

Copies to The Prime Minister  
The Rt Hon Chris Patten  
Sir Robin Butler  
Mr David Hunt

Prime Minister

Further developments known about

CONFIDENTIAL Ho of L provisional view clear -

but all LA swaps are ultra vires.

Bank of England <sup>line is out</sup>  
London EC2R 8AH <sup>letter broadly</sup>

similar to that from DOE - though

'X' may well be too ambitious!

6 November 1990

Treasury response still awaited.

BHP  
6/11

The Governor

The Rt Hon John Major MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London  
SW1P 3AG

Dear John,

LOCAL AUTHORITY INTEREST RATE SWAPS

I have received a copy of Chris Patten's letter to you of 24 October.

Now that the Lords have stated their provisional view that all swaps undertaken by local authorities are ultra vires, the options facing Government are somewhat simplified.

I strongly agree that an early statement setting out the Government's position will be highly desirable for the reasons set out in Chris Patten's letter and because it will help to reduce the risk of lasting disruption in the financial markets.

As far as the future is concerned, I agree in principle with the conclusion that local authorities would benefit from access to swaps for the purpose of interest rate risk management, provided that an appropriate system of supervision can be established. The Lords' decision means that legislation would be required to re-open this market and the decision if and when to bring this about is clearly a matter for Government.

mt

at flat

As to the past, I accept that there is no question of retrospective legislation to enforce the performance of contracts that have been ruled to be ultra vires. I nevertheless remain deeply concerned about the implications for London as a financial centre of the doubts now raised over the reliability of contracts entered into in good faith. There seems to me to be a strong case for legislation enabling those local authorities who wish to honour outstanding commitments, out of their own resources and in order to preserve their good name, to do so. I would be even more disturbed if the provisional ruling were to lead to transactions that had already been completed being reopened and unpicked. Should legislation be necessary to prevent that or to enable local authorities to honour their commitments, I would urge that the intention to introduce it be included in the initial statement, so as to limit any further damage to London's reputation.

I am copying this letter to the Prime Minister, Chris Patten, David Hunt and Sir Robin Butler.

Yours ever,

Robin

Wolfe Court: Rel's P 38



*[Faint, illegible handwriting in blue and red ink, possibly bleed-through from the reverse side of the page.]*