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Chancellor's bilateral B. on FRI

3

12 December 1984

MR TURNBULL

JMB

I spoke to David Walker of the Bank today.

You may like to know that:

1. If the total risk is only £250 million, the Bank is committed to £75 million. Over £250 million, and the Bank is on risk for everything.

2. Walker's view - which he has held to consistently throughout - is that they will dig themselves out of it with very little loss.

3. You should be aware that this is not without risks. New men have been brought in both to run the JMB loan book and to trade the JMB bullion activities.

4. Walker says that the bullion trading is profitable, as it has been throughout, and that they are not increasing the amount of risk on the bullion book. It would be important to avoid, for example, taking a very long position in a weak market and losing on bullion on top of the losses of the loan book.

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5. The loan book is also under new direction. They will take a very conservative view of the bad debt problem. However, you should be aware that they are also increasing lending to the better clients, to try and balance the loan portfolio and bring on some better business.

Conclusion

Enough people are thinking about the implications for Bank regulation and going on a witch-hunt of what went wrong. But no-one seems to be asking questions about how the Bank is handling the dénoument of this story. It is a difficult operation for them (running effectively what is a nationalised bank) and important that their new team should show a steady hand and not take on undue risks in the hope of easy profit. Couldn't the Treasury ask for monthly monitoring figures? Although this is not "public" money, a clean exit is important to Government as well as to the Bank.

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