



*With the Compliments of
Sir George Blunden*

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cc/BG

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THE DEPUTY GOVERNOR

7 June 1988

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
London
SW1H 0ET

MRPM

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Dear Lord Young

REPORT ON THE STOCK MARKET FALL

In the absence of the Governor abroad on business, I am writing to thank you for sending us a copy of your letter of 26 May, addressed to the Chancellor, together with the accompanying report by your officials. This reply was seen in draft by the Governor before he left, and he fully supports all that is said in it.

You refer to concerns which Bank officials have expressed about publishing the report, and comment that the passages on collaboration between regulators amount to no more than bland statements of the obvious. We accept that this is a fair description of those particular passages, as they are now worded. Nevertheless the very act of making public the series of official conclusions set out in Chapter 6 would give an impression of a checklist of actions to be taken and arrangements to be brought into play in a crisis by the appropriate regulators which would give journalists and others a standing invitation continually to enquire about their nature or progress.

I will give two illustrations of what we have in mind. One is the passage calling for improvements in the arrangements between banks and their dealer customers, where we consider that such arrangements actually stood the test of October 1987 very well in London and where, although there were no doubt lessons learnt by individual banks and securities dealers, as well as by regulators, the conclusion that these need particular improvement gives a misleading and slightly alarmist impression of the reality. This would of course be less worrying in a report given limited circulation than in one given wide publication. Another example is in the drawing of attention to the fact that the Stock Exchange is considering a central margining system for equities. This is certainly an interesting and potentially important proposal which we would expect your officials to report to you. But it seems

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premature for it to be highlighted in a published report, when it is at an early stage of internal consideration in the Stock Exchange and may in the event possibly not be pursued, if a comparison of its costs and benefits shows it to be inferior to other methods of reducing counterparty risk.

Hence our preference would still be that you should not publish the report. We do not sense any great pressure from the media for publication; and the likelihood of this arising is surely receding the further away we move from October 1987. It would be sufficient in our view for you to circulate the report to those bodies which your officials have consulted and who would anyway include the people principally interested in its conclusions. That course would also have the advantage that some, perhaps all, of the excisions from the report which would be necessary in a wider publication need not be made; and to that extent the report could be less anodyne.

We recognise, of course, that it is for you to judge whether to publish a report which you commissioned from your officials. If you go ahead, we assume that it will be presented on that basis rather than as the joint product of your own Department and, among others, the Bank.

I am copying this letter to the Chancellor of the Exchequer and the Prime Minister.

Yours sincerely

George Blunden

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