

Restricted

RESTRICTED

FM TOKYO

TO DESKBY 280930Z FCO

TELNO 1055

OF 280307Z OCTOBER 86

INFO ROUTINE WASHINGTON, BONN, UKREP BRUSSELS

FCO PLEASE ADVANCE TO: QUINN, WEBSTER (BANK OF ENGLAND) CAINES,
HILTON, MARRE (DTI), ILETT (TREASURY)

ANGLO-JAPANESE FINANCIAL CONSULTATION, 27 OCTOBER

SBLS AND DTLS

1. IN A RESTRICTED SESSION, GYOHTEN AND KITAMURA INDICATED TO SIR G LITTLER (TREASURY) AND LOEHNIS (BANK OF ENGLAND) JAPANESE READINESS TO ISSUE 4 FURTHER SECURITIES BRANK LICENCES (SBLS) IN THE NEXT 2-3 MONTHS: TO MORGAN GRENFELL, SAMUEL MONTAGU, JAMES CAPEL AND LAURIE MILBANK. THEY ALSO TENTATIVELY OFFERED TO GIVE AN EARLY POSITIVE INDICATION TO BARCLAYS AND LLOYDS, IF WE WOULD DO THE SAME IN PARALLEL TO THE REMAINING JAPANESE ASPIRANTS TO BANK OF ENGLAND DEPOSIT-TAKING LICENCES (DTLS). THEY SUGGESTED THAT ALL FOUR UK CLEARING BANKS' SBLS, AND ALL FOUR JAPANESE SECURITIES HOUSES' DTLS, MIGHT THEN HAVE BEEN ISSUED BY EARLY IN 1987.
2. LITTLER AND LOEHNIS HOWEVER DECLINED TO TREAT THE CLEARING BANKS' SBLS ALONE AS A MATCH FOR THE DTLS, AND CONSEQUENTLY WERE LEFT WITH NO (NO) COMMITMENT IN RESPECT OF BARCLAYS AND LLOYDS. THEY INDICATED THAT DAIWA'S DTL APPLICATION, MADE ON 3 SEPTEMBER. WOULD BE HANDLED REASONABLY EXPEDITIOUSLY BUT SAID THE OTHER TWO DTLS WOULD DEPEND ENTIRELY ON JAPAN MAINTAINING THE MOMENTUM IN TOKYO, IN RESPECT OF INVESTMENT MANAGEMENT LICENCES AS WELL AS SBLS. ONLY THEN MIGHT IT BE POSSIBLE TO HAVE GRANTED BY SAY OCTOBER 1987 ALL DTLS (AND SBLS) THEN OUTSTANDING. LITTLER WARNED MOREOVER OF POTENTIAL POLITICAL PROBLEMS AHEAD. HOWEVER, HE AND LOEHNIS AGREED TO TAKE NOTE, IF AND WHEN THE TIME CAME, OF THE JAPANESE PREFERENCE FOR THE EVENTUAL THIRD AND FOURTH DTLS TO BE SIMULTANEOUS.
3. IN THE PLENARY OF THE CONSULTATIONS THERE WAS NO FURTHER DISCUSSION BUT WE MADE QUITE CLEAR THAT THE FINANCIAL SERVICES BILL RECIPROCITY POWER WILL BE AVAILABLE FOR USE IF NECESSARY ALSO AGAINST ANY JAPANESE HOUSES THAT JOIN THE LONDON STOCK EXCHANGE BY VIRTUE OF MEMBERSHIP OF ISRO
4. IT WAS AGREED TO MAKE NO (NO) PUBLIC REFERENCE TO DISCUSSION OF ANY INDIVIDUAL LICENCE APPLICATIONS BUT TO REFER GENERALLY TO CONSTRUCTIVE AGREEMENT ON IMPORTANCE OF MAINTAINING MOMENTUM. LITTLER SPOKE ACCORDINGLY TO JAPANESE AND UK PRESS AT A JOINT CONFERENCE WITH GYOHTEN AT 27G850Z

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OTHER POINTS

5. WE AGAIN EXPRESSED STRONG UK INTEREST IN THE NEW JAPANESE LAW ON INVESTMENT MANAGEMENT, AND INDICATED THE NUMBER AND HIGH QUALITY OF LIKELY BRITISH APPLICANTS FOR LICENCES. THE JAPANESE GAVE SOME USEFUL, AND IN SOME CASES REASSURING, FURTHER DETAILS OF ITS IMPLEMENTATION BUT COULD SAY NOTHING NEW ABOUT THE CALENDAR FOR THE ISSUE OF LICENCES OR THE TIME THEY WOULD TAKE TO PROCESS APPLICATIONS.

6. THE JAPANESE GAVE A PREPARED RESPONSE TO OUR AIDE-MEMOIRE ON THE DIFFICULTIES FACING FOREIGN BANKS IN JAPAN. THEY SHOWED NO WILLINGNESS TO RELAX THE CONSTRAINTS ON THE DEVELOPMENT OF THE INTERBANK MARKET, BUT THEY DREW ATTENTION TO THE RECENT GROWTH OF THE MARKET IN SHORT-TERM GOVERNMENT DEBT AND PLEDGED THAT THIS WOULD CONTINUE. THEY ALSO AGREED TO INCREASE THE ACCESS OF FOREIGN SECURITIES FIRMS TO THE CALL MONEY MARKET VIA THE BANK OF JAPAN.

7. WE DEPRECATED THE CONTINUING ABSENCE OF ANY INDICATION OF FURTHER SEATS FOR UK FIRMS ON THE TOKYO STOCK EXCHANGE (TSE). KITAMURA SAID ONLY THAT AN OPPORTUNITY MIGHT ARISE, BUT HE COULD NOT (NOT) SAY WHEN. IN SUBSEQUENT CONVERSATION, HOWEVER, GYOHTEN APPEARED RECEPTIVE TO LITTLER'S ARGUMENT, WHICH HE WILL DEPLOY AGAIN ON 28 OCTOBER WITH TSE PRESIDENT TAKEUCHI, THAT TO AVOID A NEGATIVE POLITICAL REACTION IN THE UK TO THE ADMISSION OF MANY JAPANESE FIRMS TO THE LONDON STOCK EXCHANGE VIA ISRO, AS EXPECTED SOON, IT WOULD BE WELL AT THAT TIME FOR THE TSE TO BE ABLE TO REFER PUBLICLY TO PLANS FOR ITS NEXT ENLARGEMENT.

8. FOR THEIR PART THE JAPANESE REPEATED, WITHOUT RESULT, THEIR LONG-EXPRESSED WISH TO BE ABLE TO LEAD-MANAGE STERLING BOND ISSUES IN LONDON, AND HOKURIKU BANK'S WISH FOR BRANCH STATUS IN LONDON.

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