



10 DOWNING STREET

Prime Minister (2)

Simply to be aware of the kind of ideas people are developing for widening market for BT shares. You may already have seen the proposed clause for the Bill, permitting a mini prospectus.

I will reply to Lord Camoys

AT

6/2



JF5565

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
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3 February 1984

David Barclay Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister ②
To note a useful innovation, which
can be adopted in other cases.
AT 6/2

Dear David,

BT FLOTATION : WIDER SHARE OWNERSHIP

I am writing to confirm our conversation and the notice which I provided this morning of a new Clause to the Telecommunications Bill we are tabling in House of Lords Committee. (I told you that we would be tabling the Clause today but we are in fact leaving this until Monday). ms

2 The object of the new Clause is to allow application forms for shares in BT plc to be circulated to potential investors without a full prospectus. The application forms would have to be accompanied by a brief description of BT plc and of the terms of the offer; investors who wanted to would be able to refer to the full prospectus which would be published in several newspapers and be very widely available.

3 We have consulted the Stock Exchange about the change and see no great likelihood of it proving controversial, although some may object on the grounds that the Government is bending the rules to suits its own book. In reply to this, we would say that the BT sale is exceptional in its size, in the extent of publicity which will in any case accompany it, and that these changes need to be seen in the context of wider changes in prospect from forthcoming Community directives.

4 I am sending copies of this letter to the Private Secretaries to the Chancellor of the Duchy of Lancaster, the Leader of the House of Lords, the Lord Advocate and the Financial Secretary.

Yours etc,
Andrew Lansley

ANDREW LANSLEY
Private Secretary



10 DOWNING STREET

From the Private Secretary

8 February 1984

The Prime Minister has asked me to thank you for your letter of 3 February, enclosing a copy of the memorandum which Barclays Merchant Bank Ltd. have sent to the Secretary of State for Trade and Industry. The Government is concerned at the low level of direct share ownership and is anxious to ensure that more people have a stake in the success of the enterprise for which they work. The privatisation programme is an opportunity to tackle both problems. The Prime Minister was, therefore, very grateful to you for the trouble you have taken in developing your ideas.

Andrew Turnbull

The Lord Camoys

HL

cc. Karr (HWT)
Hudson (FinSec
HWT)
McLarty (STI)

✓

BARCLAYS MERCHANT BANK LIMITED

REGISTERED IN LONDON ENGLAND - REG. NO. 181866 REG. OFFICE: 54 LOMBARD STREET, LONDON, EC3P 3AH

TELEGRAPHIC ADDRESS: BARCLOSEA LONDON EC3V 0BA
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15/16 GRACECHURCH STREET
LONDON, EC3V 0BA

PRIVATE AND CONFIDENTIAL

3rd February, 1984

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1

Dear Prime Minister,

THE PRIVATISATION OF BRITISH TELECOM ("BT")

I have pleasure in enclosing a copy of a memorandum which we have today submitted to the Secretary of State for Trade and Industry proposing a major role for the Barclays Group in the privatisation of BT. Conscious of your very active interest in widening share ownership, I thought it important also to bring it to your direct attention.

Yours sincerely

Camoys

LORD CAMOYS
Managing Director

Enclosure

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PRIVATE AND CONFIDENTIAL

3rd February, 1984

The Rt Hon Norman Tebbit MP
Secretary of State
Department of Trade and Industry
1 Victoria Street
London SW1H 0ET

PRIVATISATION OF BRITISH TELECOM

It is with pleasure that I submit to you the enclosed proposals which are designed not only to assist the privatisation of British Telecom (BT) but also to help widen share ownership in the UK. The British Telecom issue represents a major challenge to the City institutions and provides an ideal opportunity to introduce the concept of share ownership to a very wide audience.

We would like to place the retailing expertise of the Barclays Group at the disposal of the Government in its efforts to achieve the widest possible distribution of the shares. Barclays Merchant Bank (BMB) is not only an active and respected issuing house, but has particular skills in popularising the concept of share ownership. This was widely acknowledged in the comments on our ability to make the complexities of a prospectus simpler and intelligible when we produced the documentation for the very successful National Freight Consortium employee buy-out. We believe that this is another area of expertise which could be invaluable in capturing the interest of ordinary people in the BT issue.

The detailed proposals contained in our memorandum focus largely on marketing and distribution. They can be divided into seven phases:-

- Phase 1 - An educational publicity campaign on the benefits and risks of share ownership. This would be for a period of up to six months prior to the British Telecom issue.
- Phase 2 - A re-examination of the procedures of The Stock Exchange to see whether they could be simplified and made less expensive for individual share owners. The review should take place concurrently with Phase 1 but would be most unlikely to be implemented before the British Telecom issue.
- Phase 3 - A publicity campaign promoting the British Telecom corporate image through prestige advertising. This would be launched some three months before the issue.
- Phase 4 - The distribution of simple publicity material, possibly with telephone bills and through other suitable outlets, as an introduction to the full prospectus.
- Phase 5 - A carefully planned programme of 'road shows' explaining both the issue and the procedures. This will be principally aimed at local radio and television.
- Phase 6 - The use of television as an advertising medium for the prospectus.
- Phase 7 - The use of the clearing banks' networks both to distribute leaflets and prospectuses and to make available competent staff to explain to the public the procedure for subscription. Barclays, which alone has branches open on Saturday, has a unique ability to help in this way.

Not
attached.
AT

The memorandum also sets out the rationale for BMB to be appointed joint lead manager of the BT issue. As part of its overall commitment, the Barclays Group is willing to consider a significant underwriting position, a large proportion of which would be without recourse to sub-underwriting. I do not hesitate to say that Barclays is the only banking group in the UK which can offer a comparable combination of retailing power, financial muscle and merchant banking skills.

Since these proposals range so much more widely than the BT issue itself, I have taken the liberty of copying this letter and memorandum to the Prime Minister and to Treasury Ministers.

We would welcome a meeting with you in the very near future to discuss the proposals in greater detail.

Yours sincerely

C

LORD CAMOYS
Managing Director

c.c. Prime Minister ✓
Chancellor of the Exchequer
Chief Secretary to the Treasury
Financial Secretary to the Treasury
Minister of State, DTI
Parliamentary Undersecretary of State, DTI

Enclosure

STRICTLY PRIVATE AND CONFIDENTIAL

PROPOSALS FOR THE ISSUE

OF SHARES BY

BRITISH TELECOM

A NEW STRATEGY FOR WIDENING

SHARE OWNERSHIP IN

THE UNITED KINGDOM

BARCLAYS MERCHANT BANK LIMITED

CORPORATE SERVICES DIVISION

LONDON

2nd February, 1984

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COVERING NOTE

This paper puts forward some new proposals relating both to the sale of shares in British Telecom ("BT") by the Government and to the larger question of the need for wider share ownership in the UK.

Our proposals focus on the capacity of the personal sector to increase its investment in shares and the marketing and distribution methods by which such wider ownership can be achieved. The paper introduces, inter alia, the idea of a wider role for the clearing bank networks in the distribution of BT shares to the general public. Barclays Merchant Bank Limited ("BMB") seeks to be fully involved in all aspects of the BT issue as a joint lead manager, encompassing not only responsibility for the planning and execution of the marketing and distribution campaign but also a substantial underwriting position.

It should be emphasised that the proposals set out in this paper have not been discussed outside the Barclays Group. We would strongly recommend a meeting with the Government and BT, together with their advisers, to discuss our proposals in greater depth.

INTRODUCTION

The wider ownership of shares, particularly in newly privatised businesses, is a major political objective of the Government. In essence, the Government wishes to create a 'share owning democracy'. We believe that wider share ownership is no mere political or philosophical goal; it will provide a greater pool from which businesses of all sizes can raise capital to expand. Indeed, one of the great weaknesses in the development of companies in the UK, especially compared with their competitors in the US, has been the view of the greater part of the population that the ownership of shares is in some ways an elitist or rich man's hobby.

Unfortunately, the traditional practices of the City institutions, and in particular the merchant banks, have discouraged wider ownership to the detriment of the country's political and economic development. The City has been successful in many ways but it certainly has not taken the concept of capital to the people. The privatisation of BT, not least because of its very size, represents a chance to develop a 'share owning democracy'. The methods introduced can be applied to other equity issues whether by the Government or private industry.

The BT issue will certainly be very large in relation to the institutions' appetite for UK equities. The value of half the equity in BT has been estimated at £4 billion. The total net purchases of all UK ordinary shares by the institutions (mainly pension funds and insurance companies) have amounted only to some £2.4 billion in each of the last three years.

There will be factors which encourage the institutions to participate actively in the BT issue. Clearly, most will want BT's equity as part of their portfolios. It is possible that investment in overseas securities will be cut back to accommodate it, particularly if sterling remains weak against the dollar. To the extent that the BT issue reduces the Government's need to sell gilts, further funds will be available for BT shares. In addition, US and other investors may be encouraged by exchange rate considerations. Nevertheless, the Government will be looking for a sizeable investment by the personal sector, which, for the purposes of this paper, includes small institutions such as private company pension funds and charities. This paper proposes a new marketing and distribution strategy by which this can be achieved based on an analysis of the current pattern of savings and share ownership in the UK.

CURRENT SAVING AND INVESTMENT HABITS

1. Background

In considering the savings of the personal sector the most interesting feature, in relation to any share issue, is the discretionary rather than the committed element.

Detailed statistics on discretionary savings are only available up to 1980. Later data are available only for the personal sector as a whole and include both discretionary and committed elements. The underlying trends can, however, be discerned from the figures set out in Appendix I.

The savings ratio rose sharply between 1977 and 1980, accompanied by rises in both building society and bank deposits. Since 1980 the ratio has fallen sharply. However, building society deposits have gone on rising. Between 1980 and 1982 bank deposits made by the personal sector fell from £6.6 billion to £3.8 billion, while building society deposits rose from £7.2 billion to £10.0 billion. Indications are that 1983 was another good year for building societies.

2. The Distribution of Savings; An Analysis by Type

The trend towards building societies as a haven for discretionary savings is confirmed by a survey of personal finance recently published by Mintel Publications Limited comparing responses in 1969 with those in 1982. Asked where they would invest a £1,000 gift, respondents answered as follows:-

	<u>1969</u> %	<u>1982</u> %
Building society	35	54
Bank deposits	9	8
Stocks/shares	13	5
Unit Trusts	8	3
Investment Trusts	4	4

Most striking of all is that in January, 1981 an IFT Marketing Research study showed that whereas 46 per cent. of respondents had a building society account and 29 per cent. a bank deposit account, only 5 per cent. owned either stocks or shares. The equivalent figure in the US is about 24 per cent.

3. The Distribution of Savings; An Analysis of Savers

Figures in Appendix I indicate that the average value of bank and building society deposits at mid 1983 was about £5,600 per household. In the Mintel Survey referred to above, 25 per cent. of respondents had savings (including physical assets other than main residences, but excluding pension schemes) between £1,000 and £10,000 and 5 per cent. had more than £10,000. Obviously there is a clear correlation with age and social class. Nevertheless, there are some striking figures:-

(a) By age

- (i) 21 per cent. of 20-24 year olds had savings in excess of £1,000.
- (ii) 32 per cent. of 25-34 year olds had savings in excess of £1,000.

(b) By socio-economic group

- (i) Of those in group C1, 41 per cent. had savings in excess of £1,000 and 7 per cent. in excess of £10,000.
- (ii) Of those in group C2, 25 per cent. had savings in excess of £1,000 and 2 per cent. in excess of £10,000.
- (iii) Of those in group D, 19 per cent. had savings in excess of £1,000.

4. Conclusion

Clearly these figures show a considerable savings base which can be utilised to invest in equities not only by socio-economic group AB but also groups C1 and C2 and, to some extent, group D. Having established this large savings capacity, the paper now examines the pattern of share ownership in the UK.

SHARE OWNERSHIP

1. Background

Share ownership is increasingly uncommon in Britain despite rising living standards. The personal sector has been a substantial net seller of equities in recent years. This clear trend has persisted even during periods when discretionary saving as a whole has been rising.

Large numbers of people with high levels of savings do not invest in stocks and shares. Extrapolation of the figures in the Mintel survey indicates that, of those with savings in excess of £10,000, only 500,000 own shares; some 1.5 million in this upper savings bracket do not. Of the 10 million people with savings between £1,000 and £10,000, only 800,000 own shares. Certainly some will be saving for a house purchase but given the level of existing home ownership, many more will not be in this position.

2. Reasons for the Decline in Share Ownership

The factors leading to the decline in share ownership in the UK would appear to be the following:-

- (a) The redistribution of wealth towards social groups not traditionally owners of shares.
- (b) Lack of knowledge; those who do own shares are among the more sophisticated of personal savers.
- (c) The high cost and complexity of dealing in shares; Money Which? in December, 1982 put the cost of buying or selling £700 worth of shares at 5-6 per cent. of the investment, in addition to the difference between buying and selling prices.
- (d) The lack of reliable and easily accessible advice.
- (e) Loss of investor confidence during the recession; it should be noted, however, that, as shown in the article in Money Which?, shares generally have outperformed building society deposits since 1968, with the exception of the period from early 1974 to mid 1975.
- (f) The fiscal advantages resulting from indirect investment through pension and insurance schemes; the Stock Exchange recently reported that while the value of UK equities owned by individuals rose from £16.7 billion to £28.0 billion between 1975 and 1981, the proportion of the total fell from 37.5 per cent. to 28 per cent.
- (g) The increasingly widespread provision of occupational pension schemes, often non-contributory, reducing the perceived need for long-term investments.

We believe that a fundamental reason for this decline has been the lack of a proper retailing service for equities in the UK. In the US such a system does exist through organisations such as Merrill Lynch and Sears Roebuck. The lack of such a service has clearly inhibited socio-economic group AB from investing, let alone groups C1 and C2, which have a fast rising share of disposable income in the UK.

3. Trends

As profitability in industry has recovered, so too has investment in equities. 1983 was a record year for new issues. Despite adverse factors such as the trend to indirect investment, and despite lower savings, the net sale of shares by the personal sector could be reduced or reversed. Individuals continue to deposit in building societies; they could be persuaded to invest in shares in companies. The rebuilding of liquid assets which followed the high inflation of the 1970s seems to be nearing an end. Consumer spending is buoyant, so there are certainly funds to be tapped. The tax treatment of the 'unearned' income and capital gains of small investors has been radically improved since 1979.

The privatisation programme to date has brought the possibility of share ownership before the public eye and, as Appendix II shows, the performance of privatised shares has been reasonably good. In short, we believe that the time is ripe for a major resurgence of direct equity investment by individuals, and that the BT issue offers a unique opportunity to encourage it. As our statistics have shown, there is certainly an adequate savings base to support this.

LIKELY INVESTORS WITHIN THE PERSONAL SECTOR

The analysis in the paragraphs above sets out the potential market available. This potential must be fulfilled if the BT issue is to be fully subscribed and if the longer term aim of widening share ownership is to be achieved.

1. The Employees of BT

An obvious target group will be the employees of BT. Experience in previous privatisation issues, set out in Appendix III, points to a reasonably encouraging level of employee participation, both within and outside special employee schemes. It should be noted that, in some cases, this participation has occurred despite union opposition.

There are three methods by which employees can take shares in an issue. First, as in previous privatisation issues, eligible employees of BT could be offered, say, £60 worth of free shares each. Secondly, most privatisation issues have also included an offer to match a restricted number of shares purchased by employees. Since the issued capital per employee of BT is likely to be closer to that of Amersham International plc ("Amersham") than to any other newly privatised concern, a matching offer similar to the one available to Amersham employees would seem to be appropriate, i.e. about 1 per cent. of the issued capital would be available, on a 1 for 1 basis, subject to a limit on individual subscriptions of £250.

Thirdly, there is the use of pink forms for employees. We would envisage about 4 per cent. of the issued capital being available for this purpose. The total initial allocation for employees would then be 5.5 per cent. In all previous privatisations, this allocation has been between 5 and 6 per cent.

On the basis of past experience, perhaps 95 per cent. of employees would accept free shares. About 50 per cent. would apply for the matching offer, subscribing an average of about £220 each. 10 per cent. of employees might subscribe an average of £1,000 each on pink forms. This would dispose of 1.2 per cent. of the total issued equity (assuming that to be £8 billion). It would represent 2.4 per cent. of the issue and raise £52.5 million or about 1.3 per cent. of the proceeds.

A striking feature of the response by employees in previous issues has been the fact that relatively few use pink forms but that those who do so tend to subscribe relatively large amounts. A target for the issue might be to persuade more employees - perhaps another 20 per cent. over and above the 10 per cent. baseline identified above - to subscribe on pink forms at an average level of about £500. This would raise £25.0 million. However, even with this enhancement, employees would only take 3 per cent. of the shares sold, and contribute £77.5 million or 2 per cent. of the sale proceeds.

2. Telephone Subscribers

The 19 million telephone subscribers represent another group of potential investors. The possibility of owning shares in a business of which they are customers might appeal to individuals.

It is most unlikely that non-telephone subscribers will be able to afford to invest in equity. If special terms were available to people who do have telephones, they could probably be encouraged to participate in the issue on a significant scale. However, if special terms are ruled out, as seems likely for political reasons, there is an ethical problem with the active solicitation of all subscribers. Marketing would have to concentrate on those people, most of whom will be subscribers, for whom share ownership is a financially sound addition to their current savings and investments.

3. Private Investors

The Consumers' Association recommends that people should only invest in shares if they already have other less risky savings. Most investment advisers would recommend that at least the first £5,000-£6,000 of total savings and investment should be held in deposits and gilts. The minimum recommended equity investment is £700-£1,000 per company, at present dealing costs.

For those building up a portfolio like the one recommended by the Consumers' Association, an investment of £750 in BT would probably be a reasonable first foray into equities. Although many first time investors would place their funds in a unit trust, offering a spread of equities, we believe that BT, combining the solidity of a utility and the growth potential of a "high tech" company, is a viable low-risk alternative. A relatively attractive dividend yield would, however, be necessary.

The target of the BT issue is to ensure that it is fully subscribed. To ensure that this is the case the Government is correctly looking not only to the institutions but also to investors in the US. However, to be successful, the Government must ensure the widest possible participation by the personal sector in the UK. Previous experience with privatisation issues, set out in Appendix IV, indicates that private investors will be attracted in the greatest numbers by a fixed price issue thought likely to be fully subscribed. We, therefore, strongly advise the use of a fixed price rather than tender mechanism, especially as there is little danger of an embarrassing oversubscription.

4. Conclusion

Given a reasonable chance of full subscription, and without the support of our proposals, we believe that past experience supports an estimate that up to 150,000 people might subscribe £750 each. This would raise about £112 million. The target should be to enhance this present maximum figure by a factor of 4-5 to raise at least £500 million from private individuals, exclusive of BT employees. The most likely way of achieving this would be by increasing the number of applications rather than the amount subscribed by each investor.

We have shown that there are 1.5 million people with savings of more than £10,000 who do not yet own shares and an additional 9.2 million people with savings of more than £1,000 who are similarly without shares. The potential, therefore, certainly exists to encourage, say, an additional 500,000 people from these groups to raise the necessary £500 million. Obviously, realistic pricing and an attractive yield are essential elements to this plan.

To achieve this potential a new approach to marketing and distribution will be needed. This does not require a change in the law so much as a fundamental change in attitude. Such a change is totally compatible with Government policy. Details of our proposals are set out in the next section.

MARKETING STRATEGY

1. Background

New owners of shares can be recruited for the BT issue, and subsequent offers, so long as they can be educated and persuaded accordingly.

Identification of a wider social group which will include most of the target category should not be difficult. It is the questions of education, persuasion and distribution which require close attention. The measures required are both general, communicating the benefits of share ownership, and specific, selling BT.

2. General

On the general level, consideration should be given to:-

- a) An educational publicity campaign, sponsored by The Stock Exchange and the Government (and possibly the CBI and the Institute of Directors) on the benefits of share ownership for the individual. This would encompass, inter alia, the tax free nature of capital gains of up to £5,000 per annum, the indexation of capital gains and the relief from investment income surcharge for the first £7,100 of unearned income.
- b) A re-examination of the procedures of The Stock Exchange to see whether they cannot be made more simple and less expensive for individual share buyers. It is recognised that this may involve legislative change which is not practicable within the timetable of the BT issue.

3. Specific

On a specific level, in relation to the BT issue, we propose the following:-

- a) A publicity campaign, using all types of media, promoting the BT corporate image, with emphasis on the extra responsiveness to individual customers' needs which will result from privatisation. This should also carry the message that the opportunity to buy shares in BT gives the public the chance to make it their own company. Such a publicity campaign should be started up to three months before the issue.
- b) The publication of simple publicity material for distribution by direct mail, possibly with telephone bills, and through suitable outlets, as an introduction to the full prospectus. These leaflets should be made widely available well before the issue itself.

- (c) A carefully planned programme of 'road-shows' in major city centres explaining the issue and the procedure to the public at large. Such 'road-shows' will include senior national and regional members of BT, merchant bankers and other advisers. Although each 'road-show' will be aimed at the live audience the real target will be regional television, local radio and newspapers so that, for instance, the issue will be given considerable exposure on the early evening news magazine programmes.
- (d) The use of television as an advertising medium for the prospectus. This technique was used in the recent sale of Cable & Wireless shares, but we would advise a more penetrating approach for BT combining effective marketing with 'prestige' advertising.
- (e) The use of the clearing banks' networks for distribution of leaflets and prospectuses and to assist the public with the procedure of subscription. This is dealt with more fully below.

4. Incentives for Telephone Subscribers

There has been some discussion of direct incentives for BT shareholders in the form of discounts on telephone bills or 'gifts' of telephone equipment or service. We would regard this approach as undesirable since it is open to accusations of discrimination against non-telephone subscribers and of irresponsibility in soliciting shareholders with gimmickry.

5. The Need for Caution

The marketing strategy should be to inform those who have an adequate 'non-risk' savings base about the nature of holding shares and to persuade them that it is interesting and rewarding; that it is within their grasp; and that it offers the intrinsic benefit of direct ownership of productive assets. However, the marketing strategy should not attempt to include those without an adequate savings base except perhaps for employees, for whom the considerations are somewhat different.

USE OF THE CLEARING BANK NETWORK

The network of branches of the clearing banks in the UK is enormous. Although many branches are not equipped to assist in the BT issue, involvement by a significant number would radically increase the potential for selling shares in the retail market. We believe this to be the case for the reasons set out below, reasons which encapsulate the methods we propose:-

1. The Role of Adviser

Market research published in Money Which? in December, 1982, showed that 43 per cent. of share-owners had made their last share purchase through a bank whilst 35 per cent. had dealt directly with a stockbroker. In another survey, 45 per cent. of the general public said they regarded their bank manager as the best source of investment advice.

2. Geographical Spread

The clearing banks have the widest possible geographical coverage in the UK. The only comparable network is the Post Office. In some respects, however, it is preferable for BT to disassociate itself from the Post Office - as, indeed, it has done in other ways.

3. The Example of the US

The development of 'High Street Investment Shops', typified by the highly successful Sears Roebuck operations in the US, has recently been given encouragement by Alex Fletcher M.P, the Minister responsible for corporate and consumer affairs, who noted, on 25th October, 1983, that, "If the securities industry in this country is to grow, we must tap the savings of the community where they are to be found". The BT issue offers the banks an opportunity to test the concept in practice.

4. The Ability to give Technical Assistance

A system such as Barclays' 'personal bankers', available in 315 town centre branches, is almost tailor-made to assist the public with the filling in of the application form where necessary. Clearly, the banks could not be asked to recommend the shares or to solicit applications. Their role would be limited, but significantly more active than in the past.

If the clearing banks were to take an active role in the distribution of BT shares, we would expect them also to show their commitment by taking a significant underwriting position in the issue.

THE ROLE OF BARCLAYS MERCHANT BANK LIMITED

BMB would welcome the joint lead managership of the BT issue. Such a lead management role would encompass the following:-

1. BMB would take a significant underwriting position. Being a member of the Barclays Group, BMB could undertake a large proportion of this underwriting without recourse to sub-underwriters.
2. BMB would design and plan the role of the clearing banks' networks. BMB would then negotiate with the clearing banks the terms of their involvement in the issue and act as co-ordinator for them.
3. BMB would take a leading role in the planning of 'road-shows' and pre-issue publicity and in the drafting of the prospectus. BMB's experience in the National Freight Corporation employee buy-out is directly relevant - the NFC prospectus was widely admired for its clarity. For example, the 'Birmingham Post' of 19th January, 1982, commented, "It is a remarkable document worded and printed so as not to deter people who have never seen a prospectus before, yet backed up by 30 pages of appendices so as to offer (almost) as much in the way of safeguards and information as you would expect for a stock market launch".

It should be emphasised that these proposals form an integral package; we do not believe that it would be feasible to undertake any of the proposals in isolation.

We would like the opportunity, as soon as possible, to meet representatives of the Government, BT and their advisers to discuss our proposals in much greater detail.

APPENDIX I

SAVING AND INVESTMENT OF INDIVIDUALS

(a) Saving and Investment Flows

(i) Net Discretionary Saving through Liquid Assets

	1977	1978	1979	1980
	£m	£m	£m	£m
Bank deposits				
- sight	1,771	1,645	1,250	781
- time	(2,069)	662	3,307	2,771
- interest*	860	931	1,805	3,078
Building societies				
- deposits	4,215	2,922	3,064	3,201
- interest*	1,425	1,616	2,467	3,602
Other	<u>2,360</u>	<u>3,000</u>	<u>3,397</u>	<u>3,137</u>
Total net discretionary saving through liquid assets	<u>8,562</u>	<u>10,776</u>	<u>15,290</u>	<u>16,570</u>

(ii) Net Discretionary Saving through Securities

	1977	1978	1979	1980
	£m	£m	£m	£m
Company securities	(1,493)	(1,503)	(1,971)	(1,630)
Overseas securities	(408)	273	176	35
Unit trust units	25	117	(35)	(8)
British government securities	721	258	2,314	2,345
Other	<u>378</u>	<u>(53)</u>	<u>(227)</u>	<u>(37)</u>
Total net discretionary saving through securities	<u>(777)</u>	<u>(908)</u>	<u>257</u>	<u>705</u>
Savings ratio (%) **	10.8	12.1	12.9	14.8

* Interest accrued but not paid.

**Personal saving as a percentage of total personal disposable income.

Source: 'Committed and Discretionary Saving', 'Economic Trends' November, 1981.

(iii) Saving (Discretionary and Committed) of the Personal Sector

	1980	1981	1982
	£m	£m	£m
Deposits with banks	6,605	3,978	3,849
Deposits with building societies	7,175	7,082	10,055
Company securities	(2,902)	(875)	(2,022)
British government securities	1,948	2,029	1,199
Savings ratio	14.8	12.5	10.8

Source: 'Financial Statistics', table 9.2.

Note that discretionary saving is almost entirely attributable to households. However, a detailed breakdown of this savings component is not available after 1980.

The 'personal sector' includes individuals and a number of other non-corporate bodies.

Volatility in discretionary saving is largely responsible for volatility in the overall savings ratio. Building society deposits have continued to rise since 1980, despite the fall in the savings ratio. The personal sector has been a net seller of company securities even in periods like 1977-80 when the savings ratio was rising.

(b) Individuals' Stocks of Liquid Assets

End:	1980	1981	1982	(Q2)1983
	£m	£m	£m	£m
Building societies*	49,617	56,699	46,993	70,883
Banks (time and sight deposits)	27,744	35,969	38,405	40,876

* Assumes all 'personal sector' savings in building societies attributable to persons.

Source : 'Financial Statistics', tables 6.2 and 9.4.

APPENDIX II

PERFORMANCE OF SHARES IN PRIVATISED COMPANIES

	BP Nov 1979	BAe Feb 1981	C&W Nov 1981	Amersham Feb 1982	Britoil Nov 1982	ABP Feb 1983	BP Sep 1983	C&W Dec 1983
Offer/striking price	363p	150p	112p*	142p	215p	112p	435p	275p**
Closing Price 1.2.84	435p	233p	308p	219p	225p	257p	435p	308p
Price*** against FTA all share index	56	92	166	99	82	189	91	103
Range*** against FTA all share index in last 12 months:-								
High	61	115	199	151	102	191	103	127
Low	43	74	150	97	68	100	77	96

* Offer price of 168p adjusted for a one for two scrip issue in March, 1983

** 100p partly paid, to be completed on 17th February, 1984

*** Index = 100 at date of the issue

APPENDIX III

EMPLOYEE INVOLVEMENT IN PRIVATISATION

The following information has been supplied by the companies concerned and their sponsoring Departments.

(a) Summary

	<u>Issued capital per employee</u>	<u>% of issued capital initially reserved for employees</u>	<u>Initial employee shareholding</u>		<u>Proceeds from employees</u>	
			<u>% issued capital</u>	<u>% shares sold</u>	<u>£m</u>	<u>% sale proceeds</u>
BAe	£4,300	5.8	3.6	7.1	4.3	3.0
C&W	£55,000	5.0	1.4	2.8	6.4	2.8
Amersham	£46,000	5.0	3.7	3.7	2.3	3.6
Britoil	£542,400	6.0	0.1	0.2	0.8	0.1
ABP	£5,000	5.6	4.3	8.4	0.8	3.8
<hr/>						
BT baseline on estimates made on p7.	£32,000	5.5	1.2	2.4	52.5	1.3
BT target	£32,000	5.5	1.5	3.0	77.5	2.0

(b) Details of Employee Response

	Free shares	Matching Offer	Pink Forms*
<u>British Petroleum</u> Nov 1979	-	15,102 eligible employees (47%) applied. Average application £191 partly paid, £463 fully paid.	2,200 non-eligible employees (18½%)** subscribed an average of £165 partly paid, £400 fully paid.
<u>British Aerospace</u> Feb 1981	33 shares; £50. 90% of eligible employees applied.	27,000 employees (40%) applied. Offer twice subscribed. Average application £220. Average allocation £110.	1,290 employees (2%) subscribed an average of £750 each.
<u>Cable and Wireless</u> Nov 1981	35 shares; £60. Almost all eligible employees applied.	-	2,300 employees (20%) subscribed an average of £2,500 each.
<u>Amersham International</u> Feb 1982	35 shares; £50. Almost all eligible employees applied.	1,230 employees (80%) applied. Oversubscribed. Average application £360. Average allocation £250.	630 employees (40%) subscribed an average of £3,174 each.
<u>Britoil</u> Nov 1982	27 shares; £60. 92% of eligible employees applied.	1,229 employees (62%) applied. Average allocation £147 partly paid, £316 fully paid.	276 employees*** (11%) each subscribed an average of £620 partly paid, £1,325 fully paid.
<u>Associated British Ports</u> Feb 1983	53 shares; £60. About 90% of eligible employees applied.	3,430 employees (38%) applied. Average application £206. Average allocation £186.	268 employees (3%) subscribed an average of £700.
<u>British Petroleum</u> Sept 1983	-	-	1,270 employees (4½%) subscribed an average of £850 each.
<u>Cable and Wireless</u> Dec 1983	-	-	136 employees (1%) subscribed an average of £1,656 each.

* Generally all employees are eligible to subscribe on pink forms.

** Only employees ineligible for the BP share schemes subscribed on pink forms.

*** Employees of Britoil and BNOC were eligible.

APPENDIX IV

PERSONAL SECTOR INVOLVEMENT IN PREVIOUS PRIVATISATION ISSUES

There is little published information on this. However, the following information has been gleaned from press reports and other sources.

(a) Summary

Issue	Date	Estimated number of small investors	Number of times over/(under) subscribed	Estimated average amount subscribed per small investor
BP	(f) Nov 1979	n/a	0.5	n/a
BAe	(f) Feb 1981	150,000*	2.5	£800
C&W	(f) Nov 1981	120,000*	4.6	n/a
Amersham	(f) Feb 1982	57,000*	23.6	£440+
Britoil	(t) Nov 1982	37,000	(0.7)	£594 pp, £1,276
ABP	(f) Feb 1983	138,000**	32.6	n/a
BP	(t) Sep 1983	72,870***	0.3	£1,078 pp, £2,344
C&W	(t) Dec 1983	27,500***	(0.3)	£553 pp, £1,527

* Successful applications - many more would have been unsuccessful.

** Total applications - many of these would have been unsuccessful.

***Total applications at the striking price.

+ Assumes that the average holding of small investors was constant over the first months.

f = fixed price offer, t = offer by tender, pp = partly paid.

Note that in the undersubscribed issues, the number of small applications has been depressed to a greater extent than their average value.

(b) Details

British Petroleum - November, 1979. Fixed price £290 million issue, partly paid at 150p, 0.5 times oversubscribed. Applications for up to 1,100 shares were met in full. The extent of the involvement of small investors is, however, not recorded.

British Aerospace - February, 1981. Fixed price £150 million issue. The issue was 2.5 times oversubscribed and small investors were heavily favoured in the share allocation; they received 80% of available shares, worth £120 million. It is not possible to estimate the total value of applications by individuals, but BAe had 158,000 shareholders, of whom 150,000 held fewer than 1,000 shares, immediately after flotation. The average holding in this category was about £800. Small investors were very active in early trading. Their number fell to 27,000 within a few months.

Cable and Wireless - November, 1981. Fixed price £220 million issue, 4.6 times oversubscribed. The number and value of applications from small investors is not known. They were less heavily favoured in the ballot than they had been for British Aerospace. Nevertheless, Cable and Wireless had 150,000 shareholders after the issue, of whom 120,000 held fewer than 1,000 shares. Within a year this number was down to 26,000.

Amersham International - February, 1982. Fixed price £70m issue, 23.6 times oversubscribed. There was every indication of a large number of applications from small investors. The number of Amersham shareholders fell from 62,000 immediately after the issue to 10,000 a month later. At this point, just over 8,000 people held fewer than 1,000 shares, and their average holding was 312 shares, worth £444 at the offer price.

Britoil - November, 1982. Offer by tender of shares worth £548 million at the minimum tender price of 215p. The issue was partly paid at 100p. It was only 30% subscribed. 37,000 small investors subscribed for shares worth £22m partly paid, £47.2m fully paid. The average value of partly paid applications from small investors was thus £594. Small investors were offered a loyalty bonus of one share for each ten held for three years.

Associated British Ports - February, 1983. Fixed price £22 million issue. This issue was 33 times oversubscribed. Small investors accounted for 138,000 out of 156,000 applications. The value of small applications is not known, but a large number would have been unsuccessful.

British Petroleum - September, 1983. Offer by tender worth £526 million at the minimum price of 405p, partly paid at 200p. It was 0.3 times oversubscribed, and the striking price was 435p. 72,870 applications were made 'at the striking price', a facility offered only to small investors. These applications had an average value of £1,078 partly paid, £2,344 fully paid.

Cable and Wireless - December, 1983. Offer by tender worth £275 million at the minimum tender price. The issue was partly paid at 100p, and 70 per cent. subscribed. TV advertising of the prospectus was used (prompted by the threat of a national newspaper strike) and was considered to have been useful in attracting small investors. 27,500 applications were made 'at the striking price', worth £553 partly paid, £1,527 fully paid.