

NOTE FOR RECORD

Copies to: The Governor
The Deputy Governor
Mr Blunden
Mr Loehnis
Mr George
Mr Walker
Mr Cooke

Sir Jeremy Morse and Robin Leigh-Pemberton called on the Governor yesterday afternoon to discuss the agenda for the CLCB Meeting on Wednesday 21 April. The agenda is recorded in a separate note; details of the discussion on a number of items are set out below:-

1 East European indebtedness

Morse said that he will be commenting on this problem at his AGM, being held today. He will try to get across the need to apply "differentiation" to the individual countries of the Eastern bloc although he recognised that it was important to select the right form of words. The matter had been discussed at a recent internal CLCB meeting - which had taken place after the Governor had spoken to Morse about the desirability of not withdrawing short-term facilities precipitately. All the Chairmen had agreed with this advice. Morse added [perhaps a shade less confidently] that he presumed that there was no possibility of undesirable actions being undertaken further down the line in the banks.

Morse mentioned, incidentally, that during his recent visit to the USA, Walter Wriston had mentioned that the share of US banks in Eastern bloc indebtedness had fallen markedly - from 14% to 7% over an unspecified "longer period". Morse also made the point, which he felt was worth publicising, that the weakening of the oil price was a bull factor for countries whose external indebtedness was to a degree a reflexion of their oil import bills.

2 Taxation and the banks

Morse said that he was going to see the Chancellor on Thursday evening to discuss in a preliminary way what might be in the Chancellor's mind with regard to taxing the banks in the future.

Morse would be accompanied by Quinton, the Chancellor by Middleton. Morse said that the inspiration for this initiative by the banks had arisen from the crescendo of criticism aimed at them following the Chancellor's references in the Budget speech. He added that the banks were not over-defensive in regard to the tax question; rather, they considered it important to obtain "proper" tax regulations.

Morse and Leigh-Pemberton said they detected a distinct hostility towards them in the Treasury - the line seemed to be that the banks had good pay, good pension arrangements, job security and yet did not bear a fair share of the burden of taxation. Morse said that the banks, for their part, regarded themselves in a different light altogether - as operating in a highly competitive climate, not at all "semi-Civil Service" as the Chancellor seemed to think. Morse added that, in addition to his speaking to the Chancellor, the banks' PR would be stepped up (under Leigh-Pemberton's guidance).

The Governor mentioned, in confidence, that he had written to the Chancellor about his proposals on double tax relief on banks' overseas lending. The Governor made clear that he was not opposing the proposed action à l'outrance, but was objecting to the suggested method of implementation. The Governor also mentioned the question of leasing and outlined a number of considerations which the banks might bear in mind when engaging in debate on the subject. Morse wondered whether there was not a case for a NEDC study of leasing. He had been involved in a study (?when serving on the CFI) which had shown great support among manufacturers for the 100% capital allowances system: Morse considered it to be a major reason why private sector investment had held up so well.

3 Stone Platt

Morse told the Governor (as we knew already) that Hopkinson (of M&G) had spoken to him about this case. Morse had suggested to him that he should not take the matter too personally, but Morse recognised that there was an important principle involved - namely, that there were dangerous weaknesses in the procedures involved in industrial

rescue cases. In the particular case of Stone Platt, the banks and the equity institutions had each been pursuing separate initiatives. So far as the equity institutions were concerned, Hill Samuel and ECI were in the lead and there was a strong sense of Bank of England weight lying behind the rescue attempt. But the equity institutions and the banks had never met. The Governor, in response, outlined what action he had taken after the collapse, in particular his discussion with Hopkinson. Morse made the significant point that he considered that it was inevitable that a time would arise in a company rescue situation when the interests of the banks and of the equity holders would diverge. It was agreed that the question of industrial rescue procedures would be put on the agenda for the CLCB Meeting.

4 Advertising regulations under the Banking Act

The Governor mentioned the possibility that the Treasury would not consent to the clearing banks' proposals in this area. The Governor said that in those circumstances we were considering whether we might issue a circular to all institutions requiring any reference to the Deposit Protection Scheme to be made in prescribed form stating the limited nature of the protection. Morse said that he was encouraged by the Governor's words - they showed that the Bank was treating the substance of the clearers' case seriously. It was agreed to discuss the subject further at the CLCB Meeting.

5 Gower

Morse said that the clearers were entirely behind the Bank's efforts to co-ordinate the City's response to Gower.

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