

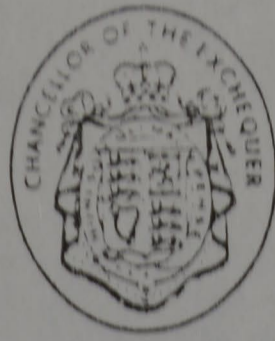
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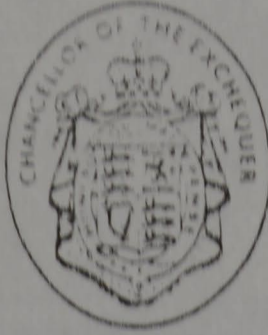
RECORD OF A DISCUSSION ON CITY ISSUES AT 3.30PM ON 25 FEBRUARY 1983
IN NO 11 DOWNING STREET.

Present:-	Chancellor	Secretary of State for Trade.
	Sir Douglas Wass	Mr P A R Brown (DOT)
	Mr Middleton	Governor
	Mr Kerr	Mr D Walker (Bank)

The Chancellor explained that the concerns which had led him, in his letter of 24 January, to convene the meeting were of long-standing: he had been convinced during the 1970-74 government that the machinery for handling City problems could be improved, and his impression was that this remained the case. The machinery for detecting and investigating potential scandals, and the arrangements for consultation between the Bank, the Treasury, and the Department of Trade, could certainly be made more effective. How might progress best be made?

2. The Governor said that the first essential was to improve the investigative machinery for handling fraud cases. The machinery at present seemed ineffective in major cases. Sir Douglas Wass described current studies considering the better coordination of action against fraud, whether more resources were required, and possible reforms of the judicial process. The importance of ensuring that information causing concern to the Bank was immediately passed to the Department of Trade, and vice versa, was noted; as was the desirability of action to ensure that material obtained in a Section 109 investigation was made admissible as evidence in criminal proceedings.

3. Lord Cockfield, while welcoming a drive for improved liaison, warned that the Department of Trade were bound to wish to reflect before instigating a Section 165 or Section 109 investigation. The news of such an investigation could bankrupt a firm overnight; /and the prima facie



and the prima facie evidence of wrong-doing had to be sufficient to justify an investigation. The Chancellor agreed, but thought it essential that the Bank and Whitehall should be in close - and preferably written - communication from the moment when suspicions were first aroused anywhere: greater advance information and consultation would assist the process of deciding whether or not to launch an investigation.

4. The meeting then turned to issues of self-regulation. It was noted that the appointment of a new chief executive and Committee at Lloyds was having a dramatic effect: new rules could be expected to bring some more dirty linen to light. The Chancellor wondered whether the government should be adopting a new posture in relation to Lloyds: Lord Cockfield thought not, arguing that it would be right to give self-regulation a proper run under the new stronger regime at Lloyds. Statutory regulation was in general less effective, because it encouraged people to think that staying within the law was the limit of their responsibilities. Large, and effectively run, institutions were however a *sine qua non* for effective self-regulation: it would work at Lloyds, the Stock Exchange, and in the Law Society, but statutory regulation would be required in fields further from the centre. The Chancellor agreed: his instinct was to prefer self-regulation where a satisfactory regulating agency existed. But there must be many cases where there was no such agency, and he thought it essential to have an early joint review of work in hand on self-regulation. The inter-action with current work on fraud was noted: it would be difficult to complete such work without a more satisfactory definition of self-regulation, and the fiduciary relationship. It was also noted that the Bank had agreed to provide a paper on self-regulation: the Chancellor thought that this might well provide the basis for a further discussion, and asked that it be circulated, together with a note on what joint work was already in hand, and what more should be done. The Governor agreed to write accordingly.

Distribution:

Those present

Mr Monck

Mr Pirie

J' O KERR

28 February 1983