

Governors meeting with Chancellor 27.11.84

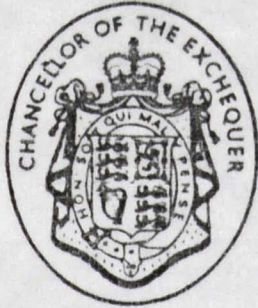
re Johnson Matthey

Papers -	26.11.84	FJR memo.
	26.11.84	IMC memo
	26.11.84	JB memo
	26.11.84	Gov/Chancellor + paper
	21.11.84	Chancellor/Gov
	12.10.84	Gov NFR

- on T/S program.



SECRET



*hhd.*  
*30/11*

**NOTE OF A MEETING HELD AT NO.11 DOWNING STREET**  
**AT 11.15 AM, 27 NOVEMBER 1984**

Those present:	Chancellor	Governor	
	Economic Secretary	Mr Cooke	
	Sir P Middleton	Mr Quinn	Bank of England
	Mr A Wilson	Mr Walker	
	Mr Cassell	Mr Mallet	
	Mr Hall		

The Chancellor thanked the Governor for his letters of 9 November and 26 November. The rescue of Johnson Matthey Bankers raised complex and serious issues.

2. <sup>said he</sup> He would like to discuss with the Governor at a separate occasion the paper attached to the Governor's letter of 26 November about why it had been decided that Johnson Matthey Bankers should not be allowed to fail. Meanwhile, the immediate task was to take action to reduce the risk of a similar situation arising in future.

3. The Chancellor said he would come under strong political pressure to set up an external review, but nevertheless he hoped it might be possible to proceed with an internal review only. He saw this as taking place in two stages:-

(i) A quick review, preferably to be completed before Christmas, to examine what changes needed to be made in the Bank's supervisory operations - this would cover staffing, supervisory techniques, and the relationship with auditors.

(ii) On a slightly longer time table, to examine weaknesses that had been revealed in the Banking Act, and consider what legislative changes might be necessary.





4. He had in mind that both reviews should be steered by a joint Bank/Treasury coordinating group, with the Governor in the Chair. Reporting to this coordinating group there should be a joint Bank/Treasury group, under Mr Lankester's Chairmanship, to undertake (ii). As to (i) the Chancellor said he was attracted by the idea of asking an outsider to undertake the review - again reporting to the Governor's steering group. It was agreed that such a review could only be carried out by someone with previous knowledge of the area - perhaps a retired commercial banker, with a good knowledge of how banks themselves maintain prudential control.

5. The Governor said he will be content for the review to be carried out in this way. He saw attractions in bringing an outside mind to bear, in the way suggested, though he thought it would be a very difficult task for any individual to complete before Christmas. He would consider suitable names - and discuss these with Sir Peter Middleton.

6. He personally doubted whether the result of the review would be to suggest any radical change in the existing structure of banking supervision. He thought it would be wrong for the Bank to seek to become an expert in judging the quality of assets, or to seek to establish a large scale supervisory inspectorate. The right approach, he thought, could turn out to be quite close to the present one - relying on banks to supervise themselves to a considerable degree. His personal view was that the main problem lay in the lack of experienced "feel" among Bank of England supervisors about bank lending. He was already arranging for bank supervisory staff to be seconded to commercial banks for a period, and was hoping to arrange some secondments in the opposite direction.

7. Turning to longer term reforms, it was accepted that a change in legislation might well be needed to bring about a satisfactory flow of information between auditors and Bank supervisors. Legislation might also turn out to be needed to improve the present procedure for closing banks down when the Bank supervisors had lost confidence in them. It was agreed, also, that the long term review should cover the possibility of bringing the current two-tier system of supervision to an end.

8. Summing up, the Chancellor said that it was agreed that:-

- (i) the review should be steered by a small Bank/Treasury committee under the Governor's Chairmanship.





(ii) Mr Lankester should chair a working group, to report by Easter, looking at the question on what changes were needed to the Banking Act.

(iii) An outsider - perhaps a retired banker - should be asked to carry out a quick review of what changes and improvements were needed in existing supervisory arrangements, without a change in the law. The aim should be to complete this review by Christmas, or very soon thereafter.

(iv) The Governor and Sir Peter Middleton would consider further who might be asked to undertake this outside review; and propose terms reference for all parts of the review.

9. Finally, the Chancellor said he would consider further the question of what notification and consultation there should be between the Bank and the Treasury before future rescue operations took place. He had become convinced that the 1983 correspondence was no longer adequate. He would write to the Governor about this in due course.

*DLCP*

D L C PERETZ

29 November 1984

*a Those present  
M. Lankester*