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The Rt Hon Margaret Thatcher MP
10 Downing Street
London SW1

10 May 1984

Dear Prime Minister,

SECURITIES REGULATION

1 My purpose in writing to you is to describe briefly an initiative that I have in mind in the area of securities regulation. I have discussed it in some detail with the Secretary of State for Trade and Industry and he has indicated to me that he would welcome it. I believe that it is consistent with your own concerns about any immediate government involvement as described in Andrew Turnbull's letter of 10 April. Subject to your views and those of the Chancellor of the Exchequer, I would like to be able to launch it shortly.

2 Developments in the securities area since last July seem to me to have vindicated the government's decision to take the Stock Exchange case out of the restrictive practices process. New trading structures more compatible with the fast-growing world market are being formed. In particular, there are already some prospectively very strong British groupings that will enable us to look to compete internationally on equal terms. An inevitable consequence of these developments however is that activities and functions that have hitherto been separated institutionally will now take place within a single organisation. As a result the scope for conflict of interest is being significantly widened. Although there is a minority which sees no need for any regulatory adaptation to match this market development, I am sure that the majority view in the City is that existing arrangements do not suffice.

3 It is, however, difficult to judge at this stage what type of overall regulatory structure is likely to be appropriate in the longer term. At one extreme, we cannot altogether exclude that, at the end of the day, the logic of events might push us towards some form of statute-based securities commission such as exists in the

United States, but I hope we can avoid this. The potential conflicts of interest within an institution will raise questions more serious and complex than malpractice or overpricing. They will take us well beyond the reach even of an improved Prevention of Fraud Act, into areas where "caveat emptor" is no longer a sufficient guiding principle. The City still has a strong commitment to compliance with the spirit of high standards and good practice. We should not lightly displace this by any system which shifts the emphasis away from dependence on the inherent integrity of the majority of practitioners to one in which anything goes which can be done within the letter of detailed rules. Thus, I think it important to give the proponents of non-statutory regulation an opportunity to show how and how far the approach that they favour is capable of being strengthened from within, to cope with the changing market environment.

4 As I see it, this would put self-regulation on its mettle while enabling us to keep options open for a little longer on the shape of legislative change or other action that Government may decide to take at a later stage, partly in the light of the progress made on a non-statutory basis in the meantime. What I have in mind is to invite, on my own initiative and without committing Government, a small number of senior City practitioners, at chairman level, to form an advisory group to make proposals to me, within the next 2-3 months, for a structure for non-statutory or self-regulation that would be capable of swift implementation if we thought it desirable.

5 Norman Tebbit has kindly indicated that he would be ready to welcome publicly an initiative on these lines and, subject to your views, I would like to be able to launch it in a speech that I will be giving on 23 May, which provides a convenient opportunity and forum.

6 I am copying this letter to the Secretary of State and to the Chancellor and if you or they felt that it would be useful to have any discussion about all this, I should of course be very pleased to do so.

Yours ever,
Robin.