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S 41/1

SECRET

7. 9.84

NOTE FOR RECORD

Copies to The Governor o/r
Mr Loehnis
Mr George o/r
Mr Walker
Mr Cooke
Mr Flemming

MEETING WITH MIDDLETON, 6 SEPTEMBER

SIA - Extract on T/S

12/9
R.L.P.
will need to
over my thro'
with D.G.
R.L.P.
11/9

TS. 6.9.84 - in Gals Advisory Group docs.

I handed Middleton a copy of the letter Mr Walker had sent that afternoon to Rawlinson and the attached paper describing in broad terms the scheme for securities regulation that the Bank favoured. I gave him a brief outline of its main points, stressing that for the scheme to be deliverable the statutory element had to be kept to a minimum and the Bank's role given a boost. I said that we ourselves did not favour a statutory position for the Bank and hoped that both Whitehall and the City could be persuaded to accept the scheme we outlined, as it represented a very carefully balanced position. Middleton seemed quite relaxed at all points of my exposition. But, of course, ahead of reading the paper he did not commit himself. The only point at which he appeared to jib was the provision for direct registration with the DTI. I explained why we saw this was necessary and emphasised that it would need to be onerous and unattractive.

On procedure, I suggested that in view of the complicated diaries of the Governor, Chancellor and Tebbit the best way forward might be as follows. Mr Walker and I would be happy to discuss the paper with Middleton and any of his people (but without the DTI) sometime next week. I then hoped that he would put our paper plus any briefing to the Chancellor, and that the Governor and Chancellor would discuss it in the margins of the meeting in Ireland next weekend. Thereafter it would probably be necessary for the Governor to seek a bilateral meeting with Tebbit because

I felt that a trilateral meeting was unlikely to be possible before October. Middleton expressed himself to be happy with these proposals.

Chancellor's IMF Speech *Extract in IMF Pass.*

I said we had major reservations about the large part of the speech devoted to international debt and the banks, and would like to offer substantial redrafting comments but were unable to do this in the 24 hours we had been given. He said he was committed to showing the Chancellor a draft on his return, but agreed, at my urging, to mention our reservations and that comments would be forthcoming. He went on, however, to indicate that the deadline might not be until Monday night. It may, therefore, be possible for Messrs Cooke and Loehnis to get substantial drafting comments over to the Treasury in time.

I went on to say that, more fundamental than the speech, we had some major points to put to the Treasury on the approach outlined in the speech but deriving from the Littler paper of the summer. We would hope to do this at the planned meeting on Monday 17 September. But this would be very late for the Treasury party leaving for Ottawa and Washington the following day. I, therefore, suggested that we send over a paper (I had in mind that written by Simpson which I think will need very little amendment) ahead of the meeting. He welcomed this.

EMS and Coherence of Domestic and External Policy *Extract on 7/3.*

I said that it now appeared impossible to set up Treasury/Bank meetings on these topics until after the IMF/IBRD meetings, primarily because Littler is almost constantly away. We would provide a paper on "coherence"; and I envisaged that both Treasury and Bank would produce papers on EMS. I hoped, however, that the delay in meeting to discuss this subject would not mean that submissions or decisions would be made before we had had our say. Middleton reassured me on this point but he appeared to still attach considerable importance to having a

substantive discussion on EMS and appeared to regard it as a more urgent and open question than Littler had indicated to Mr Loehnis was the case.

Hourly ERI *Extract in ER 7035*

I took the bull by the horns here and simply told Middleton that we hoped to complete arrangements to produce an hourly ERI over the next week or so and when we had done so would be issuing a press notice. (I understand from Mr Loehnis that the Treasury were thinking of issuing one.) Middleton noticeably blinked but then nodded in agreement.

Allied Arab Bank *Extract on T/S*

In strict confidence, but in no more than broad outline I told Middleton of the problems of Allied Arab Bank and the involvement of Barclays, the urgency for something to be done, and the small risk that the problem might become public.

Future Dates

Middleton told me some of the important autumn dates at the Treasury which I record here in case anyone is not aware of them. The party conference is from 9-12 October. The red herring British Telecom prospectus is due on the 25 October with impact day on 16 November. The autumn Statement is expected to be 13 November although this has not been formally finalised. Middleton finds it hard to see how in effect it can be changed given the need (on "prospectus" grounds) for it to appear before B Tel's impact day. These dates are all still strictly confidential.

Cwm

7 September 1984