



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

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Prime Minister

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PRIME MINISTER

ANGLO-JAPANESE FINANCIAL TALKS

I last ^{FLAP}minuted to you on this subject on 1 November, reporting a more promising outlook from the latest round of talks after disappointingly slow progress during the summer of 1985.

I am glad to say that there has indeed been improvement and the score is beginning to look quite respectable. We have:

- securities licences for Warburg, WICO, Kleinworts, Schrodgers and Cazenove (not to mention Vickers da Costa, Hoare Govett and Jardine Fleming which have good British connections but are not wholly British-owned);
- Trust Bank status for Barclays (sole British applicant);
- Tokyo Stock Exchange Membership for Warburg (but not for the only other British applicant, WICO).

And we have not yet given anything to the Japanese, although the Stock Exchange have recently given a seat to Nomura.

This is way ahead of the success of any other country apart from the United States. And the successful firms generally report that they are not encountering discrimination on the ground: indeed the climate is described as competitive but friendly.



We still have a number of complaints about the general restrictiveness of some operations and rules in the Tokyo markets which we share with the United States and others and will continue to press. But as far as specifically British interests are concerned, the number of outstanding cases is now much reduced:

- among "straightforward" applications, only Barings - the latest formal applicant but becoming rather delayed (no other merchant bank is yet sufficiently established and interested to make a formal application or deserve our pressure in their support immediately - although Morgan Grenfell could be ready in the summer and others later);
- the merchant bank arms of the four Clearing Banks, with County Bank (Nat West) as the clear front-runner, but all four are pressing - perhaps Samuel Montagu ready by late summer and the other two by the end of the year;
- apart from individual cases, the strongest outstanding UK interest is in the form of (and our eligibility for) investment management licences which the Japanese expect to decide and announce later this year.

Meanwhile the major Japanese demand still outstanding is the aspirations of four Japanese Securities Houses to have banking licences in London.

We thought it could be helpful to use the prospective Tokyo Summit to exert some leverage and try to accelerate matters. We therefore suggested to the Japanese Finance Ministry that it would be desirable - by resolving the problems in advance -



to avoid this possible bone of contention for your agenda with Prime Minister Nakasone. This seems to have worked. The Japanese have:

- pulled their own internal act together in order to meet Bank of England banking supervision requirements for the grant of any banking licences here to Japanese Securities Houses;
- conducted constructive discussions with the merchant bank subsidiaries of our commercial banks;
- promised privately to accord licences to County Bank and Barings before the Summit.

If these promises are fulfilled and no new problems arise I am satisfied that we shall have reached the position at which it will be right for us to grant one licence to a Japanese Securities House (it would clearly have to be Nomura, the biggest, which has had the most advanced discussions with the Bank of England), and that we should also do this just before the Summit. We would not of course enter into any commitments in respect of the remaining Japanese Securities Houses, and would want to see continued progress in Tokyo first.

I understand that the Governor of the Bank of England agrees with this approach and that the Secretary of State for Trade and Industry sees no objection. I am copying this minute to them and to the Foreign Secretary.

A handwritten signature in dark ink, appearing to be 'N.L.' with a flourish.

N.L.

24 March 1986

JAPAN: Relations: PES.



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PRIME MINISTER

ANGLO-JAPANESE FINANCIAL TALKS

I have just seen Nigel Lawson's minute, dated 24 March, in which he reports to you some welcome progress and proposes some further moves on both sides before the Tokyo Summit so that this issue need not be acute at that time.

As he says, I accept the judgment that we should be ready before the Summit to agree to grant a banking licence to the Nomura securities company, but that the Japanese must first issue two further securities branch licences to British houses. Michael Howard will be seeing the Japanese Vice-Minister concerned in Tokyo on 3 April, and as DTI and Treasury officials have agreed can convey our message to him then.

I would however add that, of all the things the Japanese have been seeking from us in this area, a banking licence for Nomura is the one they value highest. It should therefore be sold as dearly as possible, against the background of the continuing shortfall in full reciprocity of financial opportunity between the two countries. I suggest therefore that Michael Howard should also draw attention to the next two securities branch

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licences that, as Nigel mentions, we shall probably want some time before the autumn; and should, as far as he can, establish with the Japanese, that these further two licences are also to be considered part of the price for Nomura's licence here, not some advance payment towards a further move on our part later.

I am copying this minute to Nigel Lawson, and to Geoffrey Howe and the Governor of the Bank of England.

PC

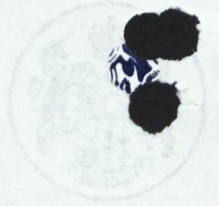
PAUL CHANNON

27 March 1986

Department of Trade & Industry

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Prime Minister
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PRIME MINISTER

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ANGLO-JAPANESE FINANCIAL TALKS

at 6/10/84 p 4

Nearly a year ago, in a minute of 19 November 1984, I reported to you the results of a first round of bilateral talks with officials of the Japanese Ministry of Finance, which led to the grant of licences to deal in securities in Tokyo to S.G. Warburg and to W.I. Carr.

For much of the time since then progress has been disappointingly slow. In June Barclays were successful in gaining a place on the list of nine foreign houses to be admitted to "Trust Bank" status (along with 2 Swiss and 6 American houses and there was no other British applicant). But the flow of licences for dealing in securities, which is what several British houses remain strongly interested in, dried up, and the Japanese put pressure on us to admit their securities houses in London into banking business here. We refused to bow to this pressure because the Japanese presence in London is already substantial, having been admitted freely in the past, whereas we are having to fight every step for entry to Tokyo.

The most recent round of bilateral talks took place on October 14 and our team has reported hopes now of better progress. They made it clear that the Japanese cannot expect favourable consideration of their applications in London unless they treat ours in Tokyo much more generously, and that the restrictions they have been applying accord ill with their protestations that they intend to liberalise their markets. The Japanese seem to have responded encouragingly. Specifically, Kleinworts have at last received the go-ahead on

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