

FROM: [REDACTED]
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CC: [REDACTED]

MARKETS

Some interesting points emerged from recent conversations with [REDACTED] and Stock Exchange officials.

Company buy-backs

2. [REDACTED] estimate that major companies already have authorisation to buy back their own stock up to at least £800 million is based on knowledge of only a handful of large companies (including, notably, GEC). But he and his analysts are now engaged in a more systematic ring round, and should have a better picture by the end of this week.

3. I understand he has written to [REDACTED] suggesting we might take a look at the tax rules covering the purchase of own shares which, he says, act as a disincentive, since they are asymmetrical. That is, the transaction is treated as a CGT disposal in the hands of the original shareholder, but an income distribution in the hands of the company, which therefore has to pay ACT. I assume that [REDACTED] proposal is that we get rid of the ACT charge. It might be worth following this up with Inland Revenue.

4. As I understand it, the mechanics of buy-backs were much simplified in the 1981 Companies Act (subsequently consolidated in S.161 of the 1985 Act). Public companies no longer need the Court's permission to buy their own shares, but their Articles of Association need to be suitably drafted (and not all companies

have yet made the necessary changes). Subject to this point, the main need is to get shareholders' approval, through a special resolution at an AGM, covering both maximum price and quantity. This has to be renewed every 18 months (by law) or every year (according to IPC preferred practice). Unlike the US, shares that are bought back have to be cancelled: they cannot be held in the company's treasury. This is one reason why a company might be cautious, unless it is very confident that its shares are in friendly hands, since the destruction of equity involved can make it more vulnerable to take-over.

Why did London fall so sharply?

5. An increasingly popular tale, to which both [REDACTED] and Stock Exchange officials appear to subscribe, is that London prices fell so sharply precisely because London is such an efficient international marketplace. There is some evidence of heavy selling by foreign investors through London, because they could not (or, in the case of the Japanese, would not) use their own markets. The Stock Exchange say that the turnover of foreign equities in London was at record levels following the crash (though, as you know, their figures are not complete). [REDACTED] says that [REDACTED] European Department had its best week ever following Black Monday. He also says that so anxious were Japanese investors not to lose face with the Ministry of Finance that they were even using foreign brokers in Tokyo to sell stock.

