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10 DOWNING STREET

From the Private Secretary

18 December 1985

Dear John,

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The Prime Minister today held a meeting to discuss the minute about fraud of 9 December sent jointly by your Secretary of State and the Attorney General, and also to consider the handling of the Roskill Report. Your Secretary of State, the Lord President, the Lord Chancellor, the Chancellor of the Exchequer, the Home Secretary, the Chancellor of the Duchy of Lancaster, the Chief Secretary, the Attorney General and the Solicitor General were present.

The Prime Minister expressed great concern both about the public perception of the extent of fraud and about the fraud itself. The problems at Lloyds had emerged in 1982, yet the Director of Public Prosecutions was still seeking evidence. General allegations of fraud were being made and the Government needed to get a grip on the position, both through improved co-ordination and through its handling of the Roskill Report.

Your Secretary of State suggested that the Government would probably want to implement a large part of Roskill's recommendations. A slot had been earmarked in the 1986/87 session for a Criminal Justice Bill to achieve that. When the Report was published the Government should indicate that its recommendations would be considered urgently, that it would be the Government's intention to legislate in the light of the Report, and that the report would be treated in effect as a Green Paper, with responses required within a short time-scale. Much of the detail would fall to the Department of

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Trade and Industry, though the main controversial recommendations were matters for the Home Office. The Financial Services Bill would strengthen the barriers to fraud, both through its requirement for licences and through the substantial increase in the number of investigators who would be employed by the new organisations. It was, however, also important to strengthen the Government's own resources.

In discussion the following points were made

- (i) The Chief Secretary had now agreed an extra nine professional staff plus supporting staff for the Director of Public Prosecutions. There were limits on how many extra staff the DPP could absorb, but this increase should ease the present major bottleneck. Capacity in the DPP's office had in effect constrained the size of the fraud squad.

- (ii) The key to resolving the delays in reaching conclusions on Lloyds was obtaining evidence about transactions in Switzerland. This was difficult under Swiss law, but it now seemed likely that the DPP would be able to obtain a report from Deloitte in the United States which might open the way.

- (iii) The Attorney General reported that JMB's affairs were being investigated intensively. 40 of the best police officers available were working on the job, supported by substantial computer facilities. There was evidence of loans being made on the basis of forged documents. A report was being prepared. It was not possible to say when a prosecution would be brought, but the DPP was well aware of the need for speed and people had already been allocated to take on the task. The Chancellor noted that without his knowledge the Bank of England had employed Mr. Fraser as a consultant following his resignation from his post at JMB. He had ceased to be a consultant in March, before the Chancellor made his July Statement about JMB. The Chancellor had only learned at the end of July about the appointment.

- (iv) It was noted that the bulk of Roskill's recommendations were sensible and would not be controversial. However, it would not make sense to try to legislate for them in the Financial Services Bill. Other recommendations, particularly those which would withdraw the right to trial by jury in complex cases, would be controversial. In the circumstances it would be difficult for the Government to reject the Report's major recommendations whether or not it might wish to do so.

After a brief discussion of handling of the Roskill Commission Report, the Prime Minister said it should be published before the Second Reading of the Financial Services Bill (though not in the recess), and accompanied by a Statement. This should set out a clear timetable for handling the Report and announce the Government's intention to legislate in the light of it. There would probably need to be a debate on it within a month or so of publication and the Government could then not adopt a listening position. Work therefore needed to start urgently to consider the Report's recommendations. If the Report could be published on 13 January, the Second Reading of the Financial Services Bill could follow on 15 January. Staff increases at the DTI should be announced as soon as possible, and in any case before the Roskill Report was published to avoid giving the impression that it was the Roskill Report itself which had caused the Government to increase those resources. The Chief Secretary should discuss with your Secretary of State and the Law Officers the proposals made in their minute of 9 December so far as they had not already been settled. (The Prime Minister expressed concern that the increases proposed might not be adequate, whilst recognising that quality was at least as important as quantity). The extra staff should as far as possible be temporary rather than permanent: the appointment of extra staff for the DPP on short commissions was a useful example. The Prime Minister said she would tomorrow at Question Time herself announce the extra staff for the DPP. (A PQ has now been arranged in order also to put the

announcement more formally on the record).

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Bringing the meeting to a close, the Prime Minister invited the Home Secretary and the Lord Chancellor to consider with the Attorney General the main recommendations in the Roskill Report, and to report back for a meeting to be held on 9 January. The meeting would also need to review the presentation of the Government's position when the Report was published, and to decide how further work should be carried forward. The Prime Minister accepted that it might not be possible to circulate a paper until nearer the date of the meeting. It was agreed that it would be helpful for the Prime Minister and others concerned to discuss his recommendations with Lord Roskill during the Recess if that could be arranged.

Other points which arose are being followed up directly with those concerned.

I am copying this letter to Joan MacNaughton (Lord President's Office), Richard Stoate (Lord Chancellor's Office), Rachel Lomax (H.M. Treasury), Stephen Boys Smith (Home Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Richard Broadbent (Chief Secretary's Office, HM Treasury) and Henry Steel (Law Officers Department).

Yours ever,
David .

David Norgrove

John Mogg, Esq.,
Department of Trade and Industry.