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23rd September, 1985

The Governor
The Bank of England
Threadneedle Street
London EC2

Dear Mr Governor

It may be helpful if I confirm the views which I expressed on Thursday when you told me that discussions were being held about the possibility of a DTI Inquiry into Johnson Matthey Bankers.

The Bank's objective is to sell JMB as soon as possible to a private sector buyer on terms which recoup the commitment which has been made by the Bank and the Indemnitors to the greatest extent possible. In my view the establishment of a DTI Inquiry will prejudice this objective.

Discussions which I have so far had with potential buyers have shown that they are already concerned that, notwithstanding a change in ownership, JMB would continue to be exposed to investigation by the Fraud Squad and involved in extensive litigation against Arthur Young. However, I continue to believe that they are sufficiently interested in the bullion business of JMB to accept that as the Bank wishes to sell JMB as a whole, they must continue with the work of recovery from the disasters incurred by its general banking business prior to 30th September 1984 as a necessary part of the continuing business and activities of JMB, and will not be deterred by the Fraud Squad investigation or the litigation against Arthur Young. However, I am convinced that a DTI Inquiry would involve a degree of uncertainty and potential disruption for the business both in relation to the bullion business and the general banking business that would make it impossible for any of those parties who have indicated a potential interest in JMB to justify any continuing interest. The consequences to the Bank and the Indemnitors in being forced to maintain their current commitment to JMB will materially increase the risks of greater loss when either JMB is finally sold or other steps are taken to terminate or reduce its range of business.

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Given that Price Waterhouse have already reported on JMB any increase in the Indemnitors' risk arising from the institution of a DTI Inquiry could significantly affect the relations between the Bank and the Indemnitors.

Furthermore, I believe that to involve JMB in the detailed scrutiny and investigation which would come with a DTI Inquiry, could have a material effect on the confidence of those customers who are currently undertaking bullion banking business with JMB. The assumption by the Bank of England of ownership of JMB last October, with the Bank's expressed commitment as to banking confidentiality, has seen a maintenance of customer dealings. I believe that there is a significant risk that such business would be lost in the event of the imposition of an Inquiry, which customers would see as putting at risk the banking confidentiality on which they rely. Loss of business would again expose the Bank and the Indemnitors to the risk of greater financial loss.

Again an Inquiry would surely prejudice JMB's action against Arthur Young.

Finally, I must confirm my concern that the institution of a DTI Inquiry could significantly erode the confidence and commitment which JMB has received both from the new Board which has been recruited for JMB and from the lower levels of management who have been retained by JMB since the events of last September. The fragile loyalty of those who work at JMB - other than perhaps the commitment of the Board which is more to the Bank of England than to JMB - requires the transfer of JMB to a commercial owner as soon as possible in order to maintain their interest and the viability of the business. It is my view that the institution of a DTI Inquiry could seriously prejudice this position.

Yours sincerely

Robin Broadley



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