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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
 Secretary of State for Trade and Industry
 1 Victoria Street
 LONDON
 SW1H 0ET

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 11 February 1987

Dear Paul,

BANKING BILL

Thank you for your letter of 29 January. I share your view that we should resist the pressure for a national interest power to block bank takeovers and this is the position I shall be taking at Report stage of the Bill, which is to be held on Thursday 19 February.

However, as you will have seen from the debate in Committee, Members on both sides are concerned that the current review of mergers policy might result in the removal of the existing provisions allowing for the scrutiny of takeovers on grounds of public interest. Without resting on this, I think I should have lost the vote in Committee.

Because of this, unless I am able to give a firm assurance that the review will not have this result, there is a real risk of having an unwanted national interest provision forced upon us, if not in the Commons, in the Lords. I think it important that the argument is fully established before the Bill leaves the Commons, otherwise we would I think be inviting trouble in the House of Lords.

I should therefore like to be in a position to say not only that the anxieties expressed about bank takeovers will be taken into account in the current review, but also that the Government will retain a power for the investigation of mergers on general public interest grounds. I would be grateful if you could let me know

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that you are content for such an assurance to be given at Report stage.

On a related point, you may also have noticed that the Banking Bill has been criticised for not dealing with the question of bank takeovers that would be objectionable on grounds of reciprocity, and that the Financial Services Act's powers in this area are inadequate. I propose to address this problem by bringing forward an amendment to the Bill that will allow potential takeovers of UK banks to be blocked on grounds of absence of reciprocity in the 'predator's' home country, using the same principles of reciprocity as contained in Section 183 of the Financial Services Act. This too should help to draw the string from pressure for a generalised national interest power.

I am copying this letter to the Prime Minister, Geoffrey Howe, Malcolm Rifkind and the Governor of the Bank of England.

yours ever

Ian

IAN STEWART

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