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10 DOWNING STREET

From the Private Secretary

29 January 1986

JUNK BONDS

The Prime Minister has seen your letter to me of 21 January which described the work being undertaken in your department about issues raised by highly leveraged takeovers. I am sure the Prime Minister will be grateful to have a report on the results of this work when it is complete.

I am copying this letter to Rachel Lomax (HM Treasury) and John Bartlett (Bank of England).

(David Norgrove)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

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Secretary of State for Trade and Industry

PS/

21 January 1986

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David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Handwritten notes:
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Dear David,

JUNK BONDS

My Secretary of State has seen Rachel Lomax's letter to you of 23 December on this subject, and the enclosed papers. He would agree with the broad conclusions that while junk bonds are, for a number of reasons, unlikely to catch on in this country in the foreseeable future, leveraged takeovers financed by bank lending may already be doing so.

2 The issues which this may raise for bank supervision, and for the financial markets generally, are for the Treasury and the Bank rather than for this Department. But we are actively reviewing the adequacy of existing arrangements to protect the interests of shareholders on both sides, in the sort of takeover battles which we have seen recently in the USA; and we are also giving thought to the consequences for third parties, including employees, and for the economy as a whole, if a company created by a highly leveraged takeover should collapse, as well as to the danger that pressure to repay the debt may force the company to behave in ways which may not be in the long term interests either of the company or of the economy as a whole. This type of concern of course loomed large in the decision to refer Elders' proposed takeover of Allied Breweries to the MMC; and similar action would be open to us if another case of this kind arose.

3 I am copying this letter to Rachel Lomax (Treasury) and to John Bartlett (Bank of England).

*Yours ever,
Michael*

MICHAEL GILBERTSON
Private Secretary

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