



10 DOWNING STREET

THE PRIME MINISTER

10 November, 1980

Dear Sir Harold

Thank you for your letter of 17 October about the Stock Exchange's request for exemption from the restrictive trade practices legislation.

The Stock Exchange's Rules involve significant restrictions on competition of a kind which have been scrutinised in the past by the Restrictive Practices Court. You may recall that when the previous administration decided to extend the restrictive practices legislation to virtually all services in 1976, they did not include the Stock Exchange's Rules in the list of exemption agreements. In the circumstances, the Director General of Fair Trading was under a legal obligation to refer the restrictions to the Court and this he did in February 1979. When we assumed office, we re-examined the Stock Exchange's request for exemption. We decided on balance, however, that such action would not be justified. Other City institutions of a similar self-regulatory nature who are caught by the legislation and who, I understand, are discussing their agreements effectively with the Director General, have not sought exemption. Moreover, for the Stock Exchange to be granted exemption would in no way absolve them from the requirements of EC competition rules. Indeed, we have reason to believe that the European Commission would start investigations fairly promptly if the Restrictive Practices Court ceased to have jurisdiction in this field.

A further factor in our decision is the difficulty - and the propriety - of removing a case from the Court once it has begun.

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However, in recognition of the problems which might arise before the Court for bodies like the Stock Exchange, we have made two major amendments to the legislation which will enable the Stock Exchange to plead their case fully and provide a period of grace for alternative proposals to be considered.

We considered whether your Committee's report provided any new justification for reversing our previous decision. We did not interpret paragraph 366 as a specific recommendation that the Stock Exchange's request for exemption be granted, but rather as a suggestion that the CSI should consider how the present rules might be modified, given your Committee's view that they could not survive in their present form. Be that as it may, our overall conclusion was that the Committee's observations did not add to the arguments for exempting the Stock Exchange from the Court which had already been put to us.

I realise, of course, that as a result of the case now pending, the Stock Exchange have argued that they feel inhibited from considering changes in their rules, particularly in those restrictions which are currently under scrutiny. I must point out that it was the decision of the Stock Exchange to defend their present practices before the Court and not to modify them, as others have done, in discussion with the Director General. However, we have made it clear to them that they are at liberty to discuss any changes in their rules at any time with the Office of Fair Trading on a without-prejudice basis. Leaving aside the restrictions actually before the Court, there is no evidence that the present proceedings are affecting the Stock Exchange's self-regulatory activity, and indeed a number of major changes have been introduced this year.

In your letter, you suggest a small ad hoc committee to consider the matters before the Court. I do not think that this would be a good idea. It would prolong uncertainty in the City and lead to further delay with no additional prospects of quick effective action. I know how strongly the Stock Exchange feel on

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this matter. I can assure you that their case has been considered very carefully, but so far no arguments have been advanced to justify the substantial erosion of the principles of competition - supported by both main parties since the war - that the exemption of a body very much in the public eye would cause.

Yours sincerely
Margaret Thatcher

The Rt. Hon. Sir Harold Wilson, K.G., O.B.E., F.R.S., M.P.