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RECORD OF MEETING HELD IN THE PRIME MINISTER'S ROOM AT THE HOUSE OF COMMONS ON MONDAY 30 JULY AT 1600 HOURS ON MONDAY 30 JULY AT 1600 HOURS TO DISCUSS BT FLOTATION

Present were:

Prime Minister	Chancellor of the Exchequer	Mr Tebbit	Sir George Jefferson
Mr Redwood	Financial Secretary	Mr Baker	Mr Scholey
	Mr Monck	Mr Sterling	
	Mr Wilson	Mr McDonald	
		Mr Jacomb	
		Lord Rockley	
		Mr Connor	

The Secretary of State for Trade and Industry opened the meeting by setting out the Government's objectives for the BT flotation. This followed the lines of the agenda note circulated under Mr Lansley's letter of 27 July.

Mr Baker said the size of the issue was estimated at between £3-4 billion. Assuming a central estimate of £3½ billion, it was hoped to be able to raise around £½ billion from overseas, £2 billion from investment institutions, £1 billion from private investors. Mr Jacomb said this represented not only the largest issue ever attempted on the London market but the largest issue anywhere in the world. He believed it was possible provided a full contribution was secured from all three sectors.

The Prime Minister asked what were the major threats to the success of the issue. Mr Jacomb said it was instability in the equity markets which would be most difficult to handle. The timing of the issue had been set for 16 November after the US Presidential election.

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Mr Baker then discussed the results of opinion surveys on BT. These showed that BT was well regarded and that there was a high public awareness of the forthcoming privatisation. 5% of the sample, representing possibly one million private investors, were found to be very interested, and 13% fairly interested. The survey showed that potential investors would look to their bank manager or BT itself for advice rather than stockbrokers. This was reinforced by the finding that investors would want to purchase BT shares via the Post Office or building societies rather than from stockbrokers. The responses also indicated that people would finance the purchase by drawing from bank and building society deposits, indicating that the rate of return on the shares would have to be comparable with deposits with those institutions. There were a large number, even amongst better off investors, who would wish to hold £250 or less.

Mr Baker then set out the means by which private investors could be encouraged to take up the issue. The aim was to secure somewhere between one and two million shareholders. The employees of BT would provide a significant market. It was hoped that around 200,000 might subscribe. They were being offered £70 worth of shares free and a further £300 on a matching basis with two free shares for every one purchased. Beyond that, they could apply for shares in the normal way.

Secondly, it was hoped to attract large numbers of telephone subscribers by what was, in effect, a rental "voucher" scheme. For each £250 subscribed, a credit of £18 would be given. This was broadly equivalent to the current value of the quarterly rental. Thus, a subscription of £1,000 would more or less cover the rental for the year and the maximum of £3,000 the rental for three years. This would be received on top of the dividend. The Prime Minister asked how it was being arranged that the "voucher" would be tax free. The Financial Secretary promised to provide a note on this. As an alternative to the "vouchers", shareholders would opt for a bonus of one free share for every ten shares held for three years after the flotation.

Mr. Jacomb reported on the efforts being made to market the issue with the investment institutions. The objective was progressively to build a moral commitment towards the issue. To do this, Kleinworts and the brokers were actively cultivating the institutions; a "pathfinder" prospectus was to be published in advance of the issue and there would be road shows for prospective investors by BT management. With an issue of this size, formal underwriting would be inappropriate; in effect, a commitment to subscribe would be sought from all major institutions so that the Government could be sure that the issue would be fully taken up. The issue was also too large for a tender. It would be sold on a fixed price basis as all participants needed to be clear about the way in which other parties would be subscribing. The Chancellor agreed that a fixed price offer was appropriate but warned that it was essential for the price to be well judged - a major under or over pricing could do serious damage to the rest of the Government's privatisation programme. (It was argued that the sheer magnitude of the issue would limit the extent to which there could be a very large over subscription and, hence, premium of the issue.)

The meeting then discussed the nature of the undertaking which the Government would give about future sales of its stake. This would be framed either in terms of no further sales during the rest of the Parliament or no further sales for, say, three years. (The period would have to be quite long as full payment would not be achieved for 18 months.) The undertaking would be of interest to BT as well as to investors, as they might themselves want to tap the market. No decisions had yet been taken on this.

Mr. Jacomb said there was a limit to the contribution which could be secured from overseas. In the US market BT would be valued on a less favourable basis than in the UK. It would preferable to keep the overseas contribution relatively small, in order to let the price reflect the reception from UK investors. The overseas issue would be underwritten from Britain.

In discussion, it was noted that a yield of 7 per cent would be favourable in relation to the 4½-5¼ per cent for the equity market as a whole. In addition, BT had good prospects for growth. For private investors there would also be the return from the "voucher".

Mr. Tebbit said the cost of the whole operation could be £220 - 310 million. There were no economies of scale - indeed, it was more expensive to promote a larger issue as it was necessary to bring in the marginal investor. Costs of this kind represented 7-9 per cent of the likely proceeds. This was at or just above the top end of the range of the costs of other privatisation issues.

Mr. Baker then took the meeting through the timetable, as set out in section 6 of the agenda note.

Summing up, the Prime Minister said she was extremely grateful for this presentation. She emphasised that the BT issue was central to the Government's privatisation programme and it was, therefore, essential to do everything possible to make the issue a success. It also represented an opportunity for a major extension of share ownership in Britain.

The meeting ended at 1730.

AT

1 August, 1984

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Subject

File

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10 DOWNING STREET

From the Private Secretary

1 August, 1984

Dear Callum,

BT Flotation

I attach a record of the presentation on Monday on the BT flotation. I am copying it to the offices of the Chancellor, your Minister of State (Mr. Baker) and the Financial Secretary. I would be grateful if you could arrange for distribution to the outside participants as appropriate.

Yours sincerely
Andrew Turnbull

ANDREW TURNBULL

M. C. McCarthy, Esq.,
Department of Trade and Industry

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