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R/c



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

29 June 1984

D Barclay Esq
10 Downing Street
LONDON
SW1

Dear David,

You asked us to provide some briefing notes for the Prime Minister's lunch with Sir John Baring on Monday 2 July. This is attached. It comprises a short background note on Baring Brothers, and more detailed notes on two specific issues which might be raised at the lunch. Please let us know if you require anything further.

Yours ever,

J.C.S.

MISS J C SIMPSON
Private Secretary

BACKGROUND NOTE

Baring Brothers & Co Ltd

Baring Brothers is one of the smaller merchant bankers. It is a member of the Accepting Houses Committee and a recognised bank under the Banking Act 1979. It offers the usual merchant banking services such as wholesale banking and corporate finance. In a list produced by the Daily Telegraph, Barings ranked tenth in the merchant banking league for underwriting rights issues in 1983. The total amount underwritten by the bank in that year was only £20m (compared with £485m underwritten by the league leader, Morgan Grenfell). Barings has had only a marginal involvement in the privatisation exercises. It carried out some preliminary feasibility studies on the privatisation of Cable and Wireless in 1979. It acted as one of the underwriters in the Britoil issue and more recently, the Cable and Wireless share issue in December last year. It also tendered unsuccessfully for the Amersham International and British Telecom privatisations.

On the international side, Baring Brothers has strong connections in the Far East, principally Hong Kong, where it recently expanded its operations by acquiring Henderson Crosthwaite (Far East) (HCFE) from the UK stockbrokers Henderson Crosthwaite. HCFE acts as a broker in Japanese and other Far East securities on behalf of institutions and fund managers world wide and has offices in Tokyo as well as Hong Kong. Barings hope to develop the Tokyo operation. They see the deal as a complement to their underwriting and distribution facilities. The bank also recently set up a venture capital management company in Japan called Orient Capital with Japan's largest leasing company, the Orient Leasing Company, and other Japanese institutions.

Other recent developments include a venture capital link-up with Hambrecht & Quist. The new company, called Baring Brothers Hambrecht and Quist, will manage venture capital funds with a particular emphasis on high technology industries in the UK and Europe. Baring Brothers recently acted as a lead manager in a 25 year £50m bulldog bond issue for Finland.

Special Issues

In addition to general economic matters, the following issues might be raised:-

(1) Developments on the Stock Exchange

Several merchant banks, including Warburgs and Rothschilds, have recently taken minority stakes in member firms of the Stock Exchange. The purpose of these acquisitions is to enable the banks in question to be well placed to take advantage of the expected changes in the Stock market after the abolition of minimum commissions. The Stock Exchange recently issued a Consultative Document setting out possible alternative market structures after the abolition of minimum commissions.

As far as we know, Barings have so far shown no interest in buying into a UK broker or jobber. It is possible that they may be considering the alternative route of, in due course, becoming a member of the Stock Exchange themselves. They have, for example, questioned the Bank on the implications of the impending changes for dealing in gilts - giving the impression that if single capacity (ie. separation of brokers and jobbers) were to go, they might be interested in moving into gilts dealing.

The Chart at Annex A summarises the position on City "weddings".

(2) Gower Report on Investor Protection

As a former chairman of the Accepting Houses Committee, Sir John may raise this subject. The AHC have also submitted their comments on the Gower Report to the Department of Trade and Industry. The DTI are digesting the AHC's comments, and are consulting other interested Government departments including ourselves, on them. Briefly the main points are:-

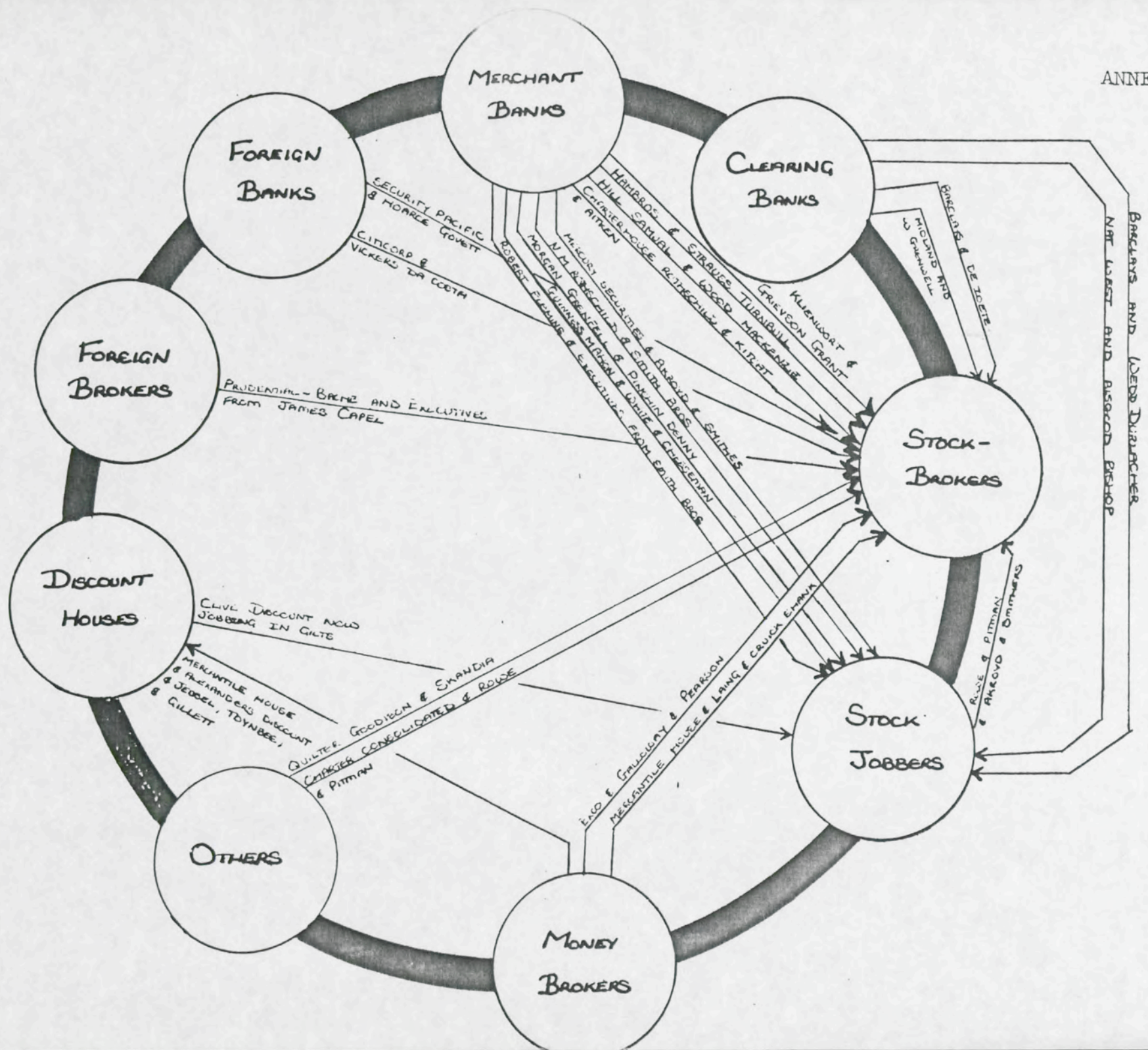
- (i) the AHC share Gower's views that the Prevention of Fraud (Investments) Act 1958 is inadequate and needs to be modernised;
- (ii) the AHC prefer self-regulation and advocate a limited number of self-regulatory agencies (SRA) which would cover certain defined areas ie. portfolio investment management, commodity investments. They are opposed however to Gower's view that the Council

for the Securities Industry should become the umbrella body for the SRAs. Their preference is for a new small body to be appointed by the Bank; and

- (iii) the AHC believe that primary responsibility for the application of the law relating to investor protection should be vested in the DTI, with the SRAs acting as agents of the DTI in administering the new regulatory system.

The Governor of the Bank of England announced on 23 May that he has appointed a group of ten senior city figures to advise on how a system of self-regulation might be established.

The Who's Who extract for Sir John Baring^{is} attached at Annex B, Sir John is a member of the Court of Directors of the Bank of England.



BARING, Hon. John Francis Harcourt, CVO 1980, Chairman, Baring Brothers & Co. Ltd. since 1974 (a Managing Director, 1955-74), Receiver-General of Duchy of Cornwall, since 1974; b 2 Nov. 1928, *et s* and heir of 6th Baron Ashburton, *gr*; m 1955, Susan Mary Renwick, *e d* of 1st Baron Renwick, KBE, and Mrs John Ormiston; two s two d. *Educ* Eton (Fellow, 1982); Trinity Coll., Oxford (MA). Director, Trafford Park Estates Ltd, 1964-77; Pye Holdings Ltd, 1966-79; Ourwich Ltd, Johannesburg, 1967-77; Dep. Chm., Royal Insurance Co. Ltd, 1975- (Dir, 1964); Chm., Ourwich Investment Trust Ltd, 1966-; Director, Dunlop Holdings Ltd, 1981-; British Petroleum, 1982-; Vice-Pres., British Bankers' Assoc., 1977-; Pres., Overseas Bankers' Club, 1977-78; Chm., Accepting Houses Cttee, 1977-81; Chm., Cttee of Finance for Industry, NEDC, 1984-; Mem., British Transport Docks Bd, 1966-71, Mem. Council, CBI, 1976-80 (Mem. President's Cttee, 1976-79), Rhodes Trustee, 1970; Trustee, Nat. Gall., 1981-; Hon. Fellow, Hertford Coll., Oxford, 1976. *Address* Lake House, Northington, Alresford, Hants SO24 9TG. *T.* Alresford 4293, Fax 7, 34 Bryanston Square, W1H 7LQ. *Clubs* 'Pratt's Flyfishers'.

COVERING CONFIDENTIAL



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A Turnbull Esq
No 10 Downing Street
LONDON

28 June 1984

Dear Andrew

PRIME MINISTER'S LUNCH AT BARINGS

I attach as requested a note showing Barings' involvement with the privatisation programme. As you will see, they have done very little. My impression is that they have rather sat back and hoped the business would come to them rather than making any effort to obtain it.

You might like to know that when Alan Bailey had lunch at Barings in April, he remarked subsequently that they seemed less than ecstatic about the fairness of beauty contests. We had a look earlier this year at arrangements for appointing advisers and subsequently Peter Middleton circulated the enclosed note to Permanent Secretaries. If Barings ask about current arrangements, there is no reason why they should not be given a copy.

Yours ever
G E

G E GRIMSTONE

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BARING BROTHERS & CO

Adviser to Government : Cable and Wireless (1981
feasibility and early stages)

Tendered Unsuccessfully for : Amersham International
British Telecom

Adviser to Company : NIL

Underwriter : Cable and Wireless (1981 & 1983)
BP (1977)

ARRANGEMENTS FOR APPOINTING ADVISERS TO WORK ON THE PRIVATISATION PROGRAMME

Note by HM Treasury

It is important - in the interest of obtaining the best available advice at the lowest appropriate cost - that the appointment of City advisers to work on the privatisation programme is subject to satisfactory competition. This note sets out the procedures which should be followed by Departments and lists the broad selection criteria that should be observed. Departments may also find it useful to consult the Cabinet Office (MPO) publication Code of Practice for the Employment of Management Consultants by Government Departments.

2. The following general procedures should be adopted once Departments have decided that advice needs to be sought from merchant banks or stockbrokers on major aspects of the privatisation programme.

- (i) A short Departmental announcement should be issued, aimed at the financial press, stating an intention to commission work from advisers in a particular area and inviting those interested to make that interest known; a parallel notification should where appropriate go via the Bank of England to the Accepting Houses Committee and the Issuing Houses Association.
- (ii) Respondents (and any non-respondents whom the Department wish to interest) should be sent a list of questions relevant to the work.
- (iii) A shortlist should be drawn up on the basis of the replies (in consultation with the Treasury and the Bank of England).
- (iv) Competitive interviews should be held.
- (v) Results of the interviews should be notified to the Treasury and the Bank of England in those cases where the Treasury and the Bank were not members of the interviewing panel.

3. Where advisers are appointed to offer preliminary advice on a privatisation, there should be no presumption that those appointed initially should see a sale through to its conclusion. Provided, however, that the adviser's performance has been satisfactory Departments may, subject to Treasury agreement, reappoint without further competition.

4. The procedures in paragraph 2 may not be fully appropriate in cases where confidentiality is an important factor (eg where market-sensitive information is at stake) or when limited advice is being sought on a specific issue. Departments should consult the Treasury in such instances and agree revised arrangements.

5. Corresponding arrangements to those set out above will normally be appropriate for appointing advisers other than merchant banks and stockbrokers to work on the privatisation programme. There should be a similar presumption in favour of competition and in Departments obtaining the best available advice at the lowest appropriate cost. Departments should consult the Treasury Solicitor before appointing solicitors to conduct a major issue and the Government Accountancy Service before appointing reporting accountants.

6. The detailed selection criteria to be followed in appointments are the responsibility of individual Departments. The following general principles should however be observed:

(i) The adviser's familiarity with the company concerned or the sector within which the company operates may be an important factor (particularly when selling shares in a company already privatised).

(ii) The selection process should take into account the need to avoid over-concentrating the programme as a whole on too few advisers. It is unlikely for example that many advisers are equipped to handle concurrently more than one major project.

(iii) Departments should satisfy themselves, in consultation with the Treasury, that prospective appointments will not jeopardise work on existing privatisations (which may be the responsibility of other Departments).

(iv) The appointment should be conditional on identified key individuals being available to carry out the work, and arrangements should be open to review by Departments if such individuals are diverted to other tasks and are no longer available.

HM TREASURY

23 February 1984

MR TURNBULL

PRIME MINISTER

Lunch with Baring Brothers
8 Bishopsgate, at 1300 hours

I attach:

- (i) Guest List (Flag A)
- (ii) Topics for discussion (Flag B)

CR.

28 June 1984

Baring Brothers & Co., Limited

8 Bishopsgate, London EC2N 4AE

TELEPHONE: 01-283 8833

TELEX: 883622

SECRET/6

A

27th June 1984.

Dear Miss Ryder,

Further to your telephone call of today, I write to advise you of the directors here who will be at the lunch for the Prime Minister on the 2nd July. Sir John Baring will be accompanied by his six most senior colleagues, who in total form the Executive Committee of the bank, and they are as follows with their principal areas of responsibility alongside, and mention of one or two of their outside appointments beneath.

Mr. Nicholas Baring - Investment Group

Chairman, City Capital Markets Committee.
A Vice Chairman of Commercial Union.
Chairman, Finance Committee National Trust.

Mr. Peter Baring - Corporate Finance, domestic.

Director, W.H. Smith.

Mr. Robin Dent - Banking Group.

Chairman, British Bankers Association
Executive Committee.
Treasurer, King Edward's Hospital Fund.

Mr. Robin Broadley - Corporate Finance, domestic.

Chairman, Issuing Houses Association.
Director, Royal Insurance plc
Director, Ferranti plc.

Mr. Andrew Tuckey - Corporate Finance, international.

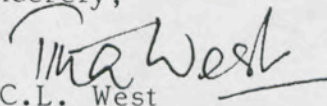
A Director and Treasurer, Friends of Covent
Garden.

Mr. Miles Rivett-Carnac - Corporate Finance, international.

Chairman, Hampshire & Isle of Wight
Association of Boys Clubs.

The topics for discussion have been agreed directly with Mr. Turnbull.

Yours sincerely,



Mrs. C.L. West

Secretary to Sir John Baring.

Miss Caroline Ryder,
10 Downing Street,
London S.W.1.