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Secretary of State for Trade and Industry

1 October 1985

The Rt Hon Nigel Lawson PC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Prime Minister

Await the Chancellor's
reaction?

DAN
2/10.

Dear Nigel,

TAKE-OVER PANEL

In the White Paper on "Financial Services in the United Kingdom" we said that if practitioners in, and users of, the securities market felt that statutory backing for the City Panel on Take-overs and Mergers would be helpful, the Government would be willing to consider it. I have considered all the advice we have received. I have concluded that we should not expressly provide for statutory backing for the work of the Panel in the forthcoming Financial Services Bill.

2 I believe that the Panel is presently doing a good job in regulating takeovers on a non-statutory basis, and that it enjoys the support of the City. Nevertheless I have considered whether it would be prudent to include reserve powers in the financial services legislation in case that support were to diminish. The Panel and the Governor of the Bank of England have advised against this because of the risk that the existence of reserve powers might undermine the authority of the Panel, thus causing precisely the decline of the voluntary system which the Government wishes to avoid.

3 The Governor acknowledges that it will not be possible indefinitely to regulate the conduct of takeovers by self-regulation without statutory backing, but believes that the problem is best faced when it arises.

4 There can be no certainty about future City attitudes towards the Panel, with or without reserve powers. It is a matter of judgment. Some influential members of the City have said privately that they see some advantage in taking reserve powers. The Association of Investment Trust Companies and the three Institutes

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of Chartered Accountants have said so formally. I am however reluctant to go against the considered judgement of the Governor of the Bank and the Panel. I also take the force of the point that it would be difficult to draft provisions on takeovers now and to be sure that they would adequately cope with the problems when they really arise. We would also be adding a controversial topic to what is already a lengthy and complex Bill.

5 If despite all our wishes and expectations there were to be a significant decline in the City's support for the panel, the Government would naturally have to reconsider the position, and to introduce fresh legislation if need be. In the time this would take it would be possible to give some limited degree of support to the Take-Over Code through general powers in the Financial Services Bill which will cover the conduct of authorised businesses and the content of offer documents.

6 It would be helpful if you could let me know whether you agree with this approach this week, so that the Panel can be told before we become preoccupied with the Party Conference. It would be convenient for our decision to be known by the time the Committee on the Securities Industry is dissolved on 17 October.

7 I am copying this to the Prime Minister and to Sir Robert Armstrong.

Yours,
Leon

LEON BRITTAN

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