday this week. Alternatively, if you felt that an earlier meeting was needed, it might be possible to fit one in tomorrow.

I am copying this letter to Rachel Lomax (HM Treasury), Joan MacNaughton (Lord President's Office), David Morris (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office) and to Michael Stark (Cabinet Office).

Yours ever

David.

(David Norgrove)

John Mogg, Esq.,
Department of Trade and Industry

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Secretary of State for Trade and Industry

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6 January 1986

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Pamie Newster

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Brian Griffiths believes the enquiry proposed here is a useful idea, particularly in view of the uncertainties caused by Sir Hay Lawson's resignation.

Agree an enquiry, subject to colleagues? Rosell

I am very sceptical indeed. This idea has never thought up rather than what to do with it.

LLOYD'S AND THE FINANCIAL SERVICES BILL

As you of course know, we have been under heavy pressure, not just from the Opposition but also from many on our own side, to include Lloyd's within the Financial Services Bill. The Prime Minister made it clear in the House on 19 December that the Government is keeping a close watch on events at Lloyd's, and that if it becomes necessary to take action or to legislate we would not hesitate to do so. With Second Reading of the Financial Services Bill approaching on 14 January, I have been considering how we can strengthen our position.

2 I have been reluctant to include Lloyd's in the Financial Services Bill itself, but have so far not totally excluded the possibility of doing so. It would be very difficult to do so, but not absolutely impossible. The difficulty stems from the fact that the Bill is about the protection of investors, and the Government's regulation of Lloyd's has been primarily concerned with protecting policyholders. There is a risk that an attempt to include Lloyd's within this Bill would render the Bill hybrid.

3 I would therefore prefer to indicate more firmly that I do not regard this Bill as an appropriate vehicle for statutory regulation of Lloyd's, even if such regulation were regarded as necessary. On the other hand, I think it is important to support this position by providing some machinery for reaching a conclusion as to whether or not the Lloyd's constitution and the steps taken by Lloyd's under it by a given date do provide adequate protection for Members of Lloyd's as Investors. We have pointed out that it is still a comparatively short while

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since the Lloyd's Act came into effect, and that the internal regulatory regime set up under it has only gradually been put into place. But we are entitled to expect that a satisfactory regime should be in place within a very short period of time if further statutory intervention into affairs of Lloyd's is to be avoided. And outsiders can reasonably expect to know how and when we intend to decide whether further action on the part of Government is necessary.

4 What I therefore propose is to announce on or shortly before Second Reading that I have set up an inquiry into Lloyd's, either by an eminent person or a very small committee under his chairmanship. The inquiry would be asked to consider whether the existing Lloyd's Acts and the bye-laws and other arrangements adopted under them provide sufficient protection for external members of Lloyd's as "investors" having regard both to the development of investor protection arising out of the Financial Services Bill and the need also to provide adequate protection for Lloyd's policyholders. I would ask it to report by, say, July 1986; this would allow time for legislation (which could well be hybrid) in the 1986/87 Session. However I would hope such legislation would not be necessary; Lloyd's have extensive powers to amend their rules and constitution under their existing Act, and the inquiry would put considerable pressure upon them to produce or complete an adequate regulatory regime.

5 To be effective such an inquiry would need to be headed by a person unconnected with Lloyd's who commands wide respect in the City and elsewhere. Among names I have in mind are Sir Patrick Neill, ex-Chairman of the Council for the Securities Industry; Sir Ian Fraser (a recent past Chairman of Lazard's; (subject to enquiries on whether he is a member of Lloyds); Lord Richardson (who when Governor of the Bank was largely responsible for the appointment of Mr Ian Hay Davison as Chief Executive of Lloyd's); and Sir Edwin Nixon, Chairman of IBM. My Department would provide a small secretariat.

6 I need to act quickly if I am to have the inquiry in place for second reading. I would therefore be grateful for rapid confirmation that colleagues are content with this course by close of play tomorrow (Tuesday). My officials will be separately approaching the Bank of England. I shall write again when I have reached a decision on the person I consider should head the inquiry.



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7 I am copying this letter to the Prime Minister, the Lord President of the Council, the Lord Privy Seal, the Chief Whip and Sir Robert Armstrong.

Leon

LEON BRITTAN

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