

SUBJECT
cc Master



10 DOWNING STREET

From the Private Secretary

16 May 1985

Dear Rosal,

DISCLOSURE AND GILTS

The Prime Minister discussed the Chancellor of the Exchequer's minute of 9 May at her meeting with the Chancellor and the Governor today. She considered that the advice which had been received by the Bank last February was extreme and unworkable. The Government was being put in the position where it could not consider proposals, take decisions on them and announce them in a coherent way. Adherence to this advice would make it impossible to construct a Budget. The Chancellor argued that the Government, as the tax authority, was in a different position from other operators in the market. This had been implicitly recognised for years and the aim of the proposed notice was to restore the position as it had previously been perceived. Both DTI and the Attorney General were content with the notice.

The Governor feared that issuing such a disclaimer could provoke an hostile reaction in the markets. Legislation was being introduced in the field of financial services which would require market operators to observe high standards of disclosure. The Government, as a major borrower, ought not to be seen to be putting itself above the law. He doubted whether changes in taxation which related specifically to the terms of gilt issues would occur sufficiently often for it to be worth incurring the risk of such criticism. The Governor conceded that the legal advice received last February was extreme, but he felt that it should be possible after further discussion to establish a middle way which would allow the Government to reach its decisions in an orderly fashion.

The Prime Minister said that, given this new advice, it would be difficult to achieve such a position. The Chancellor noted that the Bank were not prepared to sell gilts while tax changes were under consideration without an indemnity.

Summing up the discussion, the Prime Minister said the Government should not be prevented from carrying out its funding programme while it was considering tax changes. A notice should be issued but there were improvements which could be made to its wording which would reduce the public

criticism. Greater emphasis should be put on the objective of returning the position to what people believed had been the status quo and to the fact that the Government was in a unique position as both a large borrower and the taxing authority. She invited the Chancellor and the Governor to consider with their respective legal advisers how the text of the notice and the accompanying notes to editors might be re-drafted to achieve a better presentation of the Government's case.

I am copying this letter to John Bartlett (Office of the Governor of the Bank of England).

Your amendments
Andrew

ANDREW TURNBULL

Mrs Rachel Lomax
HM Treasury.